QuotedData

BY MARTEN & CO

INVESTOR

Economic and political roundup

Investment companies | Monthly | December 2022

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.

Federal Reserve Bank of San Francisco president Mary C Daly: "I can't iterate enough that one month of data, positive data on inflation does not a victory make. And 7.7 is not price stability."

The annual US consumer price inflation figure for October came in at 7.7%, less than the 8.0% that had been forecast. This raised hopes that US interest rate hikes would ease. Equity markets embraced the news, bond yields fell and so too did the US dollar.

The Democrats did better than expected in the US mid-term elections, holding onto control of Congress. In Ukraine, Russia retreated from Kherson and switched its efforts to destroying Ukraine's infrastructure. COP27 secured a promise that richer nations would help vulnerable ones adapt to climate change, but there was little progress on tougher emissions targets.

China's zero-COVID policy has been weighing on that market and stirring up unrest within the country as rising cases triggered renewed lockdowns. November's surprise was some relaxation of the policy, which helped to propel Chinese markets higher. However, given poor vaccination rates/vaccine efficacy, we may yet see another U-turn in this area.

Talking of U-turns, the UK Chancellor's autumn statement saw some clarification of the windfall tax on renewable energy generators. In the event, the impact was less than feared, and subsequent NAV announcements in the sector have been positive.

Thus far, stock market falls have been driven by the decline in valuations and not yet the fall in profits that would result from an economic downturn. Those are still to come in 2023. This bear market has room to run

The economy is slowing, but a deep recession is not a certainty, especially if the jobs market can remain robust

China is rapidly eroding much of the economic and social gains it has made over recent years due to the zero-Covid policy which is socially unsustainable. When it reverses, we expect a very significant surge in demand, and a sharp rise in commodities and trade

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At a glance

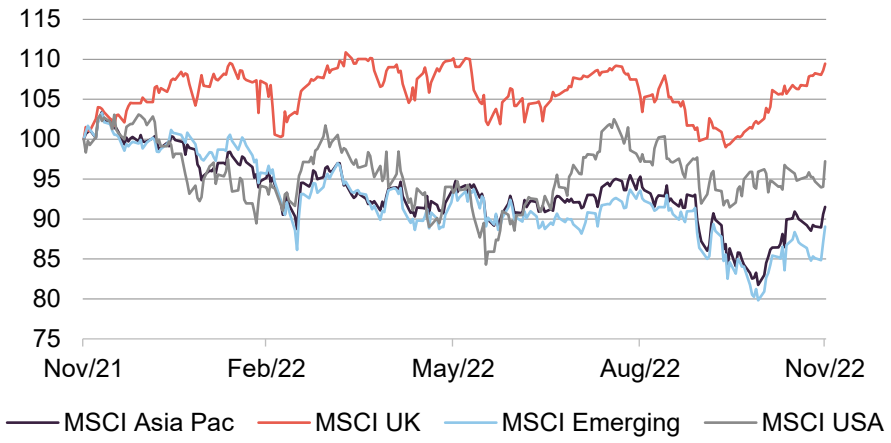
Exchange rate		30/11/22	Change on month %
Pound to US dollars	GBP / USD	1.2058	5.1
US dollars to Euros	USD / EUR	0.9609	(5.0)
US dollars to Japanese yen	USD / JPY	138.07	(7.2)
US dollars to Swiss francs	USD / CHF	0.9457	(5.6)
US dollars to Chinese renminbi	USD / CNY	7.0924	(2.9)

Source: Bloomberg, QuotedData

MSCI Indices (rebased to 100)

All of our selected indices rose during November. In particular, the Asian and Emerging Markets indices were much perkier this month, up over 10% in sterling terms.

Time period 30 November 2021 to 30 November 2022



Source: Morningstar, QuotedData. Converted to pounds to give returns for a UK-based investor.

Indicator	30/11/22	Change on month %
Oil (Brent)	85.43	(9.9)
Gold	1768.5	8.3
US Treasuries 10-year yield	3.61	(10.9)
UK Gilts 10-year yield	3.16	(10.1)
German government bonds (Bunds) 10-year yield	1.93	(10.0)

Source: Morningstar, QuotedData

Global

(compare global funds **here**)

Managers, JPMorgan Global Core Real Assets – 29 November 2022

Even as interest rates have risen, there are expectations for further increases later this year, although the pace of the increase is likely to be less steep than originally thought. Inflationary pressures remain the primary driver for these expectations, with inflation up to 8-10% across Europe and the U.S. and the UK seeing even higher rates. A good proportion of the increase in prices has been due to changes in energy and commodity markets. The U.S. has provided some mitigation to this through an increase in crude oil production and the release of strategic reserves, but unfortunately the same levers are not available to the U.K. and Europe.

On entering a downturn, eyes naturally shift to the U.S. housing market where the fixed rate for mortgages has already risen from below 3% to above 6%. However, while the number of housing transactions, and the associated economic activity, will likely continue to slow, it appears improbable that we will see a repeat of the 2008 housing-led financial crisis. This is because 95% of American mortgages today are on long-term fixed rates, compared with only 80% in 2007. As a result, there should be fewer forced sellers as a result of interest rate rises. There has also been much less sub-prime lending, and the banks are now better capitalised, which means they are better able to withstand loan losses that might be seen in a recession.

On a more positive note, the West has adapted well to 'living with Covid'. Less so, however, in China, with a smaller degree of infection-induced immunity and lower vaccine take-up among the elderly, meaning that various forms of restrictions continue to be imposed by the Chinese Government in a continuing attempt the quash the virus. Given that China accounts for between a third and a half of all global growth, these restrictions have wide economic consequences, including an impact on the transportation market.

Our view is that fiscal support and more gradual central bank tightening will help us avoid a severe global downturn. With major markets having already experienced double-digit declines, our central scenario does not point to significant further downside for assets. But this is a time for forecasters to be humble in their convictions; understanding the post-pandemic economy and unprecedented policy response further complicates the forecasting process. As investors, this translates into a need for well diversified, balanced portfolios and, very possibly, increased use of non-public market diversifiers such a real assets as a way to ensure robust portfolio outcomes.

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Sebastian Lyon, manager, Personal Assets Trust – 20 November 2022

Over the past decade or more, investors have, often without realising it, gradually been increasing their risk. Yields on cash and bonds fell so low, in some cases to below zero, that money which had traditionally been seeking a risk-free return, had to take greater risk to receive any return at all. Moreover, those that stayed in bonds

risked capital losses if and when interest rates, inflation or both began to rise. Equities have been buoyed by the view that "There is no alternative" ('TINA') for those seeking a return above the meagre offerings elsewhere. It became increasingly difficult to diversify and protect capital; liquidity had found its way into all the cracks. Stock markets have slowly and steadily become more expensive. That process, which has been in place since the Global Financial Crisis, is now in reverse. Inflation has been rising for the last 18 months and central banks have looked woefully behind the curve. Consequently, we are experiencing the fastest tightening of financial conditions since the Federal Reserve was established a century ago. This year the Fed has increased rates at a breathtaking pace, from near zero to 4%, while the Bank of England has followed to a more modest 3% base rate.

According to Warren Buffett, "Interest rates are to asset prices what gravity is to the apple." Rising rates are now exposing the prevailing asset overvaluation. During 2022, we have experienced the deflation of a 'bubble in everything'. Bubbles are notoriously difficult to recognise, in real time, but with hindsight we can see that the strong run in equites, immediately following the pandemic in 2020 and 2021, had similarities with the dotcom bubble of 1999. This time the market peaked with the enthusiasm for 'meme stocks' and unprofitable technology investments in the spring of 2021, and since then the bubble has been deflating.

The current bear market is similar, but not identical, to the three-year stock market fall from 2000-2003. In contrast to that period, there have been few attractive alternatives to protect and grow capital in 2022. Rising yields have hit bond markets equally hard. The Bloomberg US Long Treasury Bond Index has fallen over -34% this year, its worst year on record and a performance even worse than that of the Nasdaq. The US Dollar has been the only place to hide. Gold has also protected capital in most currencies including Sterling, Euro and Yen. With these notable exceptions there have been few ports in the storm of falling equity prices. Index-linked bonds, somewhat counterintuitively, have been dragged down with the wider bond market, as longer-term inflation expectations remain low. The UK's unforced error of the 'mini' budget in September revealed a vulnerability in the portfolio structure of many of the country's pension funds, exposing the gilt market to sharp falls and heightened volatility. The sell-off dragged down many other assets priced on yields, such as real estate. Alternatives have also been exposed as vulnerable to higher rates, as well as proving illiquid in the secondary market, after a period of vast new share issuance, and prices have fallen in sympathy.

A year ago, we said: "A battle lies ahead between the 'inflation-protecting' qualities of stocks and the threat of nominal interest rate rises in the future." That battle is now raging. Yet it is not all bad news. TINA may be dead but there is today an alternative to equities. During the latest sell-off we acquired new holdings in short-dated gilts yielding over 4%. This is a return not seen for well over a decade. A cost of capital and a risk-free rate (if only in nominal rather than real terms) is now available. This is a material and welcome change for savers and investors. It also provides an anchor to valuations which has been missing for too long.

Rising interest rates make the risk of a recession highly probable. Thus far, stock market falls have been driven by the decline in valuations and not yet the fall in profits that would result from an economic downturn. Those are still to come in 2023. This bear market has room to run.

Fiona McBain, chair, Scottish Mortgage – 10 November 2022

Long-term growth investing is crucial for driving society forward. After a long period of global expansion, it's easy to slip into the mindset that investors passively benefit from broader progress and economic growth. We believe causality flows in the other direction: long-term investment enables growth and progress. Technology and new ways of doing things aren't adopted simply because their time has come. They happen because investors give entrepreneurs the financing and time to build their visions into reality.

Without investment in technology, infrastructure and entrepreneurship, it will be tough to dig ourselves out of our current malaise. If so little of aggregate savings are directed into ventures exploring new technologies and approaches, what does it imply for the future? We risk condemning ourselves to the environment of anaemic growth and stagnant wages that has characterised the United Kingdom over the past decade.

Financing the development of long-term growth companies is not what interests most investors. To understand that, you need only observe the commentary of recent months, focused on 'risk off', deleveraging and the flight to safety. The market's focus has narrowed to a handful of economic variables. Stock prices react dramatically to each monthly update.

Powerful forces of change are creating significant opportunities. These include society's transition away from carbon-fuelled transport and energy generation and the application of information technology to our understanding of the molecular basis of disease. While rising interest rates and increasing friction between the United States and China create a problematic environment to navigate, the long-term advantages of companies are often built in periods of stress and capital shortage.

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Peter Spiller, Alastair Laing, Christopher Clothier, managers, Capital Gearing Trust – 11 November 2022

It is quite possible that we are close to a short-term peak in inflation, with many volatile components likely to pull headline inflation down over the coming months. These include food and energy, where costs remain high but have come down from their peaks earlier in the year. Many of the bottlenecks that had built up over the pandemic, such as in semiconductors and shipping, have eased or even gone into surplus. Interest rates are rising rapidly, causing demand to contract, and suggesting that the economic outlook is likely to be very weak.

All of this indicates that the headline CPI figure will soon turn downwards. Indeed, the peak may already have passed in the US, where the September annualised inflation level was 8.3%, almost 1% lower than in June. However, in the same month core CPI (which strips out food and energy) continued to rise, hitting 6.6%, which is its highest level in 40 years. Wage growth is well established, underpinned by industrial action calling for higher settlements. Given these trends, it seems quite likely in the coming months that headline inflation will drop well below core CPI, giving the initial impression that inflation is under control, even though the underlying inflationary pressures in the economy remain strong. The impression of weakening inflation combined with a recessionary economic backdrop may give central banks

cover to cut interest rates again at some point next year. The backdrop of falling short rates and volatile inflation which cycles above a higher average than has been normal over the last decade should be a good backdrop for index linked bonds. Interest rate volatility combined with a likely recession could well prove a headwind for equities.

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UK

(compare UK funds here)

Jane Tufnell, chairman, Odyssean – 30 November 2022

Sentiment is erratic and there is immense pricing flux in many asset classes. The universe in which the Company invests, UK smaller companies, is seeing significant absolute value opportunities as well as relative and absolute mispricing.

UK equities, especially UK smaller companies with substantial overseas operations, look inexpensive, even taking into account the prospect of some earnings weakness. Whilst neither the Board nor the Portfolio Manager wishes to see the investment universe shrink further nor UK quoted companies being bought on the cheap by opportunists, we both believe that in the absence of a re-rating back to typical levels, many look vulnerable to overseas predators.

Quite often markets reach their lowest point prior to the trough in economic or company performance. The Board shares the Portfolio Manager's view that notwithstanding short-term volatility and further potential short-term weakness, above trend long-term future returns are likely from this point.

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Stuart Widdowson, Ed Wielechowski, managers, Odyssean – 30 November 2022

At the time of preparation, there is considerable uncertainty in global and national financial markets, across many asset classes. There is a sense of foreboding that due to inflation, energy supply issues and rising interest rates, many countries are facing a recession. Individuals and corporates are experiencing rapid changes in interest rate expectations, driven by uncertainties in the bond market as central banks raise rates to attempt to control inflation.

We believe that UK equities are being de-rated more acutely than other equity markets due to a number of factors including, but not limited to, political instability, domestic economic concerns and UK equities continuing to become a smaller part of the MSCI Global indices. Over the past few weeks, the nature of selling has changed, with share price behaviours indicating more forced selling of shares, regardless of fundamentals. We believe that such conditions are consistent with the last phases of a bear market, typically leading up to some capitulation - either an event or series of events. Once markets reset, they begin to climb the "wall of worry".

With markets difficult but inexpensive, our objective is to balance portfolio resilience against capitalising on investment opportunities which have the potential to

materially exceed our through-the-cycle return targets over the medium to long term, but where there may be some short term downside.

There are two important considerations we keep in mind. Firstly, share prices tend to be a lead indicator of performance - i.e. they will rally as sentiment changes, even if it takes some months for published data to turn positive. Secondly, where liquidity is challenging (e.g. in smaller companies) institutional investors are often unable to trade in any volumes even when markets are extremely depressed. As a result, it can be necessary sometimes to drip buying into a market even though you might perceive there to be some more downside in the short term, but on the basis that the long term returns look strong, and buying in size after the market has turned is nigh-on impossible.

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Iain McCombie & Milena Mileva, managers, Baillie Gifford UK – 29 November 2022

Perhaps one of the main reasons why it's difficult to be a long-term investor is that when events keep coming thick and fast there is natural human tendency to want to make sense of them (or be asked to comment on them). This six month period is no exception. Although it seems a long time ago now, it was only at the beginning of the period that Boris Johnson dramatically lost the confidence of his MPs and resigned as leader of the Conservative Party, triggering a leadership election that resulted in Liz Truss being appointed as Prime Minister. This ceremonial handing over of power was poignantly the last official act of our late Queen Elizabeth. Her passing, after an incredible seventy years on the throne, led to understandable mourning by many people in the UK and beyond. Yet, with barely a pause, we witnessed yet more astonishing events with the implosion of the Truss Government after a disastrously received 'mini' budget which ultimately led to her resignation as Prime Minister after just 49 days. The subsequent appointment of Rishi Sunak as our first British Asian Prime Minister, and the youngest for over a century and a half, was a moment of tremendous symbolism, yet few would envy his task of trying to restore calm to the market and to attempt to sort out the finances of the Government in the midst of a difficult economic backdrop with a fractious governing party on to its fifth prime minister since the Brexit referendum.

What interested us in this tumultuous period was less the hurly burly of politics and more the attempt by some commentators to sum up the changes seen in this country over the long reign of our late Monarch. In particular, in this 'instant analysis' there was a fundamental misunderstanding of progress in our view. Of course, today we have many pressing social and economic challenges and it's also true that Britain's relative standing in the world has declined in part because of self-inflicted mistakes over the decades. However, what this gloomy, near term focussed analysis forgets is the astonishing progress and general increase in prosperity over the last seventy years. Frankly, much of this progress would amaze previous generations so it begs the question of why this misunderstanding? The answer is deceptively simple: behaviourally, after the novelty wears off, we take most instances of progress, such as a new product, for granted, but quietly and gradually these all incrementally add up over time to something quite dramatic. This is exactly the same when it comes to investing in companies over the long term. However, as mentioned at the start of this commentary, most people don't think like that and would rather we comment on

Sterling, interest rates, inflation, domestic and world politics etc. This isn't daft, as they are big questions and, as a former colleague said once, "we all have bosses". Why wouldn't you want to know if you thought we might have the answer? But we don't.

Instead, we'd rather have the honesty and humility in communicating with fellow shareholders to acknowledge that forecasting macro-economic events is a skill we simply don't possess. Moreover, it is a skill that is anathema to our bottom-up style of researching and investing in companies that we believe have superior growth prospects. Of course, we're not blind to the tougher near-term environment but we're also alert to understanding what the opportunities might be for the many businesses that have superior business models and competitive positions. As we've seen many times before, these companies usually come out of tough times with enhanced competitive positions.

We are not market timers or forecasters, but the evidence of a growing opportunity set of potential investments shows there is an interesting and growing disconnect between top-down perceptions of the UK market and what we are starting to see in terms of long-term opportunities for growth investors, notwithstanding the near term economic challenges. In plain English and with apologies to Charles Dickens: it was the worst of times, it was the best of times.

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Charles Montanaro, manager, Montanaro UK Smaller Companies – 14 October 2022

Ever since the Brexit referendum of 2016, politics has had an impact on UK financial markets. The past six months have been no exception. After the resignation of Boris Johnson and a prolonged leadership contest, Liz Truss was appointed Prime Minister in early September 2022. She promised "growth, growth, growth", but the market reaction to "Trussonomics" - a confused cocktail of tax cuts and unfunded borrowing - meant that she entered with a whimper, rather than the "Big Bang 2" that her (ex) Chancellor pledged. Sterling fell and bond yields increased so dramatically that the Bank of England was forced to intervene by buying Gilts in the market. "Dear oh dear", as King Charles III lamented when he saw the Prime Minister for her first weekly audience. All this, as the country still reeled from the death of Queen Elizabeth II.

Meanwhile, the rotation out of Quality and Growth continued, although at a slower pace as the year progressed. For Quality Growth investors like ourselves, this has resulted in an extremely difficult period. The threat of higher interest rates has stalked markets, leading to a significant de-rating of growth stocks - businesses for whom the value of future earnings is vulnerable to higher interest rates (or long duration assets as they are known). Consumers have faced a significant increase to the cost of living, mortgage rates have risen sharply and recessionary fears have heightened.

UK equities remain an unloved asset class in general. UK quoted small companies, in particular, have had a torrid six months. Meanwhile, according to the Investment Association, UK SmallCap open-ended Funds saw almost £1 billion in redemptions in the first part of 2022, matching the Great Financial Crisis of 2008. Unsurprisingly, as a result, UK SmallCap is now trading on its lowest P/E since 2009.

As we write these lines, the economic backdrop is deteriorating, and it now seems a matter of "when" not "if" the UK enters a recession. Accordingly, investors are turning their attention to the resilience of company earnings in the face of slowing consumer demand and pressures on margins from rising input costs. Balance sheets are all important once again.

In contrast to the end of 2021 when stock markets appeared fully valued after a strong year, we are feeling increasingly optimistic about the next 12 months. UK SmallCap provides an attractive hunting ground for those looking to position themselves for an economic and stock market recovery

As monetary policy tightens and the economy slows down, we would expect "Quality Growth" companies to benefit as investors place increasing value on the greater resilience of their business models and their strong balance sheets. When times are tough, it makes sense to rely on the best management teams who have seen such cycles before.

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Richard Staveley, manager, Rockwood Strategic – 23 November 2022

The world's central banks, led by the Federal Reserve, have embarked on material interest rate rises for the first time in decades. In the UK interest rates fell from 13.88% in October 1990 to 3.5% in July 2003 (-10.25% over 13 years). They then rose to 5.75% by July 2007 (+2.25% over 4 years). They were then cut to 0.5% in March 2009 (-5.25% over 2 years, back end loaded). In February 2022 they were still 0.5%, 13 years later, but by the end of this reporting period had been raised to 2.25%. They are clearly going higher (and have been raised post period end to 3%). The key point is, the scale and speed of interest rate rises has not been experienced by a very large number of market participants either ever or not for a very long time. Nor has the much changed world economy and current financial system been tested using 'live fire' for this level of stress.

Investors, and indeed consumers and businesses, are thus very nervous and worried. Sentiment surveys of all three are already at historical lows. The 'cost of money' drives all. It has driven the 'discount rate' which when low has inflated the valuations of long-duration assets and 'growth' equities. It has driven the cash interest coverage ratios and hence borrowing capability of corporates, private equity deal structures, domestic mortgage borrowers and the 'shadow finance' industry. It drives 'liquidity' itself. This is being drained out of the financial system and hence the economy, leading to an inevitable recession. This is actually desired by the Central Banks whose mandates are dominated by inflation targeting which has broken loose. Unemployment, reduced demand and, as Jerome Powell called it, "pain" is needed to re-tame inflation expectations after they were unleashed by massive monetary and fiscal policy easing during the COVID-19 pandemic and exacerbated by supply chain shortages and the Russian invasion of Ukraine, in particular impacting energy markets.

UK unemployment is 3.6%, the lowest since 1974, so an increase, whilst difficult for many, will represent a movement back to a multi-decade mean. Inflation hit 10.1%, the highest since 1982. Avoiding the destruction to real wealth across the whole population, if this was to be sustained, is broadly agreed to be worth the costs created to bring the rate under control. However, society has not had its pain

threshold tested to this extent for a number of cycles as bail-outs, monetary policy largesse and fiscal support has targeted periods of stress. Authorities are out of ammunition whilst inflation remains high. It is likely pressure to ease the situation will result in a higher level of accepted and targeted inflation rate.

Crypto has not delivered inflation protection or safety as billed by its wounded tribe of 'get rich quick' anti-establishment protagonists. Bond owners must be embarrassed they did not act in the face of trillions of obviously overpriced negative yielding debt and low grade corporate bonds. Equity markets have seen a severe de-rating of high multiple stock; the "no-brainers" of yesteryear. 2022 is likely to be the worst year for IPO issuance for a very long time. Many investors are starting to properly reflect on the relative attractiveness of low liquidity or leverage enhanced specialist asset classes and bond-like equities whose main calling card of a reasonable dividend yield in a world of very low risk-free rates is now being undermined.

UK equities, dominated by a relatively small group of mega-cap international businesses and a differentiated sector composition to the US market, have been outperforming. The market is efficient enough to know that the Dollar earning, inflation-linked, well financed UK listed companies are not a fair read through to the shambles which has been UK political leadership or its stagnant economy. Moreover, UK equities are very good value when compared to history, global equities or cash earnings.

We believe in a transparent communication of our appraisal of markets. Surely sentiment and valuations alone suggest the market bottom is near? We are not in the business of giving forecasts in such matters. However, we would anticipate limited sustained market recovery until 'core' inflation is demonstrably falling and the market can have real confidence to anticipate the commencement of monetary easing. One step at a time, though: central banks are still tightening. We believe the portfolio holdings are deeply undervalued, almost all are very well financed, all have operational improvements and many strategic improvements too which can drive shareholder value irrespective of the doom and gloom. We do expect takeover interest to emerge for a number of our holdings due to their attractive cash flow generation and market positions and expect realisations to produce material NAV uplifts and cash for re-investment. We do expect a recession and market profit expectations to fall further and have built this backdrop into the margin of safety we expect in our holding valuations and the extent of profit recovery we are expecting from the businesses and their management teams.

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James de Uphaugh, manager, Edinburgh Investment Trust – 23 November 2022

The UK still has the third lowest level of debt in the G7 behind Germany and Canada, and its debt to maturity is around 14 years, which is much longer than any other G7 country. A weak currency means interest rates need to be higher to tackle inflation. The good news is that inflationary pressures are easing too as commodity prices come off their highs, including for oil and gas. Having been cautious about the inflationary outlook for the last year, it is plausible to make a case for inflation having peaked.

Supply problems are also easing, with China tip toeing towards re-opening and freight rates falling substantially. The economy is slowing, but a deep recession is not a certainty, especially if the jobs market can remain robust. In recent years many consumers and businesses have become accustomed to operating with an element of macroeconomic and political uncertainty. The situation today is no different. As such, we think the most important thing is to produce an equity portfolio that has the ability to thrive, as well as withstand any unanticipated shocks.

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David Warnock, chairman, Troy Income & Growth – 16 November 2022

If we needed any further reminder of the deeply unsettled environment, the UK market over the final month of the reporting period has proved a remarkable case in point. September saw sterling sink to the lowest levels in modern history against the dollar and the yield on the benchmark 10-year UK government bond more than doubled in just over a month, necessitating Bank of England intervention to stabilise markets. Global economies are variously continuing to navigate the forces of COVID-19, inflation, rising interest rates, and geopolitical unrest. Against this backdrop, the Managers are emphasising more than ever the importance of businesses with defensive earnings and reasonable valuations. The Board agrees with the observation that the coming months will prove highly challenging for corporate profits - this is likely a time for resilience and reliability.

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Managers, Troy Income & Growth – 16 November 2022

It has been an eventful year in global markets. Investors have faced a challenging backdrop on multiple fronts, but perhaps most especially from pronounced shifts in fiscal and monetary policy. COVID-19 continued to impact economies, with countries emerging from the pandemic at differing speeds, and global supply chain disruptions driving elevated inflation. Interest rates in the US and UK have risen from rock-bottom levels at a rapid pace and there are deep humanitarian, economic and geopolitical impacts stemming from Russia's deplorable war on Ukraine.

A little over a year ago, inflation and interest rates were still widely forecast to remain low. However, as at the end of September 2022, the most recent CPI (consumer price index) inflation points in the UK and US were +9.9% and +8.3% year-on-year respectively. Central banks have responded by raising rates and government bond yields have moved sharply upwards. 2-year UK and US bond yields ended the period at 4.2% and 4.3% respectively - up from 0.4% and 0.3% 12 months ago. The impact of inflation on bond returns has been dramatic; as yields rise, prices fall, leaving many owners of developed market bonds sitting on significant paper losses.

The rise in interest rates also has a considerable negative impact on equity markets; driving discount rates higher and valuations lower. The re-emergence of inflation is leading to the real erosion of consumers' purchasing power and investors' wealth.

US dollar and commodity strength

A prominent feature of markets for UK investors over the past year has been US dollar strength and sterling weakness. With the Federal Reserve leading the fight against inflation, investors have flocked to the dollar. Additionally, its status as a relative safe-haven has once again come to the fore amid market volatility and geopolitical unrest in Europe. Sterling was driven lower in the final month of the period by concerns over UK fiscal policy - falling as low as 1.04 to the dollar, a historical low. This weakness has been to the benefit of global businesses listed in the UK that translate overseas earnings into sterling but to the detriment of domestic businesses and consumers.

Commodity-producing companies such as mining companies and the oil majors, in which we do not invest on account of their low and volatile returns on capital, have also performed very well. Over the past year, investors have turned to hard commodities as a hedge against rising inflation.

The distinctive macro backdrop has led to very clear trends within the UK equity market over the past year. Large-cap companies have materially outperformed mid-caps. High growth and technology companies have lagged more mature businesses. Companies with significant US dollar earnings have beaten UK domestic companies. And commodity-producing sectors have outperformed all others.

Valuations

With the benefit of hindsight, equity markets were 'expensive' this time last year. Interest rate and inflation expectations were low and investors were looking forward to a strong recovery in earnings and dividends as we emerged from the worst of the pandemic. Subsequent sticky inflation and rising interest rates have resulted in a sharp re-pricing of equities.

Valuations could of course go lower before stabilising, but we are of the view that the most dramatic rises in interest rates (and consequent repricing of assets) are now behind us. We believe that the bigger risk to equities from here may come from the potential for corporate earnings to be hurt by a recession.

The importance of dividends

Dividends have arguably been somewhat out of favour in recent years, with much of the market narrative focused on the revaluation of high growth stocks and less on sustainable compounding of dividend growth. This could be set to change. Dividends serve as a truly tangible component of return; they can be spent as income, or reinvested for compound growth. In uncertain and volatile markets, the dividend component of return can become even more important for investors. Additionally, if dividends are reinvested through soft markets, an investor is naturally buying back into the market at prices that are lower and at prospective returns that are higher. In a world in which interest rates are positive once more, we would not be surprised if investing for dividend growth returns to popularity once more.

In today's challenging investment environment, we are prioritising resilient cash flows, reasonable valuations, and sustainable dividend growth more than ever.

Corporate earnings have remained broadly resilient to date, but it seems likely to us that there will be a wave of profit warnings over the coming months. Companies will

be battling slowing growth and significantly higher interest payments against a shaky geopolitical environment and myriad inflationary pressures.

The flip side to a weaker equity market is much improved valuations. With sterling weak and current political uncertainty high, UK equities are trading at increasingly attractive valuations. Whilst we prioritise defensive earnings, and have particularly done so in recent months, we are convinced that over the course of the next year considerable valuation opportunities will emerge. As long-term equity investors, we are excited about the prospect of being able to purchase great companies at discounted prices.

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Bridget Guerin, chairman, Schroder Income Growth – 9 November 2022

Unfortunately the headwinds laid out in the Company's interim results have strengthened. A toxic combination of rising inflation, interest rates and squeezed incomes make a global slowdown and UK recession fairly inevitable. Furthermore, heavy losses in fixed income markets have raised the cost of capital for companies.

Central bank policy is seeking to combat inflation risk through slowing monetary growth and, higher interest rates. These are not a great combination for equity investment returns.

At the same time, currency weakness has made the UK equity market ever more attractive as a destination for overseas corporations looking to grow their UK operations through acquisition. This weakness has also helped UK companies with significant overseas profits increase cash flows and dividends when measured in sterling.

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Managers, Schroder Income Growth – 9 November 2022

UK equities were more resilient than many other world markets over this 12-month period, which represented a particularly challenging time for global equities more broadly. Shortages and supply chain issues were an enduring theme as activity bounced back sharply following pandemic lockdowns. This contributed to inflation hitting multi-decade highs in many developed economies, exacerbated by soaring energy and food costs following Russia's invasion of Ukraine.

In response, all the major developed central banks increased interest rates materially, led by the Bank of England. In late 2021 it, became the first of the G7 monetary authorities to hike rates. The US Federal Reserve, however, has taken the most aggressive approach, with a series of large interest rate increases and after making an early start to unwinding quantitative easing (QE) measures, through quantitative tightening (QT).

The prospect of rising interest rates heavily influenced the investor mindset, perhaps best illustrated by a clear preference for large companies capable of returning cash to them today as dividends. The UK's more mature and slower growing banking, oil and tobacco sectors all performed very well, which has helped underpin the valuation of the broader UK equity market. Healthcare was another notable bright

spot and dollar strength was a positive for most of these sectors given significant overseas earnings.

In contrast, fears around the impact of rising energy bills on consumer discretionary spending weighed heavily on retailers, travel and leisure, construction and other domestically focused companies. These trends contributed to the marked underperformance of UK small and mid-cap equities versus large caps, to an extent rare in history. This area of the market is also home to many fast-growing companies in new and emerging industries, whose valuations have come under particular pressure amid rising interest rates.

More recently we have seen a continuation of the appreciation of the US dollar against most major currencies including the pound to add to existing inflation worries. The decline in sterling allied to rising rates will translate into higher import and borrowing costs for many UK companies, with energy, in particular, priced in dollars. While the UK government's energy packages should cushion the impact on households and businesses for a period, and have a helpful knock-on effect on the inflation rate we acknowledge the current unprecedented squeeze on consumer incomes that a combination of higher inflation, energy and mortgage costs is having on consumers.

The UK is not alone in harbouring recessionary fears, as both the US and Europe are also showing signs of economic deterioration. Ultimately, these challenges will fade at some point in the future and we remain focused on companies' long-term fundamental prospects and their income generation ability. It is worth highlighting that the UK market includes many companies which are overseas earners, whose profits, dividends, revenues and valuations could all potentially benefit from a falling pound. Meanwhile, we continue to have a section of the portfolio invested in domestically-focused areas, composed of companies which have significant opportunities to benefit from weaker competition going out of business.

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Alex Wright, manager, Fidelity Special Values – 3 November 2022

The September mini-budget underscored the Government's priority of countering slowing economic activity and rising inflation with increased spending and tax cutting measures designed to boost growth. The initial reaction from markets was sceptical, with concerns about the cost of these latest measures further weighing on bond yields and the pound. With various U-turns and uncertainty in these policies causing further confusion and nervousness among market participants, the emphasis from the Government has shifted to appeasing nervous market participants, given the effects on household mortgage bills, for example. In the meantime, despite the Government's intervention to limit household fuel bills, the near term economic outlook is uncertain. Many indicators point to a slowdown particularly for the consumer as inflation takes its toll. The unpredictable demand picture combined with continued supply chain pressures are adding to the volatility, and we are starting to see that emerge in company earnings.

Whilst this sounds relatively bleak, many of the most affected areas of the market have sold-off heavily and some stocks are starting to look interesting. After years of being relatively unloved, the UK market started the year looking to be good value, and now looks even cheaper. Meanwhile, portfolio holdings trade on even cheaper valuations for businesses that have healthy balance sheets and can grow and

generate good returns. A cyclical downturn would affect some of these businesses, but we think a degree of negativity is being priced in and over time that should lead to attractive returns. Despite the volatility, the value in the UK market continues to be recognised by both private equity and trade acquirers.

When uncertainty is rife, this typically results in more opportunities to pick up very attractively valued stocks. Companies that can hold up well in a recessionary environment should prove to be good investments.

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Ronald Gould, chairman, BlackRock Smaller Companies – 3 November 2022

While the COVID-19 pandemic recedes, the monetary and fiscal hangover from the pandemic and the resurgence in economic activity in the midst of ongoing supply disruptions have set the stage for an entrenched high inflation environment. This situation continues to be exacerbated by the devastating trajectory of events in Ukraine which have constricted the supply of key commodities dramatically and pushed energy prices ever higher. The 'stop-start' impact of China's continuing zero tolerance approach to COVID-19 has made it harder to predict global demand trends which has contributed to market volatility. The UK market has been especially subject to market and economic uncertainty with rapid changes in governments and government policy impacting confidence among both companies and investors. We face a period of further interest increases and a number of unknowns regarding changes in fiscal policy in general and taxation in particular. These fundamental questions do not make for easy forecasting of the future.

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Roland Arnold, manager, BlackRock Smaller Companies – 3 November 2022

The first half of the year has been a torrid period for small and mid-caps, with brief rallies only temporarily providing respite from the risk-off mentality that has defined the period. The upcoming months are unlikely to provide much clarity, with heightened volatility driven by both domestic and international issues, including the path of monetary policy, inflation, the oil price and geopolitics. We have therefore reduced the number of holdings in the portfolio to manage overall portfolio risk and have also reduced gearing. While the macro environment is likely to present its fair share of challenges for lots of companies, it is important to remember that the effects of the environment will not be felt evenly.

While the small and mid-cap market has been heavily penalised during the year, we take comfort from the unusual volume of share buybacks we are witnessing as management teams retire their equity at current valuations, and furthermore the scale of M&A activity that we are witnessing in the UK market as strategic buyers take advantage of the depressed valuations and discount offered from weakness in sterling.

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Asia Pacific

(compare Asia Pacific funds **here**)

Paul Meader, chairman, Schroder Oriental Income – 3 November 2022

Looking forward, it is easy to despair. Without doubt, the economic environment will get worse before it gets better. A global recession seems likely, even if it may prove shallow. But, financial markets are forward looking and have already discounted much bad news. Looking more specifically at Asia, caution seems warranted in relation to investment in China. Politics, zero-COVID and economic vulnerability, especially to a highly leveraged property market, suggest a bumpy ride ahead for Chinese investments. But aside from China, the region represents something of a haven and, whilst China is important, it is not all of Asia. Many economies outside of China are thriving and represent increasingly attractive alternatives for production, investment and growth. Equity valuations in the region are not demanding and offer interesting opportunities.

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Managers, Schroder Oriental Income – 3 November 2022

Slowing global and weak Chinese growth, elevated geopolitical tensions around Ukraine and Taiwan and rising interest rates, combined with ongoing downward revisions to earnings, mean that headwinds for markets are likely to continue. However, some areas of the markets are starting to look more attractive from a longer term perspective having derated markedly.

Globally, consumption is under pressure as rising prices eat into real incomes. This, allied with the shift away from consumption of goods to consumption of services as the majority of economies open up post-pandemic, has seen the demand for goods falter. This in turn has started to see inventories accumulate across supply chains globally, leading to a fear that we will see a painful period of inventory adjustment on top of an already slowing global economy. From an Asian perspective, this is likely to have an impact on exports and from our portfolio's perspective is most likely to evidence itself in the technology hardware sector. To an extent, markets have already started to discount this with technology names in both Korea and Taiwan already underperforming despite earnings holding up relatively well for now. In our view, valuations are now starting to factor in a slowdown but not yet a "hard landing" which, although not our base case, is a possibility.

The other trend that the pandemic and Ukraine crisis have reinforced has been the need for increased self sufficiency. The need for diversified supply chains was something that the COVID crisis had highlighted, given the disruption the pandemic caused. With security of supply already a focus in areas such as semiconductor production thanks to ongoing US-China tensions and the concentration of advanced manufacturing in Taiwan, the Ukraine conflict has also highlighted the vulnerability of nations to energy supply dependency. The recently concluded Party Congress in China saw President Xi mention 'security' 91 times in his opening speech (according to Bloomberg) compared with 55 mentions five years ago, reinforcing a view that China will continue to intensify efforts around 'self sufficiency' in core technologies

and strategic industries. All this will likely lead to further localisation of supply chains and an era of reduced globalisation.

Geopolitics will continue to remain a risk, including surrounding Taiwan as highlighted by the recent visit by Nancy Pelosi to the island, which has resulted in increased tensions between the US and China. Other actions such as the recent moves by the US to restrict China's ability to purchase and manufacture high-end semiconductors combined with the upcoming mid-term elections in the US mean it is unlikely we will see any meaningful relaxation in tensions near term and this is likely to continue to weigh on sentiment.

From an Asian perspective the biggest impact on growth is coming from the 'zero-COVID' policy in China, where the lockdowns have had a severe impact on growth as well as exacerbating the weakness in the property sector. It is not clear how long this policy will remain in place but for now there is unlikely, in our view, to be any major volte-face. The recent Party Congress gave no indication when the policy might be eased and whilst vaccination rates in China are high and comparable to most developed nations, a large tranche of the elderly still remain unvaccinated making it difficult for them to open up until this is rectified. Although a wholesale opening up is unlikely near term, it is possible that some more incremental easing measures occur but in our view China's consumption and growth will continue to remain lacklustre as regular mass testing and sporadic targeted lockdowns weigh on sentiment.

Given this, we have started to see a number of actions to loosen policy including rate cuts, easing of property purchase restrictions and increases in infrastructure spending and fiscal incentives. In our view, it is likely that we will see further easing measures but whilst the 'zero-COVID' policy remains their impact for the large part is likely to resemble pushing on a string. Nevertheless, given how poorly the market has performed, together with the move to an easing bias there (whilst most of the rest of the world are tightening), as well as a tentative easing of the severity of lockdowns, there is potential for the market to experience better periods of performance.

Longer term, although Xi's confirmation at the Congress as the Party's General Secretary for his third five year term was not a surprise, the make-up of the Politburo Standing Committee ("PSC") (and Politburo) was decidedly one-sided being dominated by Xi loyalists, further cementing his power within the Party. The lack of countervailing voices within the new PSC potentially heightens policy risk and likely means that many of the challenges brought about by increased regulation will persist, with the narrative around areas such as 'common prosperity' continuing to weigh on the potential returns of parts of the private sector. All this means one shouldn't necessarily use a mean reversion argument alone when it comes to valuation.

While recent events described above don't paint a particularly optimistic picture, this has in part been reflected in market action with valuations today looking much less frothy than they did a year ago. Nevertheless, the US Federal Reserve being more aggressive on rates near term is clearly a headwind, given its near term impact on growth and earnings. However, this in turn should start to cap long-term inflationary expectations which will pave the way for lower rates at some point in the future. Until then, it is likely that we see further downward revisions to earnings and a period of inventory adjustment amongst companies to reflect the slower growth and hopefully

put them in a position to start to grow earnings once more. Given overall aggregate valuations for the region are now trading at or below long-term averages, this does set up a more constructive backdrop for Asian markets next year, barring a global hard landing or a more extreme geopolitical risk event.

As we have discussed previously, it is our belief that Asia remains an attractive source of equity income, potentially providing diversification for some UK investors seeking income as we saw through the initial wave of COVID. For many companies across the region, dividend payments have recovered along with the recovery in earnings seen over the last year. In the medium- and long-term, dividends tend to follow earnings and earnings have recovered materially from the COVID lows. As described above, earnings growth this year will likely face some downward pressures which may impact dividends, particularly in some of the more cyclical areas including resources and information technology. However, it should not be forgotten that overall payout ratios in Asia do not look extended versus some other markets and corporates in Asia remain relatively lowly geared. Finally, it is worth highlighting that whilst inflation is rising faster than expected is not great for equities in the short term, longer-term real asset income sources should look attractive versus fixed income alternatives.

Ronald Gould, chairman, Henderson Far East Income – 3 November 2022

It is never easy nor especially reliable to predict the future and the year ahead seems murkier than most. When will inflation start to decline? How resilient will economies be in the face of rising interest rates? How vulnerable will economic growth prove to be given so many cross-currents that could undermine demand and damage business confidence? None of these questions have easy answers but there are certainly some useful observations to be made regarding the environment we face.

First, inflation has been more difficult for central banks to bring down after years of monetary stimulation but there are now signs that it is receding, albeit slowly. Rising interest rates are starting to have the impact that central banks want and slower economic activity is reducing demand pressure and thus, the scope for price increases. Labour demand remains fairly strong, however, rising labour costs will continue to be a key inflation factor for some time to come. Energy prices display a degree of schizophrenia reflecting the impact of the war in Ukraine, OPEC production restraints and moderating oil demand in the face of slower global economic activity.

The economies of Europe and North America may well fall into a mild recession (or even be in one now) but Asia is not in synch with all the same pressures as western economies and may benefit from some positives peculiar to the region. For example, China remains the region's most important economy and unlike western governments is now aggressively stimulating its economy to achieve better economic growth. This will inevitably have a positive 'spillover' effect on other economies in the region and we will be monitoring the scope of that impact closely. Concerns about China's real estate debt crisis fail to take account of the country's unique financial management tools to cope with this type of problem and with share

prices now at much more attractive valuation levels, there is again scope for investment upside.

Markets in the Asia Pacific region will continue to be subject to uncertainty generated by geopolitical concerns, especially between China and Taiwan. The underlying solidity of economic growth in the region, however, remains good and we are positive about the prospects for continuing dividend increases from our portfolio of companies in the region. While we have had a difficult start to our new financial year there are opportunities for individual companies to grow. Asia company payout ratios remain low by western standards and continue to offer real expansion opportunities as we look ahead.

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Mike Kerley, Sat Duhra, managers, Henderson Far East Income – 3 November 2022

This time last year we were writing about the impact of the Covid-19 pandemic, while at the interim stage in February, the Russian invasion of Ukraine dominated headlines. While these events are still front and centre, the attention has switched from the human tragedy of a pandemic and war to the economic implications that these events are having on inflation, interest rates, currency and growth. In recent months equity and bond markets have whipsawed around economic releases with investors trying to ascertain whether the announcement lowers inflation and interest rate expectations or increases the likelihood of recession or both. Global central banks and governments are walking a tightrope with the risk of a policy mistake rising by the day. The recent turmoil in the UK following the government's mini budget is a prime example of how unconventional policy can have a dramatic impact when the outlook is so uncertain.

Markets have continued to fall subsequent to our financial year-end as prominent central banks have reaffirmed their intention to do whatever it takes to suppress inflation. From an Asian perspective, the pressure from inflation is not so intense as regional economies have not faced the same level of wage pressures or asset price inflation witnessed in the west while the 'Zero Covid' policy in China has supressed regional demand. At the same time, the Federal Reserve in the US, the ECB in Europe, the Bank of England and the Bank of Japan have been accused of being asleep at the wheel in terms of effective monetary policy to contain inflation, the same cannot be said in Asia Pacific. Although inflationary pressures have emerged in many countries across the region, the gap between CPI1 and interest rates is far narrower than in developed markets suggesting that less work needs to be done to get back to an even keel. The draconian Covid-19 lockdown measures have made China a global outlier with inflation below 2% and positive real interest rates. It is notable that, as a result, China is the only major economy loosening monetary policy which, if successful in stimulating demand, will be a positive driver for the region.

We have a cautious view on equity markets in the short term. The debate around inflation, interest rates and recession will dominate market direction well into 2023 and we expect Asian market performance will be dictated by these 'big picture' themes. In this environment the US dollar is likely to remain well supported which will curtail some of the appetite for assets in the Asia Pacific region. Despite this challenging outlook, there are some reasons to be optimistic. On the whole Asian economies have managed the cycle quite well with the historical weaknesses of

emerging countries in periods of dislocation not evident this time round. There are plenty of well managed companies in the region with solid fundamentals which are now trading at valuation points below long-term averages while dividends are well underpinned by cash flow with the potential for pay-out ratios to rise over time.

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James Will, chairman, Asia Dragon – 31 October 2022

At the time of writing, China's 20th Party Congress has just ended with a new seven-strong CPC Politburo Standing Committee being established. Xi Jinping has clearly cemented his control of the party and the extent of this has surprised the market.

One of the key themes impacting Asia has been tightening US monetary policy, exacerbated by the build-up of global inflationary pressures. The US Federal Reserve implemented four interest rate increases over 2022, which continued to drive a de-rating of expensive growth stocks and a rotation to value for much of the period. While inflation is lower in most Asian countries than elsewhere, many central banks, including those in Indonesia, India, and Korea, have also begun to raise interest rates. The notable exception here is the People's Bank of China, which cut several key lending rates to support the economy amid significant domestic growth challenges. As I said in this year's interim report, prudent policies mean that most Asian policymakers have monetary and fiscal room for manoeuvre, which mean they are better able to mitigate any serious slowdown in growth.

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Adrian Lim, Pruksa Iamthongthong, managers, Asia Dragon – 31 October 2022

Volatility has been a feature of global stock markets in recent years. That appears unlikely to change any time soon. Markets continue to face a daunting set of challenges: rising interest rates to stem inflation, geopolitical risk, energy and food crises, and an increasingly fragile world economy.

Asia will not be immune to global developments. The good news is that the region is likely to be in a better position than developed economies in the West. The pace at which consumer prices are rising across most parts of Asia is still relatively slow; this has allowed central banks to adopt a more gradual stance in raising interest rates to stem inflationary pressures.

On a related point, this difference in the pace of interest rate increases between the developed West and Asia is also resulting in US dollar strength, with US dollar assets yielding more, and relative Asian currency weakness. We have seen some Asian central banks intervene in the foreign exchange market to support their domestic currencies, some of which have fallen to multi-year lows against the US dollar.

On the ground, we are receiving more reports from our holdings of rising input costs and the pressure on margins but, encouragingly, the earnings of many of our holdings have met our expectations in the latest results reporting season. This environment reinforces the importance of innovation, a premiumisation strategy, brand equity and/or channel control.

We should also not forget that many economies, particularly those in South-East Asia, are still recovering following their post-Covid reopening, and this should help to support earnings.

China continues to be a cause of market angst, with Beijing's zero-Covid policy a key overhang. However, we are cautiously upbeat about its outlook. The country remains an outlier in the global tightening cycle thanks to benign inflation. We expect a continued recovery in economic activity as monetary easing and stimulus measures take effect. The next few months should also provide greater clarity on the policy front, and we think the central government will continue with measures to support and stabilise the economy.

More broadly, we would highlight that valuations of Asian stocks are attractive, below the long-term average and below the valuations of US and global markets.

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Europe

(compare European funds **here**)

Alexander Fitzalan Howard, Zenah Shuhaiber, and Tim Lewis, managers, JPMorgan European Growth and Income – 24 November 2022

it is clear that the rate of growth in European economies has slowed sharply. Recent corporate earnings reports have seen a rise in the number of companies citing weaker demand and growing margin pressures. Earnings forecasts are almost certainly still too optimistic for next year. Much of this has already been discounted by equity markets with valuations now back at levels last seen during the Great Financial Crisis in 2007-2008. Provided there is no serious escalation in the Ukrainian situation investors will start to look through the downturn to the next upcycle, suggesting that at some stage we will need to become less defensive in our portfolio positioning.

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Michael McPhee, chairman, Baillie Gifford European Growth – 21 November 2022

In retrospect, we will look back on the last 25 years of low and falling interest rates as something of a mirage. Central bankers have enjoyed fame far in excess of their historically important but unglamorous role as financial plumbers. Their job, according to Paul Volcker, who proved his worth as a practitioner, is to remove the punchbowl before the party gets started. For decades there was no sign of the punchbowl being removed and the world became accustomed to unlimited punch. We must all consequently now get used to the feeling of being punch drunk. An unparalleled period of near-zero interest rates sits oddly with a 400-year average of over 4%. The present challenges set by a sharp deterioration in geo-political harmony are shaking us out of that reverie. Something was always bound to, but it was impossible to guess when. The music has stopped, the party is well and truly over, the police have arrived and reality has intervened. Interest rates are on their way back to or above long term norms. In the stock market, present cash flows are

prized as rising inflation and interest rates currently, though temporarily, outweigh all other factors. The market's barometer is set to maximum fear and storm hatches have been battened. The underlying prognosis for economic activity is being impaired. Relative strength and growth will, in time, become rarer and better appreciated.

If this all sounds and is dispiriting, the good news is that we are living through a golden age of innovation and disruption in business. Living standards are high, albeit inflated by an asset bubble and cheap debt, and technological progress remains extraordinary. Opportunities to grow and strengthen businesses and to build enduring barriers to entry at pace have seldom been greater. And positive change is being catalysed by today's adversity. A $100 oil price, for example, can only hasten the end of the carbon economy and accelerate its replacement. Equities, and this portfolio specifically, remain a bet on human ingenuity. It is challenging to endure this painful period of flux, but even in its midst we might yet struggle to answer the question differently: 'what would I rather own for the long term?'

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RM Curling, chairman, Montanaro European Smaller Companies – 16 November 2022

The global economic backdrop has been deteriorating as inflation and higher interest rates put pressure on consumer demand and corporate profit margins. The ongoing conflict in Ukraine and escalating concerns around energy security have exacerbated these stresses.

We believe that the nature of this cycle is changing. While central banks have yet to show signs of easing monetary policy, many of the inflationary forces seen in 2021 are reversing: container freight rates have fallen significantly and several commodity prices are now in outright decline. There are signs that wage inflation is normalising.

The other significant change is in investor sentiment and expectations. Forward P/E ratios for European Small Caps have fallen to lows not seen for a decade. In the last two decades their discount to Large Caps has only been lower in the depths of the Global Financial Crisis and Covid.

While trying to perfectly time markets is probably futile, and while the depressed multiples likely portend earnings estimate downgrades, we believe the outlook for long term investors is becoming increasingly attractive. Indeed, the combination of high levels of market volatility and significant (and sometimes unjustified) share price falls for many high quality growth companies represents a compelling opportunity.

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Stefan Gries, Sam Vecht, managers, BlackRock Greater European – 3 November 2022

The macroeconomic environment may remain uncertain over the coming months given heightened geopolitical tensions and sticky inflation forcing central banks to tighten into slowing economies. As clients frequently ask us where and when interest rates will peak, we admit to having no strong views on this topic. What

seems more certain is that powerful structural trends will continue to underpin the earnings of some of the world's leading businesses which call Europe home. Current concerns about energy security have accelerated the need to decarbonise the global economy. Linked to this, we continue to believe in the large potential profit pools available as a result of the electrification of transportation. Advances in health care and life sciences will continue to drive product innovation and the specialisation of complex production processes, all areas where Europe is well positioned. Importantly, these powerful changes are unlikely to be disrupted or stopped by higher interest rates.

More generally, when looking at the health of the corporate sector, we find corporate balance sheets in decent shape and in much better positions than in previous downturns. Corporates have spent the last decade deleveraging balance sheets and interest coverage is significantly higher than during the Global Financial Crisis or other prior periods associated with deep recessions or prolonged bear markets. Corporate spending intentions also remain healthy and this spend is often linked to transformational capital expenditure in areas like digitalisation, re-shoring of supply chains or the energy transition.

Likewise, the consumer seems in a better position than sentiment would currently suggest. Employment is at record highs, wages are well-supported and households' higher-than-average savings should provide some cushion for the squeeze on disposable incomes that is undoubtedly occurring right now. With the help of our in-house data scientist, we closely monitor developments around consumer spending.

Despite the painful impact from short-term market moves that we have suffered from over the past year, we are convinced that over the medium and long term, share prices are driven by growth in earnings and dividends. Hence, for the long-term investor, volatility like experienced recently, creates opportunities to buy assets that have the potential to create significant amounts of shareholder value at much lower valuations. We would encourage investors to think like owners in businesses rather than traders of shares, as there is no doubt in our minds that this will deliver the strongest returns over time.

Finally, as 2022 is drawing to a close, we observe extremely bearish sentiment and positioning towards European equities, leaving the market, as well as many of the best-in-class companies we own, trading at highly depressed valuations not seen in years. While taking a measured approach to adding risk to the portfolio appears prudent for now, we are also cognisant of Warren Buffett's old adage 'to be greedy when others are fearful'. It certainly feels like fear is abundant right now when history has proven time and again that capitalism and human ingenuity finds answers to what appear to be insurmountable problems. Here is to 2023 turning out more profitably than currently forecast by some.

Japan

(compare Japanese funds here)

Alexa Henderson, chairman, JPMorgan Japan Small Cap Growth and Income – 23 November 2022

Growth stocks have been under sustained selling pressure in all major markets since the beginning of 2022, when Russia's invasion of Ukraine intensified investors' fears about rising inflation and aggressive monetary tightening. A series of hefty interest rate hikes by the US Federal Reserve, the Bank of England and the ECB, accompanied by hawkish rhetoric about the need for further rate increases, took a particular toll on quality and growth-oriented stocks. Japanese growth stocks were not immune to the change in sentiment, despite subdued Japanese inflation, an accommodative central bank and a positive outlook.

Despite the headwinds generated by the concerns and geo-political uncertainties currently pervading global financial markets, the Board shares the Investment Managers' conviction that the prospects for Japanese small cap companies remain strong over the long term. Japan is undergoing significant technological and structural changes which will bolster growth and productivity well into the future. Innovative and dynamic small cap companies are ideally placed to thrive in this environment and they are already leading the way in a variety of niche markets. Yet these vibrant sectors of the market are still under-researched, and thus overlooked, by many investors, often to their detriment.

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Miyako Urabe, Xuming Tao, Naohiro Ozawa, managers, JPMorgan Japan Small Cap Growth and Income – 23 November 2022

While there have been some concerns in Japan about cost pressures from global inflation and a weaker yen, in contrast to developments in other developed economies, to date there are few signs of inflation in either wages or rents. As a result, the Bank of Japan currently maintains its loose monetary policy stance. The political environment also remains stable. Following July's upper house election, no further elections are due in Japan for three years. Meanwhile, we expect Prime Minister Fumio Kishida to continue to pursue the policies and reforms implemented by the previous two Prime Ministers, including the implementation of structural reforms such as digitalisation and decarbonisation. The Japanese government lifted its ban on inbound tourism in October 2022 - a major policy shift after nearly two and a half years of strict COVID restrictions, and one that will be welcomed across the tourism and hospitality sectors. The government is also planning to launch a nationwide travel discount programme which was temporarily suspended at the onset of the pandemic.

Regardless of the economic concerns and geo-political uncertainties currently overshadowing global financial markets, we remain optimistic about the long-term outlook for Japanese small cap companies. Japanese businesses typically have large cash positions and stronger balance sheets than their peers in other countries. And the average valuations of Japanese companies remain reasonable, both lower than historical averages and below those of their counterparts in other major

markets. As importantly, the pandemic has given added impetus to some positive long term structural trends developing in the Japanese economy, especially the application of technology and digitalisation in multiple areas of economic activity. These trends are set to underpin growth, productivity and corporate earnings for many years to come. In sharp contrast to other developed economies, Japan's smaller and more entrepreneurial companies are at the forefront of this innovation, and are therefore ideally positioned to prosper over the longer term.

We believe that it is always important to focus on the best of these businesses - good quality companies with leading market positions and the potential for structural growth.

Karen Brade, chairman, abrdn Japan – 16 November 2022

Inflation in Japan is still relatively low compared with the global picture and unlike other major central banks, the Bank of Japan's ("BoJ") policy objective over the past decade has been to inject some modest inflation into the system to stimulate economic growth. However, despite inflationary expectations reaching their highest level since 2008 (3% year-on-year), the BoJ has refrained from intervening and Governor Kuroda has taken the view that inflation is primarily imported through energy costs and, due to weak underlying demand, is in danger of falling back to lower levels in the next fiscal year. This looser monetary policy has led to an increasingly weak currency. During the period the Yen fell to its lowest level against the US dollar in more than 30 years causing prices of imported goods and energy to rise even further. At this point the BoJ stepped in, buying Yen to support the currency, the first time this has happened since the Asian financial crisis in 1998. However, while the Yen was very weak against the US dollar, rising briefly above ¥150, it should be noted that it was relatively stable against sterling, which has suffered from its own well documented domestic headwinds over the period.

Even in this complex operating environment for Japanese companies, results over the last six months have shown that better-run companies are presenting more optimistic outlooks, protecting their profitability, and reacting well to the challenges presented to them. Rising input costs have proved challenging but businesses with pricing power have been able to maintain their margins despite sharply rising prices. It is also notable that share buybacks increased significantly over the period, rising to US$32 billion, the highest levels in 16 years. With dividend payments also increasing, this suggests that companies that have excess capital are actively returning that to shareholders.

Markets over the period essentially focused on the macro and overlooked the micro. Businesses that were positively leveraged to rising inflation or commodity prices have seen their share prices rise. On the other hand, companies that were hurt by rising input prices have been more at risk.

The Board continues to be optimistic for Japan's equity market for the longer term. No country is wholly immune to geo-political tensions, and Japan itself suffered an uncharacteristic and shocking act of political violence in July with the assassination of former Prime Minister Abe, apparently by an individual with a grievance. But Japan's politics and economic policy framework remain stable.

Global emerging markets

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

John Rennocks, chairman, Utilico Emerging Markets – 22 November 2022

There are four trends to highlight in the EM. Inflation is absolutely a key focus in the western economies, but for Asia this is not yet a challenge. By way of example, Vietnamese inflation is running at 3.2% and GDP growth for the full year to 31 December 2022 is expected to be some 7.7%. Latin America has seen strong inflationary pressures, but central banks have been ahead of the curve. Brazil's interest rates are at 13.75% and inflation, having peaked at 12.0%, is down at 8.7%, with the expectations of falling to 5.0% in the next twelve months. Eastern Europe on the other hand faces some of the highest inflationary rates, unsurprising due to their proximity to Russia and Ukraine and the ensuing supply disruption. Poland's core inflation is running at around 11.0%. This has meant different approaches by each of the monetary authorities in the EM regions.

China has elected Xi Jinping as its President for the foreseeable future. China's zero-Covid policy remains a concern, and it is a clear headwind for economic activity and particularly the consumer in China. Much of China's growth is driven by the housing market which relies on a confident consumer.

Russia's invasion of Ukraine driven by Putin has been devastating to watch and it has turned into a shockingly destructive war. Today, as the Russian military is found wanting, the response from Putin has been to take the war to the people of Ukraine, destroying infrastructure and even whole cities. Putin is prepared to weaponise every element he can. Sadly, going forward, we expect more of this policy as increasingly the Russian army finds it difficult to repel a highly motivated Ukraine army. This war has put strain on already tight global energy markets.

Brazil's elections should be seen as a positive and they were closely fought, but the transition to Lula has been peaceful. That is a big endorsement for Brazil's institutions.

We would note the following; interest rates are likely to fall in EM; China's policies are likely to see a rising of "near shoring" to the benefit of countries such as Vietnam and India; the war in Ukraine is likely to see Latin America benefit from heightened commodity pricing and the increased focus on "supply chain security".

One key event to come is the reversal of the Chinese zero-Covid policy. This is expected to happen at some point. China is rapidly eroding much of the economic and social gains it has made over recent years due to the zero-Covid policy which is socially unsustainable. When it reverses, we expect a very significant surge in demand, and a sharp rise in commodities and trade.

Latin America

(compare Latin American funds **here**)

Howard Myles, chairman, BlackRock Latin American Income – 10 November 2022

Focusing on monetary policy first, central banks in Latin America moved swiftly to tackle the spiralling post-pandemic inflation we have witnessed. The Banco Central do Brasil, which has recently gained full independence, was first to act and has now taken the base rate from a low of 2% to 13.75%. Chile has raised rates to 11.25%, while Colombia increased them to 11%. Others are still likely to climb higher. In August, the Bank of Mexico raised the base rate to 8.5%, its highest in 16 years.

Looking at the region as a whole, it is clear central banks have been well ahead of the rate-rising cycles of other emerging and developed markets with India's rising to 5.4% and the US Federal Reserve increasing rates six times in 2022 (up to 4% in November), whilst the European Union only started with a rise to 1.25% in September, with a further increase to 2% on 27 October 2022.

Political risk has been another important factor, with several high-profile elections over the year. Colombia elected its first-ever left-wing president Gustavo Petro, who stood on a platform of land reform, universal healthcare and promises to continue his country's commitment to the peace process; and Chile, meanwhile, voted in the relatively inexperienced 36-year-old Gabriel Boric (another left-winger) as president. After our year end, Chile went to the polls again, for a constitutional referendum which was roundly rejected by voters, seeing it as too radical (the current constitution dates back to the days of General Pinochet).

In Peru, asset classes saw significant improvement over the year. The country had already witnessed a massive sell-off in equities and bonds in 2021, following the election of left-winger Pedro Castillo, prior to the start of this reporting period. For investors, political risk now appears to have somewhat diminished. One area to note though in Peru, is its approval of early withdrawals from pension funds, to support the country's recovery from the pandemic and the impact of surging global prices. While these actions can help in stabilising the economy, they also fuel higher inflation and withdrawal of pension savings in previous years from Peru and Chile resulted in sovereign downgrades.

Naturally, elections in Latin America's largest economy, Brazil, have been a global talking point, as the incumbent Jair Bolsonaro, seeking a second term in office, ran against former president Lula. Even though the election fell outside the year covered by this report, the atmosphere of uncertainty posed by Brazil's vote - including doubts cast by Bolsonaro of the legitimacy of the election process - have been a headwind for Brazil's asset classes. In the run up to the election, we also saw some fiscal loosening. This was a concern for investors because it runs the risk of losing the fiscal anchor (a ceiling on spending, deficit, or debt) that has played an important role in improving Brazil's balances. Brazil is running a primary fiscal surplus for the first time in a long while.

Finally, wider global events have of course had a major impact on the region's fortunes. Extreme weather events and, most notably, war in Ukraine have resulted in higher commodity prices and put pressure on the global supply chain. Economies

in Latin America are highly sensitive to commodity prices. Brazil is a large exporter of soybean and iron ore, while Chile and Peru are notable exporters of copper. Oil is a key concern, with Peru and Chile large importers and countries such as Mexico being large exporters. While some businesses have seen a positive impact from higher energy prices, in the long run, higher food and fuel prices add to the inflationary environment that has led central banks to start raising policy rates.

For now, GDP forecasts for the region, which were downgraded in the second quarter, appear to be improving. Brazil's economic ministry has raised expectations for its 2022 growth figure to 2.7%. Central banks have been quick to react to rising inflation and have made adjustments to weather the environment of rising prices. In Brazil, inflation has already been falling since July (as measured by the IPCA benchmark inflation index). If, as is hoped, the period of interest rate hikes is coming to an end, it could be expected that inflation rates elsewhere in the region reach their peak as early as next year.

Furthermore, with the most recent run of elections now out of the way, I believe we are now moving from what has been an extremely volatile period over the last 18 months to potentially a calmer environment, one that should give investors greater visibility - and make for more stable market conditions.

Looking to the longer term, Latin America continues to be an appealing investment destination. The region is full of great promise and is home to assets that are attractively valued compared with other emerging markets and developed economies.

Biotech and healthcare

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

Sven Borho and Trevor Polischuk, managers Biotech Growth Trust – 22 November 2022

Whilst 2021 was a difficult year for many parts of healthcare equities given excessive macro headwinds, 2022 saw many of these overhangs begin to lift. Certainly, one of those overhangs was the perception that the FDA was “rudderless”; without a commissioner since January 2021 and still pressured by the demands brought by the COVID-19 pandemic. However, in February 2022, a new (albeit recycled) commissioner was finally confirmed. Dr. Robert Califf, a world-renowned cardiologist and previous FDA commissioner in the Obama Administration, was approved by the U.S. Senate just ahead of the Company’s current financial year. He is viewed as “industry friendly” and we expect his efforts to continue to align with the impressive productivity that the FDA has achieved over the past five plus years.

Also of import at the FDA is the continued record-breaking pace of new drug approvals. With another 50 novel prescription medicines approved by the agency in 2021, the past five years have been the most productive period in the past two decades. Overall, we think investor perception of the FDA is going to improve immensely and any misperception of a slow down at the agency should continue to diminish.

Perhaps the largest sector development that has occurred during the period under review is new legislation that was approved by the U.S. Senate and signed into law in July 2022 – the Inflation Reduction Act of 2022 ("IRA") – which settled concerns about prescription drug price reform. The threat of drug price reform in the U.S. has been a persistent source of uncertainty and negative sentiment, an overhang for the biopharmaceutical sector for decades, but particularly over the past two years since President Biden took office. Given the narrow Democratic congressional majorities, the IRA was modest in scope and included a mix of positive and negative factors for the biopharmaceutical industry.

On the negative side, a selected group of up to 10 drugs per year will be subject to price negotiation beginning in 2026. The legislation narrowly focuses on older drugs (9 to 13 years after FDA approval) with no generic competitors. As a result of these restrictions, we estimate a modest mid-single-digit reduction in pharmaceutical industry revenues in the coming decade.

On the positive side, the IRA provided additional funding to limit "out-of-pocket" spending on drugs for Medicare beneficiaries, which should increase the affordability (and usage) of many medicines. Additionally, the IRA includes a drug price inflation cap, which will require pharmaceutical companies to pay rebates to Medicare if they increase drug prices faster than inflation or face penalties for doing so. We view this as neutral as price increases have not been a major revenue driver for the industry for some time. In fact, this may be construed as a positive as it will curb some small company bad actors who sometimes grab headlines for egregious price increases. Overall, we view the IRA as very manageable for the biopharmaceutical sector, with limited impact on profits into the end of the decade, and perhaps the issue of drug price reform can now begin to dissipate as an overhang on the sector.

We are perennial optimists about the pace of M&A activity in the biopharmaceutical sector. With the insatiable need for the large capitalisation companies to continue to fill their pipelines and replace revenues lost to patent expirations, this is a logical view. However, there is, ultimately, a natural ebb and flow to M&A activity due to a variety of external factors. With that, 2021 was a down year for M&A and there was a dearth of activity at the beginning of 2022. However, come mid-year, M&A activity has virtually exploded. With the historic small-mid-capitalisation biotechnology stock sell-off and large capitalisation executives talking up the need to execute deals, a plethora of transactions began in earnest, inflecting in June 2022 and beyond. We expect total deal volumes to eclipse recent highs, with significant average deal value and premiums paid. We expect this recent acceleration to continue into 2023, as evidenced by this recent comment by Johnson & Johnson CFO Joseph Wolk and their most recent quarterly call (18 October 2022) when asked about M&A: "We still hold U.S.$34 billion of cash, which positions us extremely well to continue exercising that lever of capital allocation around acquisitions or significant collaborations, going forward. So, our priorities have not changed. In fact, maybe we are even a little bit more bullish and eager to do something (M&A wise)".

Across healthcare, innovation remains a critical theme, and the biopharmaceutical sector continues to deliver essential new therapies for unmet medical needs at a blistering pace. In particular, two highly anticipated clinical catalysts occurred this period for which investor expectations were decidedly negative, yet both were notably positive. The first was Alnylam Pharmaceuticals' Phase 3 study of Onpattro

(patisiran) in the treatment of patients with amyloidosis-induced cardiomyopathy, a rare disease that weakens heart muscle. Data showed unequivocal improvement in walk test scores and quality of life for these very sick patients.

More dramatically, Eisai and Biogen released positive results in a Phase 3 Alzheimer's disease trial for the beta-amyloid-targeted antibody, lecanemab, that showed a remarkable 27% reduction in cognitive decline after 18 months. This data was precedent setting; the first registrational trial ever to show true disease modification in the treatment of Alzheimer's disease. The benefits of lecanemab therapy began to appear as early as six months – and the benefit continued to increase at 12 and 18 months – suggesting a duration of efficacy beyond the parameters of the trial. Moreover, the results were highly statistically significant, indicating that this effect should be very reproducible across the spectrum of patients with mild-to-moderate disease and provide confidence to prescribing physicians and caregivers that a clinically meaningful impact will be observed. Finally, we note that the safety of lecanemab also exceeded expectations, with the incidence of symptomatic brain swelling being exceptionally low. The full data set will be released in late November 2022 and is likely sufficient to warrant FDA approval. Overall, we view this result as an unequivocal win for the companies and patients, but a big win for the healthcare sector as the consensus expectation was that this trial would fail.

Importantly, this clinical trial further validates the amyloid beta hypothesis for treating Alzheimer's, increasing the odds of success for similar therapies from Eli Lilly, and others. Dementia from Alzheimer's is a genuinely staggering unmet medical need, with over six million afflicted in the U.S. alone and we remain optimistic about the commercial opportunity new therapies will present.

Finally, we note that the equity markets remain challenging due to many volatile factors, including rising interest rates, accelerating inflation, currency fluctuations, and significant geopolitical risks. With recession risk looming, we take this opportunity to remind investors of the defensive qualities among various healthcare sub-sectors. Overall, we view the biopharmaceutical sector as the most resilient to recessionary pressures given consistent demand across economic volatility and prior track record of maintaining revenue growth during economic slowdowns.

Moreover, the history of share price outperformance during prior downturns is evident for therapeutic stocks as the outlook for these companies is primarily driven by their ability to bring new drugs to market to meet unmet medical needs – either through internal R&D or external M&A. Government and private payers have shown consistent willingness to reimburse new prescription medicines regardless of the economic climate. Whilst there may be moderate utilisation and pricing downside, we expect the extent of the headwinds to be manageable, particularly when comparing with those during the 2008 period and when considering the group's ability to maintain margins during the 2008 downturn. To note, a positive outlook for healthcare is evidenced by the group's outperformance vs. the S&P 500 in each of the last four recessions.

Geoff Hsu, manager, Biotech Growth – 15 November 2022

Absolute valuations for the emerging biotech segment are depressed. One objective way of valuing unprofitable biotech is to simply compare the market caps of these

companies with the net cash on their balance sheets. If one looks at the median ratio of market cap to net cash for the biotech industry, one observes that the current drawdown has driven sector valuations to levels we have not seen in over 20 years. Valuations on this metric are now below those found after the Dot Com Bust, the Great Financial Crisis, and the Hillary Clinton drug pricing tweet in 2015. This translates into over 25% of biotech companies (over 150 companies) that are now trading at market caps below the net cash on their balance sheets. We do not believe these unprecedented valuation levels are warranted given the fundamentals of the industry.

One of the principal factors that has clearly driven overall market weakness – and weakness in unprofitable technology companies in particular – is the rapid rise of interest rates in the U.S. over the past several months. In order to combat rising inflation, the U.S. Federal Reserve (the "Fed") has been aggressively increasing interest rates. By increasing the risk-free rate, these interest rate hikes increase the discount rate investors use to value biotech companies and reduce their discounted cash flow value. Importantly, because most biotech companies are not heavily dependent on debt financing, an increase in short-term rates has very little impact on their businesses. The impact on biotech really stems from any increase in the long end of the yield curve increasing the discount rate. We would argue that many of the near-term rate hikes are already priced into market expectations and should not substantially impact the 10-year rate. Given that absolute valuations for emerging biotech are already at 20-year lows, we would not anticipate that further interest rate increases will significantly further depress valuations.

Many economists are now forecasting a recession in 2023. Healthcare has generally been a defensive sector during recessions, and we would argue that biotech as a secular growth sector should be less impacted by an economic downturn compared to other industries. Patient demand for drugs should not be dramatically affected if the U.S. enters a recession.

With regards to inflation, pricing power in the drug industry has traditionally been strong. We believe most companies will be able to push through annual price increases on their drug sales at least on par with inflation in order to maintain margins and offset any inflationary pressure on costs.

Passage of Drug Pricing Legislation Clears Political Overhang

In August, the Democrats' "Inflation Reduction Act" was signed into law in the U.S. The law includes a number of drug pricing provisions to help pay for the climate and energy provisions of the legislation. There are three elements of the drug pricing reform: 1) a redesign of Medicare Part D to cap out-of-pocket costs that seniors pay for prescription drugs (a positive for the industry); 2) an inflation cap on annual drug price increases; and 3) the ability for the federal government to negotiate Medicare drug prices for a limited number of drugs starting in 2026. We don't think the bill will have an impact on biotech in the near term and will generally be manageable for the drug industry overall. The spectre of drug pricing legislation has been an overhang and risk for the biotech sector for decades. Now that this legislation has passed, we believe it is a clearing event for the sector that will allow the sector to re-rate. We do not expect Congress to revisit the issue for the next several years. On 8 November 2022, midterm Congressional elections took place in the U.S., but as of 14 November, the results of those elections had not been completely determined. The Democrats were able to maintain their slight majority in the

Senate, with Republicans still appearing likely to win a small majority in the House. If Republicans gain control of the House, the prospects of any additional drug pricing legislation are even less likely.

M&A Activity Expected to Accelerate

We anticipated that M&A activity in the biotech sector would increase with the recent drawdown in valuations. Development-stage biotech companies that can complete equity financings at healthy prices can remain independent entities to generate additional value and are not forced to sell themselves to a larger player if the acquisition price is deemed insufficient. Now that stock prices are quite a bit lower, biotech companies face the unattractive prospect of financing their programs with much more dilutive equity offerings than they previously contemplated, making a sale to a strategic acquiror a more palatable alternative than it was under healthier market conditions. At the same time, the urgency for large pharma to acquire smaller biotech companies remains elevated. Numerous large pharma companies are facing key patent expirations on multi-billion-dollar blockbuster products in the 2025-2030 timeframe. These companies are highly motivated to acquire innovative biotech products that can help them replace expected revenue losses in the latter half of this decade. The current market environment should therefore be conducive to accelerated M&A activity. While there is always natural variability year to year in M&A volume, it is encouraging that the number of announced transactions has increased sequentially in the second and third calendar quarters of 2022, suggestive of a pickup in M&A activity.

Outlook

With valuations in emerging biotech at 20-year lows and a drawdown in small and mid-cap biotech that has been the worst in over 15 years, we have never seen such a compelling entry point for long-term investors to invest in biotech. We expect the sector to resume its historical outperformance versus the general market over the next several years. Importantly, the fundamentals of the industry remain strong. The industry pipeline continues to grow, with robust innovation based on new drug development technologies like gene therapy, cell therapy, and RNA-based therapies still in the early stages of reaching their full potential. The regulatory environment at the FDA remains constructive towards the approval of new drugs, especially in areas of unmet medical need. There are signs that M&A activity is accelerating, as large pharma companies facing upcoming patent expirations on key products aggressively look to acquire innovative biotech companies now trading at inexpensive valuations. Finally, the political overhang of drug pricing reform has now been cleared with the passage of the Inflation Reduction Act, which we expect to have minimal impact on biotech. Indeed, we have never seen such a dramatic disconnect between industry fundamentals and share price performance in the sector. While rising interest rates will continue to be a headwind for the stock market generally, any indication of inflation moderation could have a favorable impact on future interest rate expectations. Although the market may continue to be challenging in the short term, the compelling valuations in biotech give us optimism that a recovery in the sector will eventually occur in due course.

Jim Horsburgh, chairman, International Biotechnology Trust – 31 October 2022

Our Annual Reports in 2020 and 2021 were dominated by the effects of the COVID-19 pandemic which disrupted investment markets and the wider economy. Russia's invasion of Ukraine has resulted in similarly seismic shocks, creating a sharp rise in political instability, economic disruption and an increase in the inflationary pressures that many predicted would follow the pandemic. Despite this, the fundamentals of the biotechnology industry remain intact. The companies that we are invested in remain strong, with innovation still continuing apace and demand for new therapies rising as the elderly population grows and developing markets gain better access to medicines. Indeed, the COVID-19 pandemic highlighted both the increasingly important role of the life sciences industry, including biotechnology, and the scale and speed of innovation this industry can provide.

The past year has seen volatility in the market which looks set to continue. This volatile landscape will likely assist some biopharmaceutical companies more than others.

Further catalysts for the year ahead could include the growth of M&A transactions fuelled by a combination of cash rich big pharmaceutical companies looking to replenish their pipelines by acquiring smaller biotechnology companies which are now trading at attractively low valuations and whose management may now have more realistic ideas about the achievable exit price. Indeed, M&A has picked up substantially towards the end of the financial year.

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Ailsa Craig, Marek Poszepczynski, managers, International Biotechnology Trust – 31 October 2022

During the COVID-19 pandemic, the sector's dynamic innovation drew attention from generalist investors impressed by the speed at which both vaccines and therapeutics came to the aid of the world. Investor focus turned towards backing riskier, early-stage biotechnology companies with potential game changing platform technologies (such as cell therapy, gene therapy and RNA platform technology) causing valuations across the whole market to overheat. Small-cap companies were especially impacted by this with companies in the early stages of clinical development reaching valuations that had previously been reserved for companies with proven products on the market. This enthusiasm led to an unprecedented level of activity in the biotech IPO market, which saw a total of $28.5bn of new investment in 2020 and 2021 according to the Biopharma Dive database.

Since the peak in Spring 2021, a series of wider macroeconomic factors have presented successive headwinds to the biotechnology industry. Towards the end of 2020, generalist investors reconfigured portfolios to hold overweight positions in sectors best positioned to benefit from a post-COVID-19 reopening of the economy. In the Autumn of 2021, the Federal Reserve (FED) hinted at raising interest rates to combat rapidly rising inflation. Russia's ongoing invasion of Ukraine has since further disrupted equity markets, and put additional upwards pressure on energy prices, inflation and, consequently, interest rates. Biotechnology companies, especially those focused on new drug development, are particularly sensitive to increases in interest rates as they are typically not expected to realise earnings for many years. Collectively, this has led to prolonged poor market sentiment and one

of the longest and deepest corrections to the NBI and SPDR S&P Biotech ETF (XBI) indices since their inception. The XBI is equal weighted so acts as a proxy index for the small cap end of the biotech market. In the first half of 2022, the window for IPOs almost completely closed, with IPOs in this period raising less than 20% of the capital of the equivalent period in 2021. In addition, there was less M&A activity in the sector during the first half of 2022 possibly due to unrealistic valuation expectations at target companies due to the hype of the previous.

Since the start of Summer 2022, market sentiment and the indices have rebounded. Several factors appear to have precipitated this recovery. First, fears of a dramatic increase in rates have been tempered. Secondly, there has been some evidence of recovery in M&A.

With financing being more challenging and many smaller biotechs currently being valued at significantly more attractive levels than the prior year, the likelihood of a further rebound in M&A over the coming period appears high. As seen with recent M&A transactions, de-risked, late-stage development assets that complement a company's strategic pipeline might be an M&A priority. We are optimistic that after a challenging period, we are now seeing the shoots of recovery.

Whilst too early to tell what the exact consequences will be for the industry, it is important to note the recent passing of the Inflation Reduction Act by the US Government which has specific provisions targeted at reducing the price of prescription drugs for those who qualify for Medicare insurance. This will undoubtably cap total profits for various medicines, but the consensus view is that the changes contained within the bill will end up being tolerable to the industry and the passage of relatively light-touch measures might prove a blessing by taking more significant drug pricing controls "off the table" especially heading into the US mid-term elections.

Mergers and acquisitions (M&A)

Over the past twenty years, emerging biotech companies have become responsible for an increasing proportion of innovative new drugs. Indeed, the majority of approved products now originate from these smaller companies. As a consequence, cash rich large pharmaceutical companies in need of new products to replenish their own pipelines which have looming patent cliffs for blockbuster drugs are looking to acquire these smaller biotechs.

Biotech M&A deals peaked at around $200bn before falling dramatically in the face of overheated valuations in 2021. As valuations fall and biotechnology financing becomes more difficult, a pharmaceutical buyer's market may emerge, with cash rich large pharmas reopening negotiations to acquire exciting targets that were too expensive to justify the acquisition price in early 2021. There are recent signs of an uptick in M&A as we progress through 2022 and this looks set to continue into the later part of 2022 and beyond.

Biotech innovation remains robust

Despite the weakness in share prices and company valuations, fundamental innovation in the industry remains robust. The number of new chemical entities (new drugs) approved in 2022 is going to be the lowest numbers since 2016, most likely as a result of the COVID-19 related delays to clinical trials. We are optimistic that the trajectory for the number of new drugs will be generally upwards.

Novel modalities - cell therapy, gene therapy, RNA therapy and gene editing - represent a very exciting source of innovation and a great opportunity for the biotechnology industry.

Cell therapy involves the delivery of cells to patients for therapeutic benefit and represents an incredibly diverse array of potential technologies. The term has come to apply to a rather narrower group of treatments involving the introduction of immune cells that have been engineered in such a way that they can specifically target, and hopefully destroy, a patient's cancer cells. Six cell therapies have been approved by the Food and Drug Administration (FDA) since 2017 and all show remarkable results in a small range of blood cancers. A second wave of innovation, in which the Company has made some investments and seeks to add more, is aiming to improve manufacturing and reduce the toxic side effects of these drugs to increase benefits to patients as well as finding ways for these drugs to treat solid tumours, where there is both a big unmet need and a lucrative market.

Over 10,000 diseases, affecting around 300 million people worldwide, are caused by mutations in single genes that prevent their normal function. Gene therapies aim to treat these diseases by reintroducing a healthy version of the faulty gene into a patient's cells. After decades of struggling with the technology of delivering genes to patients in a safe manner, significant recent technological progress has now allowed remarkable new gene therapy drugs to reach patients for the first time and offer the hope of a one-shot durable cure for previously fatal or highly debilitating diseases. There is hope that gene therapies stand at a watershed moment and a range of gene therapies might soon be available for many of these 10,000 genetic diseases.

RNAs are multifunctional molecules that can act either as important messengers, carrying instructions from DNA to make proteins, or themselves perform essential functions inside cells. Recent advances to RNA delivery technology, made famous by the Pfizer-BioNTech and Moderna messenger RNA COVID-19 vaccines and paralleled by alternative approaches such as antibody-coupling, now allow RNAs with a chosen sequence to be efficiently delivered to cells in a variety of locations within our bodies. The ability to efficiently deliver RNAs opens up a range of exciting potential drug opportunities including in devastating rare genetic diseases.

Gene editing involves the correction, removal, or addition of a gene, by modifying the patient's genome at a specific position to treat disease and offers an overlapping but distinct range of therapeutic opportunities to gene therapy. Whilst precise editing of the human genome within a patient perhaps offers the most lucrative upside, gene editing technology remains the least developed of these novel modalities and a series of safety and efficacy hurdles remain to be cleared. However, if successful, pioneers could open the floodgates in this space and allow patients with untold numbers of diseases of severe unmet need to benefit from this technology in future.

IPOs

2021 was a landmark year for Biotech IPOs, with a record 82 companies going public in a buoyant market, supported by a multiyear trend of rising biotech valuations. However, as the year closed so too did the IPO market and the first and second quarters of 2022 saw the fewest IPOs for more than five years. Severely depressed company valuations (80% of the companies to go public in 2021 had lost value by year end) make an IPO unattractive to both investors and company

management, who would rather remain private and wait until market sentiment improves to list. 2021 saw an interesting new trend of preclinical stage companies listing and the share prices in these companies were particularly hard hit by the recent downturn as investors weighed up the risk of programs which are so far from generating revenue, even by biotech standards, in the light of rising interest rates. More companies may choose to wait for further clinical data before becoming public in future. A return to high IPO levels will likely require an improvement in market sentiment and rising valuations.

FDA

The first half of 2022 was a slow period for new drug approvals by the FDA, with just 21 getting the greenlight by 31 August compared to 50 new treatments in the whole of 2021 and 53 in all of 2020. However, this is likely due to short-term factors relating to the COVID-19 pandemic, which has delayed inspections of manufacturing sites and held up clinical trials, rather than a lack of innovation in drug development. The number of newly registered clinical trials and drugs in R&D pipelines continues to grow. As the economy fully reopens, it is expected that the FDA backlog should clear and the next 18 months could be a bumper time for new drug approvals.

Drug pricing legislation and the US mid-term elections

As part of the August 2022 Inflation Reduction Act, the US government has introduced meaningful measures to regulate drug pricing for the first time in decades. The legislation applies to drugs sold through Medicare Supplement Plan J and will both stop above-inflation drug price rises and allow Medicare to negotiate a reduced price for a number of the highest selling drugs after a shortened period of exclusivity. The most significant measures (price negotiations, which are essentially forced price reductions) will kick in from 2027 and will only apply to a selection of the biggest selling (top 100) Medicare drugs. There are specific exemptions for blood-derived products (including cell therapies) and drugs produced by small biotech companies. As expected, these measures met with opposition from the biopharma industry and are expected to reduce revenues, with some estimates suggesting a total of 11% of global pharma sales will become up for negotiation.

Products likely to be most affected by the new measures are those that have been on the market for a long time, haven't been superseded by more innovative medicines, and consequently retain a high price. It is these drugs that place the most significant burden on the US government's Medicare budget and are the primary target of this legislation. Indeed, since only the biggest selling drugs will be subjected to price negotiation, smaller biotechs will likely regard the impact of future price negotiations as a 'nice problem to have' - these measures only become relevant to successful products that are raising significant revenues for their manufacturers.

The US is heading into mid-term elections in November where the Democrats are expected to lose control of at least one of the Senate or Congress, making US policy progress even more challenging. The last few mid-term elections have seen robust discussions on drug pricing and it may be that the passage of these new measures takes this discussion off the table. It is possible that Republicans will use these drug pricing measures, which they see as a prime example of 'big government control',

as a key electioneering point. If elected, the Republican party (who were almost universally against these measures) may even scrap the policy entirely. Either way, the Inflation Reduction Act is likely to take further drug pricing measures off the table for the time being and crucially, avoids the controls on price setting mooted in previous US election rhetoric, that would be most detrimental to the biopharmaceutical industry. Whilst unlikely to significantly impact the Company's short-term investment strategy, the effects of the Inflation Reduction Act remain something to watch over the coming years.

Outlook

There is no doubt that after the highs of 2020 and 2021, the past year has been a difficult one for the biopharmaceutical industry. The realisation that many pre-approval biotech companies were overvalued in 2021 has combined with global, macroeconomic challenges including inflation and the Russian invasion of Ukraine to send biotechnology stocks tumbling in the later stages of 2021 and into 2022. In order to counter rising inflation, the Bank of England and the Federal Reserve have raised interest rates. This rise in interest rates, combined with inflation it is designed to counter, is contributing to an uncertain economic outlook that is expected to continue into 2023 and possibly beyond.

Despite this, there are positive signs for the biotechnology industry. As has happened before when company valuations dip, M&A becomes more attractive and there are clear signs that M&A transactions will remain a significant catalyst for the industry over the short and medium term. Whilst the recent passing of drug pricing legislation in the US through the Inflation Reduction Act may lead to slight haircuts to the revenues produced by future blockbuster drugs, the legislation has so far had very little impact upon valuations of innovative small and mid-cap biotechnology companies. Innovation in biotechnology remains robust with record numbers of drugs in R&D pipelines and clinical trials. Indeed, there is real excitement that the new modalities reaching the market in the 2010s and 2020s, such as gene and RNA therapies, could transform healthcare across a variety of diseases where there remains significant unmet need. The current financial turmoil provides an opportunity for knowledgeable investors to make meaningful returns on investments in companies that are inappropriately undervalued.

Financials

(compare financials funds here)

Tim Levene, Augmentum Fintect – 23 November 2022

Market uncertainty has been a constant in my recent reports to shareholders, but so has my view that good quality fintechs will continue to do well even during times of uncertainty. This has been particularly true of this reporting period given the political instability and economic aftermath of the pandemic. Few asset classes have escaped impact from this over the last six months, but the technology sector has been particularly badly hit.

Within these major public market valuation shifts there has been a clear flight to quality. Investors have regrouped around businesses that display strong

fundamentals and eschewed those whose high-burn, growth-at-all-cost, strategies are incompatible with current conditions.

The same patterns are reflected in private markets. Overall investment activity is significantly below 2021 levels, magnified by the reduction in 'tourist capital' that flooded the sector in 2020 and 2021. High-quality companies continue to attract capital, albeit at more palatable valuations. Patterns of investment have also changed, with more companies deciding to raise capital with existing investors to extend their runways rather than embrace the challenges of the external market. In general there has been a shift towards early stage investment activity, reflecting both the acceleration of innovation in times of uncertainty and the cooling of later stage and pre-IPO valuation multiples. As a result, the forward pipeline of compelling investment prospects in the fintech sector remains resilient.

Growing momentum in the digital transformation of the financial services sector and the huge scale of the opportunity ahead remains a defining feature of fintech. A drive to modernisation continues across an industry that still predominantly relies on a legacy technology backbone. The near-term trading environment will benefit some fintech models and challenge others, but we continue to believe that a diversified portfolio offers investors optimal exposure to the fintech opportunity over the longer term.

With levels of venture capital 'dry powder' (funds committed but not yet deployed) for European venture opportunities still at elevated levels, competition for the best fintech opportunities remains high.

Despite the macroeconomic challenges, we are very positive about fintech's future potential. The industry will continue to eliminate friction, improve user experiences, broaden access and reduce costs. We are only part way through the first phase of the story.

Renewable Energy Infrastructure

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

Juliet Davenport, chair, Atrato Onsite Energy – 28 November 2022

The security of energy supply has become one of the critical social and political issues of our time. Extraordinary highs in energy prices have necessitated unprecedented intervention by the UK Government to protect both businesses and consumers from these extreme cost increases.

The current crisis in the energy market heightens the interest of companies to transition to an independent private wire supply of clean energy, providing long term price certainty at an affordable cost. In the corporate boardroom, renewable energy systems have moved from being a 'net zero' agenda item to now being an economic necessity.

Set against this, several factors have slowed the pace of companies committing to long term PPAs. This includes the significant volatility in wholesale prices, which increased by 587% to its peak before subsequently falling by 58% by the end of the financial period, and other factors such as cost of capital, together with regulatory

uncertainty. Corporate decision making has been slow, particularly since the financial period end.

However, there are encouraging signs of stability. Energy and financial markets have calmed in recent weeks and our customers are looking to accelerate their decision making with respect to long term commitments to renewable energy PPAs.

Managers, Atrato Onsite Energy – 28 November 2022

Power prices

A confluence of factors including the war in Ukraine, weather, market structures and demand patterns has driven wholesale electricity prices during the Period to historic highs in Great Britain, with daily prices on the N2EX day ahead auction reaching almost £600/MWh in August 2022. For the month, the average auction price topped £370/MWh, an increase from £107/MWh in the same month of 2021 and a ten-fold increase from August 2020.

Such dramatic increases in the wholesale electricity price naturally impact consumers, both at home and in business, and the Government is introducing a raft of measures to provide support and protect against rocketing energy costs. In September 2022, a temporary price cap for businesses was announced, limiting the unit price paid to £211/MWh for electricity and removing green levies from the bills of non-domestic clients. This price cap will be in force for six months from October 2022, with expectations of some continued targeted support for vulnerable sectors thereafter.

The capped unit price is in line with the monthly average grid import price at the time of the Company's IPO in November 2021. As the PPA price for onsite generation is typically lower than this, the Government support measures therefore support the case for businesses to commit to onsite solutions. Indeed, the relatively short-term nature of the support and continued uncertainty from March 2023 are expected to highlight to businesses the advantages of taking control of their energy costs by securing long term price certainty such as that which can be delivered through onsite PPAs. The commercial case for onsite PPAs is further underpinned by predictions of sustained high prices. Analysis from some market forecasters suggest that wholesale electricity prices will remain above the pre-2021 historic average until at least the end of this decade.

Elevated grid power prices are an important factor for businesses in evaluating alternative supply options, with 77% of businesses surveyed in the nPower 2022 Business Energy Tracker reporting that energy costs were seen as the top business risk. Sustainability and net zero measures remained an important consideration for most businesses surveyed, but an overwhelming majority of more than 90% had concerns about the costs of funding the energy transition and so a PPA solution may be attractive to those evaluating the potential for onsite generation. This is supported by research from the CBI in August 2022, which reported that 30% of firms consider that energy price rises were likely to negatively impact current or planned investment in net zero measures. For these businesses, a fully funded PPA solution for onsite generation could provide an attractive route to attain sustainability goals whilst also reducing costs. Corporate PPAs, which provide direct agreements between generators and business consumers for grid connected, offsite assets, are

also garnering more attention as an option for aiding price certainty whilst simultaneously achieving corporate sustainability targets.

Inflation in power prices and the economy more generally is feeding through into increases in equipment and labour costs for delivery of projects, resulting in some rises in the PPA rate which we need to achieve for new installations. However, these rises are outstripped by the increases in the grid import prices described above, ensuring that the economic rationale for clients is preserved.

Property

(compare UK property funds **here**)

Simon Carter, chief executive of British Land:

We are now operating in a significantly different environment to the one we reported on in May 2022. Rapid inflation has led the Bank of England to initiate an interest rate hike cycle and 10-year gilt rates are significantly ahead of the level six months ago, albeit below recent highs. This has directly impacted property yields with the effect most pronounced in lower yielding assets. Looking forward, yields will be heavily influenced by where medium-term interest rates settle, which is difficult to forecast, but we currently expect to see yield expansion across our business in the second half. However, this impact will likely be cushioned by rental growth across our key markets.

We go into the second half with a strong leasing pipeline focused on markets where we have pricing power, but we are mindful of the weaker macro environment we are operating in. The disposal of stakes in Paddington Central and Canada Water strengthened our balance sheet and combined with the quality of our platform and our continued commitment to capital recycling, mean we are well placed to exploit our attractive development pipeline and the opportunities now emerging in the market.

Mark Allan, chief executive of Land Securities:

Looking ahead, we anticipate global economic uncertainty to remain elevated. Decades of globalisation, fuelling growth and depressing inflation, have started to go into reverse, with rising geopolitical tensions adding to risks around energy reliance and supply chains. Positively, the turbulence in UK politics in late summer has started to normalise, although political stability remains fragile.

Still, it is clear that London remains a top global city which continues to attract new businesses and talent; that the future of major retail destinations is more positive than most, including many retailers themselves, thought two years ago; and that there remains a structural need to remodel city centres in a sustainable way. It is difficult to say where interest rates will settle.

Cyrus Ardalan, chairman of LXi REIT:

The wider effects of the economic measures taken by the Government and Bank of England to bring inflation under control, and the expectation of poor economic growth in the near term have begun to impact property values in the UK. The most impacted sectors so far are those that had the tightest spread to the risk-free rate, such as industrial and logistics, and yield prints from transactional evidence show some further decline in values since September this year.

What is clear from the data available relating to long income property valuations over multiple cycles, is that correlation between property yields and debt rates is limited. Prime index property yields over the past 40 years have intersected the 10-year gilt rate at various times and the long lease sector has tended to be the most defensive sector of all, benefiting from a flight to safety as well as the income growth provided by index-linked rent reviews.

It is clear that the current economic climate will begin to separate those real estate companies whose business model has been driven by arbitraging a low interest rate environment and passively benefiting from a tightening of long income yields, from those that generate value for shareholders through a strategy of active management of their underlying assets, quality and experience of their management team, scale and availability of capital.

Rising interest rates will put pressure on income returns over the medium to long term for all leveraged property investment companies, but the environment also provides buying opportunities. We are already seeing significant buying opportunities in the market from open-ended funds suffering net outflows and are finding tenants more amenable to value-add opportunities that we identify through our asset management strategies.

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Mark Burton, chairman of AEW UK REIT:

The company is as defensively positioned as possible against the current challenging backdrop. Whilst further near-term value decline is expected, the company's fixed cost of debt and book values which are closer to long term value fundamentals, such as alternative use values and replacement cost, provide a robust outlook for the portfolio over the long term. The portfolio's current high weighting to cash and value investment style leave it well placed to benefit from upcoming investment opportunities. The strategy's approach, being unconstrained by sector, and its active management style of the portfolio provide a strong basis for counter-cyclical performance. In addition, we are seeing resilience in occupational demand from the company's tenants.

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Lena Wilson, chairman of Picton Property:

We are in an unusual position of record-low unemployment, whilst at the same time households are struggling with a cost-of-living crisis. The outlook is dependent on stability returning to the financial markets and the severity of any recession.

The marked change in gilt yields and financing costs recently means a repricing in the commercial property market has commenced. Despite this, the fundamental

supply/demand balance has not altered, and we are still continuing to see occupational demand and rising rental values in many of the areas where we operate.

Whilst there are many events currently outside of our control, we will continue to do what we do well: proactively manage our portfolio, work with our occupiers and enhance income and value. Although the leasing markets are likely to be more challenging in the short-term, we believe that we can further enhance our income profile from our high-quality portfolio.

During the past few years, we have witnessed periods of instability and the property sector has been more resilient than many had anticipated.

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Brian Bickell, chief executive of Shaftesbury:

The exceptional features of London and the West End have enabled their economies to largely recover from the disruption caused by the pandemic. The actions we took in 2020 and 2021 to support our occupiers and protect our portfolio have been rewarded with a rapid return to normal operating conditions in our locations over the last 12 months, and a much-improved financial performance.

From the early months of 2022, many countries have been faced with common challenges arising from the after-effects of the pandemic and the consequences of Russia's illegal invasion of Ukraine. Together, they have led to supply chain disruption, labour shortages, rising inflation and higher interest rates, resulting in declining consumer confidence and a deteriorating medium-term global economic outlook. Whilst inflation is expected to start to decline in 2023, in common with all businesses it will continue to impact our operating and capital expenditure costs in the near term.

We have already seen an impact on investment market sentiment, with our valuers reporting an outward yield shift in the second half. The future direction of yields will be heavily influenced by macro factors and the medium-term outlook for UK interest rates. However, the prospect of continuing to deliver a robust operational performance from our portfolio will be important in tempering the impact on investor sentiment of adverse conditions in the wider real estate market.

Although London and the West End cannot be immune from the unprecedented range of challenges which are now dominating the national outlook, their long-term prospects remain bright, thanks to their enduring appeal to global, domestic and local visitors, businesses and investors, their dynamic economies and ability to attract talent and creativity from across the world.

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Allan Lockhart, chief executive of NewRiver REIT:

Geopolitical tensions, elevated market volatility and the fastest pace of monetary tightening by the Bank of England in decades are meaningful economic headwinds contributing to an unusually uncertain environment. In their recent report the OBR stated that the UK economy is now in a recession that they expect to last a year and will result in a 2% fall in GDP and an increase in the unemployment rate.

Therefore, the outlook for consumers and retailers suggests that 2023 will be a challenging year and for retail real estate owners the key to minimising the impact from this challenging operating environment will depend upon portfolio positioning and underlying rental affordability. In this regard, the scenario testing that we have undertaken on our rental affordability and probability of tenant failure indicates that we are well positioned and are unlikely to suffer any material income disruption. Furthermore, we believe that having one of the highest yield spreads with the risk free rate should mean that our valuations should be more insulated.

We said at our full year results that in the near-term it is in our shareholders' interest to maintain headroom to our LTV guidance given the increasingly uncertain macro-economic outlook and we still believe that is the correct position to continue with as we move into the second half of FY23. That said, we believe there will be attractive opportunities which will arise in the market and with the capital resources we have at hand we are well positioned to take advantage of them and stay within our LTV guidance.

With a portfolio predominately focused on essential goods and services, a flexible and strong balance sheet and our market leading asset management platform, we remain confident of our ability to manage the financial impact of a more challenging economic outlook.

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Andrew Jones, chief executive of LondonMetric Property:

As we continue to live in a period of increased uncertainty across the world, we believe that real estate can continue to deliver reliable, repetitive and growing income streams. We are also conscious that when we allocate capital, it is wise to determine what is structural and what is cyclical.

We have a high conviction that this thesis is more dependable within structurally supported sectors that are located in the strongest geographies. The fundamentals in our core sectors remain strong and so we will continue to pivot our portfolio to take advantage of the strongest demand/supply dynamics to deliver the most attractive income and rental growth. We have strengthened our portfolio, selling our weaker assets and replacing them with better assets that are more fit for purpose through our acquisitions and developments.

Over the next 12 months we expect market volatility and dislocation to offer up even more opportunities which will allow us, once again, to improve our financial and portfolio metrics. We believe that this is best achieved by investing in the winning sectors, owning the best buildings and focusing on the biggest cities where there is a falling land supply to meet the rapidly changing behaviour and growing expectations of the UK consumer. This will allow us to efficiently and effectively collect, grow and compound our rental income. After all, when you invest in quality, time will create wealth.

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Richard Moffitt, chief executive of Urban Logistics REIT:

To weather the current macroeconomic storm commercial property owners need tenants who can continue to pay the rent, an ability to capture inflationary uplift through active asset management, low gearing and a low and secure cost of debt.

At Urban Logistics we believe our base of larger tenants selling essential goods, our team's decades of experience in asset management, and our 97% hedged debt with no refinancings required until 2025 mean we face the future in the best possible shape.

Our focus on the one hand is how to best equip Urban Logistics to deal with the macro-economic challenges, and on the other, how best to take advantage of the opportunities presented to us in our market.

We have capital to deploy in the short-term. We will deploy this cautiously, into assets we believe we can add value to via our asset management skills. Given the make up of our portfolio, with an even split between Core Assets and Asset Management, there is an opportunity for us to realise some of the value created by our lettings activity by selling Core Assets and recycle the capital into properties with more asset management potential.

Gerald Kaye, chief executive of Helical:

The bifurcation that has been evident for a few years in the leasing market, between the best-in-class most sustainable buildings and the rest, has now appeared in the investment market, accentuated by rising bond yields and interest rates. We anticipate this will accelerate, with yields stabilising and rents continuing to grow for the best-in-class most sustainable buildings, such as those that comprise the Helical portfolio, and yields moving outwards and rents falling for the rest.

Price discovery will continue for the poorer quality less sustainable second-hand buildings as they decouple from the rest of the market. In time, these assets will provide Helical with the opportunity to turn these tired office buildings into market leading and highly sustainable new spaces providing amenity rich and technologically enabled offices which will appeal to discerning tenants seeking the best environment for their staff. This will enable us to continue to provide strong returns from our developments over the medium term.

Toby Courtauld, chief executive of Great Portland Estates:

Our markets are cyclical, as a result, we actively monitor numerous lead indicators to help identify key trends in our marketplace. Over the last six months, given the increased economic uncertainty, our property capital value indicators have deteriorated from those we reported in May. In the short term, we expect investment activity in the central London commercial property market to remain muted, as higher interest rates reduce prospective returns, and prime yields to come under further upward pressure. In the occupational market, given a strong leasing and rental performance of the portfolio in the first half of the year, we have marginally moderated our rental value growth range for the financial year to 31 March 2023 to between 0% and +2.5%, predominantly driven by the positive performance of our office portfolio.

Helen Gordon, chief executive of Grainger:

Our market benefits from continuing positive tailwinds, with demand for renting rising, constrained supply and a resilient customer base. The inflation-linked characteristics of our asset class, coupled with our high-quality properties, scalable operating platform and unrivalled data, insight and analytics gives me the confidence for our continued strong performance.

Despite the macro environment, we have locked-in and de-risked our medium-term growth, enabling us to continue our growth trajectory and deliver into a strong occupational market.

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