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BY MARTEN & CO

INVESTOR

Economic and political roundup

Investment companies | Monthly | April 2023

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.

"It is estimated that UK households are still facing the largest fall in living standards since records began in the 1950s – and they will not return to their pre-pandemic level until at least 2028''

Jeremy Rogers, Hermina Popa, managers, Schroder BSC Social Impact Trust, based on comments made by the OBR

The past month serves as a good reminder that markets are never quite as predictable or certain as the consensus may lead you to believe. Having seemingly come around to the prospect of 'higher for longer' rates that had been repeated ad nauseum by central bankers, we now look to have come full circle, as yields on both two-year gilts and treasuries slipped back below 4%. Granted, the move in yields was predicated on a potentially severe (and as yet not fully resolved) banking crisis, but therein lies the point; that market conviction should never become too extreme given we're always just one step away from something breaking, economic, geopolitical, or otherwise (just look back a few months ago to the LDI debacle).

This becomes even more relevant towards the end of business cycles. Uncertainty abounds and central bankers have acknowledged as much, indicating they are not even sure how drastic the impacts of quantitative tightening will be on the economy. LDI, SVB, and Credit Suisse may be the first of what will likely be a growing list of victims.

Unfortunately, it now seems like we have reached the point where policy makers are damned if they do and damned if they don't. A dovish tilt further increases the possibility of inflation becoming unanchored, while maintaining course risks exacerbating financial instability within the banking sector (and who knows where else). Markets have responded positively as they price in a pivot, which has historically resulted in outsized returns for equities. However, the likelihood that we can both fight inflation and guard against systemic risk without damaging the economy remains as low as ever.

Huge uncertainties remain as to whether global central banks will succeed in containing inflation without triggering severe recessions. Something always breaks during a rate-hiking cycle and there's no such thing as a pain-free recession.

A soft landing may turn into turbulence or worse. This task is made harder as economies adapt to new geopolitical realities by accelerating re-shoring and supply chain independence

Unfortunately, it now seems like we have reached the point where policy makers are damned if they do and damned if they don't

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At a glance

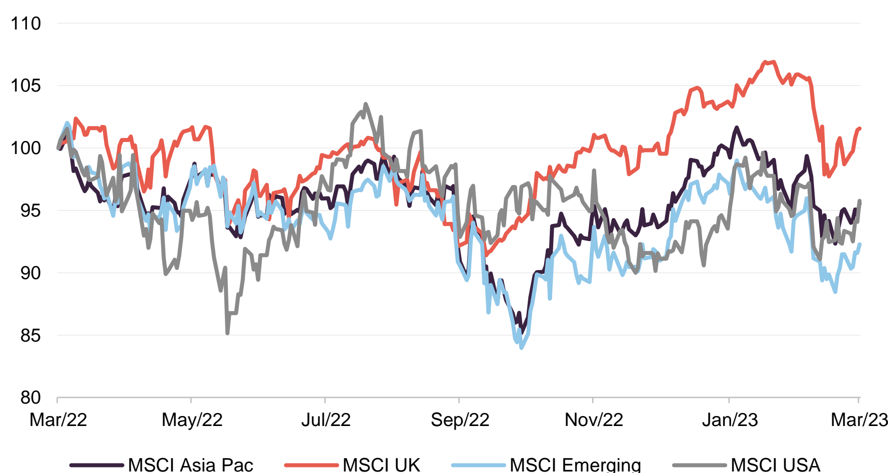
Exchange rate		31/03/23	Change on month %
Pound to US dollars	GBP / USD	1.234	2.6
US dollars to Euros	USD / EUR	0.92	(2.4)
US dollars to Japanese yen	USD / JPY	132.86	(2.4)
US dollars to Swiss francs	USD / CHF	0.92	(2.9)
US dollars to Chinese renminbi	USD / CNY	6.87	(0.9)

Source: Bloomberg, QuotedData

MSCI Indices (rebased to 100)

Global markets edged up for the month, staging a tentative recovery from turmoil precipitated by the collapse of SBV. Global fixed income assets had their best quarter on quarter return in seven years as terminal rate expectations fell on the back of increasing financial stability risks. Gold rallied in sympathy and the USD fell. UK markets were weak however, reflecting exposure to the banking sector which remains on edge.

Time period 31 March 2022 to 31 March 2023



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

Indicator	31/03/23	Change on month %
Oil (Brent – US$ per barrel)	79.77	(4.9)
Gold (US$ per Troy ounce)	1969.28	7.8
US Treasuries 10-year yield	3.47	(11.5)
UK Gilts 10-year yield	3.49	(8.8)
German government bonds (Bunds) 10-year yield	2.29	(13.6)

Source: Morningstar, QuotedData

Global

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

Bill Ackman, manager, Pershing Square Holdings – 30 March 2023

We are operating in one of the most uncertain and risky environments in decades. As of the present moment, we are in the midst of what may be the early stages of a U.S. banking crisis with the potential for it to spread globally with Credit Suisse's recent demise. Financial institutions are inextricably linked, and one large banking failure can ignite another and so on. This remains true even though some of the enormous derivative risks that almost took down the financial system during the crisis have been mitigated somewhat due to requirements for exchange trading of most derivatives. Banking is confidence sensitive. A run on deposits at one large bank, most recently Silicon Valley Bank (SVB), the 16th largest U.S. bank by assets, has the potential to spread to other financial institutions.

Until SVB failed, the vast majority of depositors did not concern themselves with the lack of deposit insurance for accounts above the FDIC-insured limits of $250,000. In reality, uninsured depositors are unsecured creditors of a bank which are at risk of loss in the event the bank were to fail. The events of the last few weeks made this manifestly clear as it was only a last-minute and apparently reluctant decision for the government to step in and guarantee uninsured deposits at SVB.

Now that uninsured depositors understand that there remains a risk that they will lose access to and/or have their deposits impaired, many businesses are rethinking their working capital management and investment strategies. This concern is compounded by the large increase in short-term interest rates. Since the financial crisis, there was little if any return offered on short-term funds, and depositors were therefore not particularly concerned about the yields, if any, they earned on deposits. The recent large increase in short-term rates has caused CFOs and corporate treasurers at all companies to become more disciplined about maximizing the yield they can earn on short-term cash. This will increase the cost of deposits for most banks, as they will have to be more competitive with money market accounts, putting pressure on bank's net interest margins.

The U.S. economy relies on its large network of community and regional banks to provide access to debt capital, particularly for small and medium-sized companies that do not have access to the public capital markets. These banks also are major providers of real estate and construction loans as the large so-called systemically important banks have for the most part exited these lending categories other than for large capitalization, usually investment grade, corporate borrowers.

About 70% of commercial real estate bank loans are made by regional and smaller banks. There is a logic to this approach as real estate is inherently a local business, and a geographically proximate bank should be in a better position to assess the risks of local borrowers and the likelihood of their projects' and business' success. Increases in the cost of capital for regional banks will be passed along to their borrowers, and as a result fewer commercial real estate projects will be viable due to the higher cost of this capital. This will be a drag on the U.S. economy and will make it more difficult for existing real estate owners to refinance their debts when

they come due, which will negatively impact real estate values further impairing bank balance sheets.

Over the last couple of weeks, I took to Twitter to make the case for the FDIC – which insures deposits at U.S. banks with the proceeds of fees it charges to banks – to increase its current $250,000 per account limit. I recommended an immediate but temporary guarantee of all uninsured deposits to give time for the FDIC to update its current deposit guarantee system. I went public with my concerns and recommendations because I believe that the failure of Silvergate, SVB, and Signature Bank – the latter two within three days of each other – and the substantial declines in stock prices of the regional banks are putting our regional and community banking system at risk, which, as explained above, is a very important long-term driver of our economy.

In our view, the failure to protect SVB depositors would have been a catastrophic policy error that would likely have led to massive runs on nearly every non-SIB bank by uninsured and even some insured depositors, and caused enormous damage to our economy. It would also likely have harmed U.S. competitiveness and our national defense in light of the tens of thousands of highly innovative technology companies that held large amounts of uninsured deposits at SVB.

As of this writing, the government has not fully adopted our recommendations as it has left open the question about what would happen to uninsured depositors at other institutions unless and until the regulators deem each future bank failure a systemically important one. We continue to believe that this individualized, bank-by-bank deposit guarantee approach is a policy mistake that will impair, potentially permanently, our network of regional banks by massively increasing their cost of capital and reducing their access to low-cost deposits.

Banking is a confidence sensitive business. The failure of three regional banks in a few weeks, including SVB with more than $200 billion of assets and $170 billion of deposits, and our regulators' conflicting public statements, often from one day to the next about its support, or lack thereof, for depositors, have reduced investor, business, and consumer confidence in our banking system.

The uncertainty around how uninsured depositors will be treated is occurring at a time when the earnings power of regional and community banks is under pressure because of the increasing cost of their liabilities, declines in their share prices, and impairment in the value of their assets largely driven by the Federal Reserve's increase in interest rates.

The rise in rates has caused a decline in the value of banks' fixed-rate securities and fixed-rate loan portfolios, which has occurred along with deterioration in their commercial real estate loan portfolios due to work-from-home's and the pandemic's impact particularly on office assets.

According to GAAP accounting, our banking system is nominally the best capitalized it has been in decades, but this is in large part due to the fact that banks are permitted to value a large portion of their assets, namely their so-called held to maturity (HTM) fixed-rate securities and loan portfolios, at amortized cost rather than market value, creating a misleading perception of banks' true financial strength. Despite the fact that our accounting and regulatory regimes allow these assets to be carried at amortized cost, that does not make them more valuable than the price that would be realized if these assets had to be sold in the market.

There are reportedly ~$620 billion of mark-to-market losses on banks' security portfolios that are not currently reflected on bank's financial statements. If deposits continue to leave our regional banks and go to the larger systemically important banks and money market funds, regional banks will need to continue to borrow from the Federal Reserve banks through their "discount windows" and a newly created emergency program allowing banks to borrow against their HTM securities portfolios valued at amortized cost rather than market value.

While these Federal Reserve lending programs can help address the short-term liquidity needs of banks from deposits being withdrawn, they do so at a highly burdensome cost versus the near-zero interest rates that banks have been paying on deposits. They are a stop-gap, temporary solution to address short-term liquidity issues, but they do not solve the regional banks' long-term funding needs and their cost of liabilities. We believe that uninsured deposits are likely to continue to leave regional banks unless and until an updated, systemwide deposit guarantee is introduced, and the sooner the better. Credit-related concerns of depositors are compounding deposit flight due to the substantially higher yields offered on money market funds, which will not abate even if all uninsured deposits are guaranteed. It is difficult for banks to get depositors to return once they have moved elsewhere and found acceptable, and likely higher-yielding, alternatives.

While we understand the concerns that some have raised about moral hazard risk due to government intervention, we think these concerns are misplaced. The banks' managements and boards, and the shareholders and bondholders who mismanaged or failed to oversee the risks that led to their banks' demise, have suffered severe outcomes including the complete destruction of shareholder and bondholder capital, the firing of management teams, the potential for significant civil and criminal liability, and enormous reputational damage.

No bank board or management team who has witnessed recent events will be inclined to take on more risk in the future simply because their depositors have not borne a loss. The opposite is much more likely to be true. Furthermore, a banking system that requires uninsured depositors to constantly assess their bank's creditworthiness is not a viable one.

We need a larger deposit guarantee regime, and we need it soon. The experience of the last three weeks of investing in banks will be seared upon the memories of bank investors for a generation or more. The longer this uncertainty continues, the higher their cost of capital and the less viable regional and smaller banks will be in the future to the detriment of our economy over the long term.

Geopolitical Risk and Artificial Intelligence

While the banking crisis is our most recent immediate concern, geopolitical risk remains highly elevated, higher than at any time perhaps in the last 50 years. North Korea continues to test ICBMs, China is building deeper ties to Russia including potentially supplying drones and other military assets while remaining intent on taking control of Taiwan, the war in Ukraine continues unabated without a foreseeable end, the U.S. is responding to attacks from Iran with 'targeted' responsive attacks, Israel is in the midst of a political crisis while being engaged in stopping Iran from obtaining nuclear capabilities, and the U.S. political system remains highly divisive with the threat of a potential default on our Treasury obligations looming, creating a highly uncertain and risky environment.

The recent launch of highly powerful Artificial Intelligence (AI) systems also creates considerable uncertainty about the future. While AI may be an extremely positive force for good, in the wrong hands, it can be a global threat. AI is likely to disrupt many businesses, including ones that until now seemed to have impenetrable moats.

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Dr Sandy Nairn, Global Opportunities Trust – 28 March 2023

Given the undoubted economic difficulties facing the world, it may seem paradoxical that I find myself more excited about the investing future than for some considerable time. Sir John Templeton, whose wisdom and experience I was able to observe at first hand as an employee early in my career, was always adamant that high valuations were inimical to strong investment performance in anything but the short term. It has been dispiriting to have had to spend the last few years observing how governments and central banks have combined to create the conditions in which speculation, the antithesis of sound money management principles, has been able to run riot, creating a classic investment bubble not just in equities, but – almost uniquely in financial history – across virtually all asset classes at the same time.

My renewed sense of confidence rests on what feels like an inexorable trend back towards normality in valuations. Normality in valuation means an investing environment in which prices of assets are based on their fundamental qualities rather than on other extraneous factors. Whilst the trend may be inexorable, history suggests that the process of adjustment back to normality will contain powerful bear market rallies. These are likely to be fuelled by a hope that inflation can fall back to pre-bear market levels without any meaningful adverse economic consequences and that we can return to a world in which interest rates remain indefinitely at negligible levels.

Unfortunately, it stretches credibility to think that we can have a gentle glide path to normality after such an extended period in which almost the entire focus was on reward while scant attention was paid to risk. The new environment is more likely to see a reversal of this balance. The gilts market crisis in the autumn last year, the bankruptcy of FTX, the cryptocurrency exchange, and the more recent troubles at Silicon Valley Bank and Credit Suisse, should not be seen as isolated incidents but as symptoms of the profound if until now largely hidden risks embedded in the global financial system.

Against the backdrop of global economic weakness the excesses generated by a decade of easy money will continue to be revealed. Interim rallies of the kind we have seen in equity markets since the autumn can prove very dangerous for investors unless they are based on improvements in fundamental factors, such as profitability, earnings and balance sheet strength. There is as yet no evidence to support such a view.

In short, we are moving into a world in which free money no longer drives all returns to unjustified heights. I believe that we are in a transition back to one where the traditional investing virtues will once again reign. This is not about value versus growth or other factors such as ‘quality’. It is simply about how much you are willing to pay for the characteristics and future of an asset. We look forward to the day where risk aversion rises to the levels that disregard for risk reached in the recent

past. That will be the time that we again see an abundance of attractive investable opportunities. In my judgement we are not there yet, but the time is coming.

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Managers, BH Macro – 28 March 2023

The decade following the Great Financial Crisis saw the longest economic recovery on record, fuelled by unprecedented monetary and fiscal stimulus. Macroeconomic and market volatility was suppressed as policymakers used an ever-growing set of policy tools designed to curtail potential bad outcomes. Harvesting risk premium in this quiescent environment was relatively straightforward for investors. Eventually, though, the consequence of such hyper-easy monetary and fiscal policy was a surge in inflation exacerbated by pandemic-related disruptions to the supply side of the global economy. Against this backdrop, inflation broke out of 40-year ranges in many developed market (DM) and emerging market (EM) economies. Huge uncertainties remain as to whether global central banks will succeed in containing inflation without triggering severe recessions. Something always breaks during a rate-hiking cycle and there's no such thing as a pain-free recession.

At the beginning of this year, it looked like investors were willing to believe in a soft landing. However, by the end of the first quarter, bank failures in the US and a near-miss in Europe reminded markets that interest-rate sensitive sectors of the economy are in for a rough time. The near-term prospect of a credit crunch which slows economic activity has to be evaluated against continued unwelcome inflationary pressures. Policymakers are experienced, coordinated and determined. But, it's unclear whether they have the macro prudential tools to reassure financial markets while simultaneously using monetary policy tools to tame inflation.

Soft landing may turn into turbulence or worse. This task is made harder as economies adapt to new geopolitical realities by accelerating re-shoring and supply chain independence, while political classes remain incentivised to push in the opposite direction by keeping the fiscal reins loose. Global imbalances, both within individual economies as well as between them, in part due to economic desynchronisation, are at generational extremes. As a consequence, the macro landscape looks set to remain extremely interesting.

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Daniel Wright, chairman, Manchester and London Investment Trust – 21 March 2023

The key variables for our second half performance are likely to be movements in the US sovereign yield curve and inflation expectations, the price of hydrocarbons and energy, how the Federal Reserve and other Central Banks respond to the aforementioned, whether there is any further material shakeout in certain crowded trades (such as unprofitable Technology stocks, cryptocurrencies), and the regulation of technology companies globally. We remain optimistic that our investment exposure, focused on software, digitalisation, cloud computing, data management, semiconductors and AI, offers longer-term pricing power to ward off inflationary threats and significant secular growth opportunities.

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Managers, Manchester and London Investment Trust – 21 March 2023

We see the Cloud Computing market progressing through a short term optimisation and consolidation period which will slow growth. Longer term, we see impressive secular growth with a doubling in the size of the market over the next decade as "On Premise" can not compete with the enhanced security, lower costs and deeper functionality offered by the Cloud.

Longer term, we see Artificial Intelligence being a material positive driver for the Cloud and Semiconductor market. It is easy to focus on the growth in GPUs from AI but please note networking, security and compute all benefit too. To be explicit, we are taking the "picks and shovels" route to capture the gains from the growth of AI. The semiconductor market will be depressed during 2023 but, longer term, we see the secular growth in Electric Vehicles, Artificial Intelligence, Cloud Computing, IoT, Digitalisation and Automation driving the semiconductor market to double over the next decade.

High Impact Risk events

The Great Hack: We lose sleep imagining a cyber breach of one of the hyper-scalers causing a loss of faith in the industry and punitive regulation. In such an event, we would suggest a look to the counter-factual of whether the situation would have been even worse if the data had been stored "On Premises".

China Military:

The potentially impending hot conflict in Taiwan initiated by China has been the primary subject of Academy this year. A large proportion of our portfolio would suffer material falls in value should this event be the outturn which is why sharp-eyed Factsheet readers see we have intermittently hedged these positions with EWT US. Generally, the "cold war" developing between the US and China has multiple risks for Technology stocks and a progression through further sanctions, closing of markets, IP theft etc. is likely to be a strong headwind for a number of our holdings. We are very keen on the Semi-Cap sector but their high exposure to China has always deterred us from owning more of these names.

China Technology:

China is unlikely to accept the US desire to make it a number 2 player in High Technology and hence it may decide to invest huge amounts into R&D to break down some of the IP moats that the non-Chinese semiconductor, semi-cap and EDA software companies maintain, making competition much tougher in these markets.

Economy & Market

The US economy remains robust which is unsurprising considering its make-up is driven by consumption and the latter has a high correlation to high employment and wage growth. Rates will have to be Higher for Longer and Tech shares hate surprise increases in discount rates. To be specific, our portfolio has a strong negative correlation to surprise increases in 10-year Treasury yields. We expect further worries about inflation and oil price shocks (China reopening, more Wars) over the next couple of years that will cause volatility in Technology shares. To be explicit, we see a hard road ahead for equities and various parts of the economy which is why we have repositioned the portfolio into "Hard Tech" from "Soft Tech". We have already discussed the concerns we have regarding the "cold war" with China not

only escalating but turning “hot”. This is the key reason we divested of our holdings in the Chinese Technology market and we will not revisit such exposures until there is a clear change in direction by China that is credible and durable. To be clear, should the relationship between China and the US improve markedly over the next few years then our current portfolio will underperform general technology indices. However, we would guess we would be less concerned with that relative under-performance as the absolute return from such an event could be very exciting.

This period saw the Inflation Reduction Act and an increasing focus on investment into Clean Energy. We applaud this move. As we have detailed above, we are investing for this thematic (as we are also playing the increased Defence spend thematic) through the growth in semiconductors supplied into these industries. General IT spending is likely to continue to remain sluggish through 2023 as companies focus on optimisation. All those head count losses throughout the industry punch a hole in SAAS Seat Revenue metrics. Spending is still being prioritised into AI, Cloud, Digitalisation and Security and these are the areas we have refocused our new “Hard Technology” portfolio on.

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Andrew Bell, CEO, Witan Investment Trust – 14 March 2023

2023 began with interest rates and economies poised close to potential turning points. In the case of rates, after a flurry of increases in late 2022 we may be near a peak, even if the shape is likely to be more like Table Mountain than the Matterhorn. After a decade or more of zero or negative rates, central banks will be keen to retain more normal levels of interest rates, quite apart from continuing to bear down on inflationary pressures, which may be waning but have not disappeared. In the case of economies, stagnation or moderate recession is widely forecast for part of 2023 but the interesting question is when the headwinds from energy prices wane and the tailwind from China's reopening quickens, helping engender a cyclical recovery.

China's abandonment of its zero-Covid policy and likely economic acceleration this year is a significant offset to the expected slowdown elsewhere. China's slowdown in 2022 fortuitously blunted the inflationary impact from commodities and gave supply chains time to normalise but at the cost of a dramatic slowing in its own growth rate. Pent-up demand, a restoration of industrial production and determined government efforts to end the slump in China's property sector are likely to mean the world's second largest economy is the only major centre to pick up speed in 2023, mitigating the weakness elsewhere.

The past year has been dominated by the effects of President Putin's infliction of war and destruction on Ukraine. Although predicting how this conflict will evolve or be solved is hazardous, developments that could prove less negative than in 2022 seem as plausible as the opposite. Concerns that relations between China and Taiwan could descend into conflict have reduced, possibly influenced by Russia's problems following its own aggression, although relations between the US and China remain tetchy.

Falling inflation in many economies has moderated, though not eliminated, the risk of over-aggressive monetary tightening and increased the possibility of either a soft landing for the world economy or a period of relatively mild recession. This should

allow secular boosts to growth to take over and favourably alter the outcome for 2024 and beyond. 2022's geopolitical events will lead to higher defence spending, resilience investment (to reduce risks from supply chain disruption) and reshoring of capacity for strategically important sectors such as semiconductors and rare earths. The energy crisis seems likely to accelerate efforts to reduce dependence on unreliable producers of (ultimately undesirable) fossil fuels. We anticipate greater infrastructure investment in sustainable energy sources, as well as a shorter-term boost to investment in producing the hydrocarbons needed until sustainable sources can render them redundant.

Inflation seems likely to be higher in the coming decade than was the norm prior to 2022. Although there will be little tolerance for the destabilising inflation rates of the past year, indebted governments and their central banks will be aware that moderate inflation is an effective way to reduce debt burdens, particularly when it coincides with consistent economic growth. Current debt levels appear intractable without stronger economic growth so governments and central banks are likely to seek (or condone) faster inflation than the 2% norm of recent decades, while placing a high priority on economic growth, partly justified by the secular objectives noted earlier.

Setbacks in investment markets such as those experienced in 2022 are rarely welcomed by those whose savings are impacted but they produce the platform from which better longer-terms can be achieved. In the wake of the falls, a wider range of assets can be rationally invested in once more, including cash, bonds and growth opportunities whose attractions were compromised by over-valuation. With 2023 having begun at a time of privation for many and widespread pessimism about the future, there is a risk that some of the longer-term positive drivers for growth in coming years are being overlooked.

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Managers, Tetragon Financial Group – 3 March 2023

Tetragon expects the market outlook to continue to be challenging. As we begin 2023, markets are characterised by uncertainty and contradictions: simultaneously pricing in optimism and despair. Although elevated inflation continues to challenge economies, there is a growing number of doubters who believe the Fed will move to cut rates later this year. Expectations of rolling recessions over the next 12 months across the United States, United Kingdom and Europe are balanced by uncharacteristically strong labour markets in the United States, where a 3.4% unemployment rate matches multidecade lows and job openings continue to outpace the number of unemployed seeking work. Market exuberance in early 2023 reflects optimism that the wide array of open questions will resolve favourably towards a “soft landing”, downplaying concerns from central bankers, economists and value investors alike. We, as always, are more cautious. Although these contradictions may make allocating capital difficult, Tetragon believes that times like these can set the stage for the next several years of strong returns. Our approach to portfolio construction and performance allows us to invest in situations where other investors are rebalancing portfolios that are unbalanced, illiquid or impaired.

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David Hardie, chairman, Murray International – 3 March 2023

Looking forward, deep-rooted macroeconomic difficulties are likely to continue to impact the direction of financial markets. Seldom has the economic outlook seemed so uncertain. Numerous heavily indebted nations and corporates are confronted with significantly higher borrowing costs that will ultimately constrain future growth. The task of controlling inflation may exert significant damage on already fragile economies, suggesting that policymakers negotiating the treacherous tightrope between recovery and recession have little room for error. Whilst prices of goods and services should moderate as supply / demand dynamics normalise, wage inflation may prove more problematic. Meanwhile, businesses must quickly adapt to the unfolding backdrop of higher input, labour and capital costs occurring simultaneously with softening consumer demand and changes to global supply chains.

From a portfolio perspective, the Company's unconstrained global mandate continues to enable great investment flexibility under constantly changing circumstances. The past twelve months bears testimony to that. The re-emergence of inflation that unleashed a raft of negative surprises on so many unprepared companies in the West is not so unfamiliar elsewhere in the world. Inevitably attractive investment opportunities will emerge as asset prices readjust. Identifying companies that can exert some degree of pricing power, have favourable industry dynamics and seasoned management familiar with evolving realities will be key. Strict adherence to tried and trusted investment principles as always gives a degree of comfort during periods of such investment flux. The Manager believes strongly in its disciplined investment process as a means by which to identify appropriate opportunities to deliver the capital and income strategies of our mandate. Current portfolio positioning reflects this, with high conviction, diversified exposures designed to deliver the Company's long-term objectives.

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Bruce Stout, senior investment director, Murray International – 3 March 2023

For disciples of pragmatic financial fundamentalism, forecasting future prospects remain anchored in well-trodden historical paths. Whilst innovation, invention and change will always dictate improvement, advancement and growth, the investment valuations ascribed along the way invariably reflect the bi-polar extremes of human emotions. Therein lies the most toxic cocktail within investment management. When feelings and finance entwine, poor judgement tends to prevail. Endemic to each and every mania, panic and financial crash throughout the course of history is irrational valuation based ultimately on emotion. Having recently endured yet another prolonged period of such eccentric absurdity, some financial markets remain bloated with unsustainable excess. Through the unprejudiced prism of the past it is possible to assess some possible prospects for the future

In simplistic terms, what to avoid, and what to assert? Assuming inflation, recession and interest rates remain as influential as ever, some observations are worth emphasising. Global commodity prices are as unpredictable as they are volatile, so projecting peaks and troughs is futile. Such "cyclical" inflation comes and goes, but structural inflation found in wages, rents and index-linked government spending

seldom subsides painlessly. Increasingly vulnerable to the latter, the debt-laden Developed World is perilously close to being deeply infected by such intransigence. Stronger inflation-fighting credentials by Central Banks in the Developing World suggest less ambiguity ahead. Similarly, sharply higher interest rates carry acutely divergent consequences for respective economies. Where there are deficits, debt and distrust, the odds of avoiding recession are slim. Paralysis of purchasing power and collapsing consumer confidence see to that. Where savings culture prevails and favourable demographics fuel growth, temporary tighter monetary policies prove less disruptive. Focusing on businesses in countries with such characteristics remains forefront to the Company's investment strategy.

Finally, the question of legacy must be addressed in any projected outlook. It would be naïve to ignore the past when considering the future. From the vast library of financial mistakes made throughout history, certain trends are clearly apparent. Acute equity market shocks tend to repair quickly when only one specific sector was excessively valued. Previous Energy and Consumer Staples-led dislocations are examples of this. Considerably more time is required to emerge from financial market crises related to systemic failures such as Asia in the late 1990s and the banking failures of 2007/08. Most ominously, recession-linked asset bubbles fuelled by artificially manipulated interest rates and fixed income markets require long, slow and painful readjustment to cleanse the system of financial excess. Current evidence suggests the Developed World is descending towards the latter. With global Central Banks increasingly devoid of policy options and tarnished by diminishing credibility, the outlook has rarely been so opaque. The Company's high conviction investment strategy will remain focused on avoiding the pitfalls of previous valuation excesses and emphasising unaffected opportunities where realistic growth and income prevails.

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Russell Napier, Mid Wynd International – 1 March 2023

The last six months have seen a return of moderate optimism to equity markets. It is an optimism based upon the start of a decline in inflation which would almost certainly bring with it lower short-term interest rates. It is accompanied by a growing optimism that such a decline in inflation is occurring without the major contraction in economic activity that would be particularly negative for corporate earnings. A decline in inflation and interest rates combined with only a moderate decline in corporate earnings would be a powerful positive combination for equity prices. The key in securing positive real returns from equity investment is to assess whether investors are paying too much to own the corporate income streams that ultimately underpin such returns for investors over the long-term.

The US S&P500 index reached its all-time high in early January 2022 and by the end of the year it had declined by almost 20%. Over the same period the earnings per share of the index increased by 12.5%. Strong earnings growth throughout the past few years, combined with the decline in the index level in 2022, has brought the price earnings ratio for the S&P500 44% lower from its April 2021 level. The price earnings ratio for the S&P500 was 18.5X at the end of 2022 and for the MSCI World ex US index the ratio had declined to just 13.5X. We are entering an age when it will be difficult to protect savings from much

higher inflation than we have become used to. These valuations give us confidence that a portfolio of carefully selected equities can provide such protection from inflation. In a highly leveraged world that cannot deal with interest rates materially above current levels the risk to equity valuations comes not primarily through rising interest rates but through an inability to grow corporate earnings. Our Investment Manager focuses on finding the companies that can deliver such earnings growth and investing our capital accordingly.

None of us can know just how painful for citizens and corporate earnings the next recession will be. However, it is worth bearing in mind the huge levels of government support for the private sector that have been put in place to mitigate the impact of higher energy prices and also of higher interest expense. In most of the developed world bankers continue to extend credit and support the private sector which is in great contrast to their actions in the more severe recessions and attendant stock market slumps of this millennium. This support for households and corporations from the government and banks does suggest that the negative impact on corporate earnings from any recession will be more muted than that to which investors have become accustomed. If the path for corporate earnings through the next recession is benign then a portfolio of well selected equities, at current valuations, can likely provide positive real returns for investors.

Perhaps Yogi Berra, the famous baseball player, did actually say 'The future ain't what it used to be.' If he did then perhaps he had in mind periods like today when major structural change is underway and the future is particularly unpredictable. In this period of major change our Company retains the flexibility to adapt and seize the opportunities that change almost always brings. The winds will change and we have the flexibility to adjust our sails accordingly.

The pessimist complains about the wind.

The optimist expects it to change.

The realist adjusts the sails.

William Arthur Ward: To Risk

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Simon Edelsten & Alex Illingworth, Mid Wynd International – 1 March 2023

We feel that investors are more realistic now about prospects than they were a year ago. The inflation which started to appear after the pandemic became more worrying when Russia invaded Ukraine, but economies have adjusted well. Headline inflation is now retreating as energy prices drop and employment remains strong. Meanwhile, after a significant fall both in equity markets and the US dollar, better value for money has started to appear for investors.

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UK

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

Amanda Yeaman & Abby Glennie, managers, abrdn Smaller Companies – 27 March 2023

UK valuations have de-rated significantly and are at attractive levels relative to other regions. Within that, UK small and mid cap companies look very attractive relative to large caps, with the strong sector focus in the FTSE 100 Index combined with the "risk-off" trade driving significant divergence in index returns this year. The last couple of months has seen the market test some of these levels and we've seen a strong bounce in UK SMID cap stocks through October and November 2022. With some more political stability in the UK, company valuations attractive relative to other geographies, and also a solid degree of overseas revenue exposure in the index, we are starting to see international investors look towards their UK allocations, which have been rock bottom for some time.

We caveat this with some caution; there are still many areas of challenge including inflation, consumer squeeze, China supply uncertainty and many of these might be testing again over the winter period. We were not surprised to see markets decline in December 2022 and believe that may continue before we begin to see a more sustained recovery. Russia's invasion of Ukraine remains an overhang for markets, particularly given its inflationary impacts, and for social and humanitarian reasons more than any, we would be pleased to see a peaceful resolution.

At the time of writing, signals are pointing towards a shallower and perhaps shorter recession than many expected, and the Bank of England has also relaxed its degree of caution stated in November 2022. In the UK we've seen strong reporting from retailers and travel businesses, providing some optimism that the UK consumer is not as cash strapped as the media might suggest.

The UK didn't enter this cycle from peak earnings due to sentiment relating to Brexit and GDP growth relative to other regions over recent years. Therefore, there are reasons to believe UK earnings could be nearer troughs than other geographies, and that UK markets could recover earlier in this cycle than we have often seen historically.

There could be a range of outcomes for 2023 and as uncertainty remains, we think our quality focus will prove relatively resilient. In late 2022 there were broad areas of downgrades across the market, although there were, conversely, lots of areas of resilience and strength in the Company's portfolio. This is due to our quality focus, as well as the companies in the portfolio being more self-fulfilling in their growth strategies; which we believe is increasingly valuable when growth becomes scarcer. Lastly, with the derating of growth businesses seen throughout 2022, many of our quality growth businesses are trading on significantly lower valuations than historically and have been taking part strongly in the recent market recovery. This gives us some confidence in relative performance potential during a market recovery,

At this early stage in the economic cycle, we continue to believe many cheaper value cyclical businesses will see earnings pressures over the short term; however,

with sentiment low for many sectors in this space, a lighter recession may see share price strength amongst some areas.

The level of uncertainty continues into 2023; however, we expect a lot of the most painful changes in market conditions, seen in early 2022, are behind us. As such, we would hope for a more settled environment, where stock focus returns to markets, and share price returns are less dependent on top-down macro factors. Whilst inflation persists, more stabilisation in interest rate expectations has been observed, and the degree of macro surprise seems far less than in 2022, which we think is supportive for markets.

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David Smith, fund manager, Henderson High Income Trust investment trust – 23 March 2023

Markets had rallied from their October lows as inflation has shown signs of slowing, leading to hopes that central banks may pare back further increases to interest rates. In addition, falling European gas prices have eased fears about an impending recession, and China has relaxed its stringent zero Covid policy. However, the impact of the rapid rise in interest rates globally is starting to be felt with some weaker banks in the US and Europe getting into financial difficulty. This will undoubtably lead to a higher level of volatility within equity and bond markets even though consumer and corporate balance sheets are strong, UK banks are well capitalised and unemployment remains low.

Although disinflationary forces are emerging, there are reasons to believe that inflation will settle at levels higher than we have been used to and be more volatile in the years ahead. Labour markets remain tight, putting upward pressure on wages, while the move away from globalisation towards protectionism, the reshoring of manufacturing facilities and the move to net zero will all add to inflation in the developed world. Hence it is our belief that the age of ultra-low interest rates is over, and that the global economy is moving to a new more normalised world for interest rates. After an extended period where investors sought growth irrespective of value, now that the era of "free money" is over, asset valuations will become increasingly important once again.

Although the macro economic outlook is uncertain and concerns within the banking sector need to be monitored, the UK equity market is attractively valued. The focus remains on finding good quality businesses at compelling valuations that can pay and grow attractive dividends.

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Andrew Impey, chairman, JPMorgan UK Smaller companies investment trust – 23 March 2023

Following a period of optimism that inflation might fall back significantly towards the end of 2023 and that interest rate rises were coming to an end, markets have become nervous over the path of interest rates. More recently UK and global equities have fallen and government bond yields have risen suggesting that, despite the significant rise in interest rates over the past year, economic activity remains unexpectedly robust and investors are again growing concerned about inflation and monetary policy. Whatever the eventual outcome it seems likely that markets will be

influenced by key data and policy announcements as investor sentiment is likely being driven by hopes of a more supportive US policy rather than improving fundamentals. Recent developments in the banking sector have raised concerns over the solvency of several banks and whether this is potentially a systemic problem. However, central and commercial banks have acted decisively in unison to contain the issue and a by-product of this maybe a more dovish approach to interest rates. In this environment volatility is likely to remain.

However, as the managers comment in their outlook, despite being cautious on the timing of interest rate reductions and the short term path of the economy, they find reasons to be more optimistic. This more encouraging view is primarily built upon the attractive valuation on which UK smaller companies currently stand. Whilst these are difficult markets to navigate, experience points to opportunity for patient investors.

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Georgina Brittain, Katen Patel, managers, JPMorgan UK Smaller companies investment trust – 23 March 2023

It is very easy to paint a dark and gloomy picture of the UK economy and to make a direct read across to the UK stockmarket. However, markets (and investors) are pre-emptive and looking out to the next 12 to 18 months provides reasons to be more optimistic.

In line with most economists, we expect a mild recession in the UK in 2023 at worst, or minimal growth at best. The most recent composite UK Purchasing Managers Index (PMI) data was a positive surprise at 53, where anything over 50 signals expansion. We believe inflation has peaked in the UK, and while we expect it to remain elevated, we do foresee a significant decline from the current 10.1% over the course of this year. In part this is due to gas prices, which are substantially lower than the peak in 2022, although still high versus history. After ten increases since December 2021, interest rates at 4% have substantially normalised and are much closer to peak. Current market expectations are for a first cut of 25bp in the second half of 2023, but we think that is likely to be premature and we do not expect them to come down any time soon. Consumer confidence remains very weak - headlines, strikes, utility bills and potential house price declines are all playing a part - but has picked up significantly this February. The unemployment rate remains very low at 3.7% and there are still over a million job vacancies. Freight rates have fallen significantly, and it appears that supply chains are beginning to function more normally, aided by the re-opening of China.

This leads us to valuations. The environment is going to remain extremely difficult for businesses and consumers to navigate this year - but a lot of this is already reflected in valuations. While the stockmarket has rallied off its low in October, the Numis Smaller Companies plus AIM (excluding Investment Companies) Index is on a similar P/E ratio to the FTSE 100 of under 11x, despite growing faster. The Company's portfolio has a lower forecast P/E of 10.5x and on our favoured free cashflow yield metric the portfolio is undeniably attractive on an historic free cashflow yield of 6.8%. As we have said before, acquirors of UK businesses recognise this. M&A continued in 2022 despite the economic backdrop; we have already seen a number of bids in the small cap arena in 2023 and we strongly

believe this trend will continue this year while valuations remain so compelling on any sensible timeframe.

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Ian Lance and Nick Purves, managers, Temple Bar Investment Trust – 22 March 2023

For some time now, UK equities have traded at a meaningful discount to other stock markets. It is difficult to be sure as to why this is, although uncertainty surrounding Brexit and the recent political instability will have likely played a part. Whilst many are taking a dim view of UK economic prospects, it is important to remember that we buy companies and not economies and the companies in which the Company is invested are strong, conservatively run businesses with good balance sheets and capable management teams. In addition, many of them generate most of their profits overseas with the result that any fall in the value of the pound leads to higher sterling profits. In total we estimate that more than 50% of the Company's portfolio profits are generated outside the UK.

The result of this negative sentiment towards the UK however is that UK listed stocks are valued at a significant discount to their overseas listed peers for no other reason than they happen to be listed in the UK. As a result of what we see as an unjustified UK discount, the UK equity market offers an attractive dividend yield, and many UK listed companies are today priced to give their shareholders superior long term investment returns.

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William Meadon, Callum Abbot, managers, JPMorgan Claverhouse – 13 March 2023

We continue to observe a fragile world characterised by heightened risks. Global growth will be slower in 2023 and some economies, including the UK, may slip into recession. The end of the decade-long era of cheap money will require investors to factor in structurally higher inflation and interest rates than those they have enjoyed for so long. In addition, the UK economy faces several unique challenges (some of them self-inflicted!).

However, despite these negatives, a likely peaking of both inflation and interest rates this year, combined with the long-awaited re-opening of China, and the sheer depth of universal investor pessimism, makes us more optimistic on markets than we have been for some time. We are particularly attracted to large, blue chip FTSE 100 stocks, many of which are genuinely global in their operations, but whose shares continue to trade on significant discounts to their international peers. Indeed, the attractive valuations of many UK stocks could see the UK market continuing to be one of the better performing global markets over the coming year and beyond.

In a lower growth environment, dividend income is likely to comprise a higher proportion of future total returns. Consequently, stocks offering high, predictable income should be re-rated - as, hopefully, will high income Investment Trusts like Claverhouse, which have a long track record of dividend growth. This trend is likely to be supported by investors' increased need for income given the current cost of living crisis.

The dangerous 'get rich quick' era of recent years, which placed crypto currencies, Nasdaq stocks and profitless technology names in the ascendancy, is well and truly over. In this new, more challenged world, investors will need to extend their time horizons and re-learn to appreciate traditional investment virtues such as slow, steady compounding and the certainty of access to their money.

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David Fletcher, chairman, JPMorgan Claverhouse – 13 March 2023

While it has been very challenging over recent months and years, I share the Portfolio Managers' cautious optimism regarding the outlook for UK equity markets. The likelihood of recession in 2013 is already well-discounted by investors at current market levels and should sentiment continue to improve substantially investors may be further tempted by the attractive valuations of many UK stocks relative to their foreign peers.

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Liz Airey, chairman, abrdn UK Smaller Companies Growth Trust – 2 March 2023

The UK economy remains very fragile having flatlined over the final quarter of 2022. Some of the most difficult consequences of the pandemic, such as the supply chain issues, have now eased but others, including the squeeze on skilled labour, are set to continue. High energy prices and the cost of living crisis are causing weaker demand in key economic sectors. The forecast recession may well be shallow, but interest rates are not expected to peak until at least August, causing demanding economic conditions for our investee companies for at least the first half of the year and quite likely all of 2023.

That said, the market typically anticipates well ahead and we should expect that this is baked into the share prices of our portfolio companies and that the worst might be behind us. Some of the adverse and often somewhat indiscriminate market reaction to growth companies may well start to reverse. The increased gap between the valuation of smaller UK companies and their large cap brethren also provides scope for a re-rating of smaller companies as the economic backdrop improves.

Whilst mindful of the macro economic backdrop, our fund managers are continuing to determine the shape of the portfolio through their bottom-up stock selection process, which focuses on high quality, strongly financed companies with sustainable growth prospects. The Board, like our fund managers, believes the current period offers significant opportunity to invest in companies with strong growth potential at a relatively low point in their valuation cycle.

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Neil Rogan, chairman, Murray Income – 1 March 2023

Writing this amongst headlines of crisis, emergency, strikes, inflation, recession and 'Spare' Harry, it was easy to miss the headline that the UK's FTSE-100 Index was at a 4-year high. How could that be if everything is so bad? A sense that some of these factors are either as bad as they could be or have started to recover is part of the answer. Let's consider the predominant concerns:

Inflation rose way higher than expected in 2022 fuelled by the jump in oil and gas prices following Russia's invasion of Ukraine. As companies passed on the pain to consumers, inflation rates rose well above central bank targets and sparked demands for increased wages to maintain living standards. The outlook now is rather different: wholesale oil and gas prices have already dropped sharply from last year's levels. The warm European winter (so far) has helped as have increased imports of Liquid Natural Gas. It is possible that we end this winter with enough gas in storage to meet next winter's needs. Central banks in the western world were too slow to react initially but have now tightened monetary policy significantly in response to rising inflation. While the effect is yet to be seen, remember that monetary policy works with a lag: most economists would say 12-18 months. Inflation may have already peaked.

That monetary lag is a negative for growth prospects. Many believe that we in the UK are already in recession. If not, we are very close to it. With interest rates still rising, consumer electricity and gas costs still very high and wages not keeping up with inflation it is going to be a while before growth recovers. But remember that the world economy is still growing.

After thirteen years of super-low interest rates in response to the 2008 financial crisis, it should have been no surprise that interest rates have started to return to normal, that is into the 3-5% range that would be considered average by historical standards. Yet some have been taken by surprise and have clearly not stress tested their business models for a return of normality. The most obvious example of this is the blow-up in LDI (Liability Driven Investment, a strategy used by pension funds to match their assets and liabilities more closely) that caused the crash in the UK gilt market in September. UK gilt yields rose to a level that was entirely reasonable but caught out many pension funds by doing so in six weeks, meaning that a significant number of them could not easily meet their increased collateral requirements. The real problem in this was leverage: some funds were, and still are, using leverage to boost their asset returns so as to meet their future liabilities.

Whenever a new financial crisis appears, excessive leverage is the most likely root cause. Banks' excessive exposure to sub-prime real estate lending is well understood to be the root cause of the 2008 crash. The question is: are markets strong enough to withstand the future stresses on leverage? Those stresses currently seem most visible in property and private equity. Just applying a common sense test reveals that most property prices are too high, yet most investors in property have little experience of falling prices. Combined with leverage and illiquidity, a property crash would be painful for many. Less obvious is the now-huge private equity sector, which depends heavily on leverage and favourable tax treatment for its returns. If you were a private equity fund that stripped the cash out of a company and paid it to yourselves in dividends, funding that payment by borrowing on the company's balance sheet and then interest rates go up, the net worth of that company would fall. In aggregate, private equity companies are yet to feel that pain. Excess leverage will be a problem if interest rates stay high.

One more visible change from last year in the UK is in politics: the new Sunak Conservative government may have less than two years to run before losing a general election to Labour, but there seems to be very little difference between the economic policies of the UK's two main political parties. Headline announcements of "take back control', "reform the NHS" and "no unfunded tax cuts" have originated

from the Labour camp. This is perhaps the important legacy of the doomed Truss government: do something too radical and the consequences will force you out of office. Heeding this warning, the two parties now offer remarkably similar economic policies. However unlikely, that heralds the return of political stability. Another intriguing possibility is that a great reset is underway which will lay the foundation for future prosperity. It is well understood that productivity growth in the UK has lagged well behind previous trends and that many UK companies have depended on cheap labour, whether imported or otherwise, to fund their profitability. Whether it was Covid or Brexit, the supply of cheap labour has been disrupted. Companies are finding it very difficult to recruit workers on the low-wage or zero-hours contracts of before. Although the headline unemployment number is low, many people of working age are not currently seeking work, with early retirement and illness being common reasons. The initial response from many companies has been to cut back a little on staff numbers and wait. But now a new mood is emerging: higher hourly wage rates and better terms and conditions in return for productivity improvements is a recipe for future prosperity. Something is clearly starting to change here.

While the national mood is clearly and rightly pessimistic, there are some grounds for optimism. Remember that 2022 turned out to be nothing like the way it was forecasted to be a year ago. It wouldn't be a surprise if 2023 confounds forecasts too.

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Asia

(compare Asian funds **here**)

Krishna Shanmuganathan, abrdn Asia Focus – 30 March 2023

Considering the current fragile state of the global economy, our view is that Asia is in a better position than many Western economies. For the most part, government finances and corporate balance sheets in the region are in good health. The wider macroeconomic risks (whether inflation or geopolitics related) persist, but one of the benefits of this Trust's small-cap emphasis is that it allows for a portfolio that is more geared to Asia's domestic growth story - indeed, at the end of the reporting period, over 80% of the underlying revenues of the companies in the portfolio came from within Asia itself.

In this regard, the Board is pleased to note there are positive signs for structural growth right across the region. China's re-opening should lead to a recovery in both domestic consumption and industry production. In turn, this could be a spur for Asia-wide exports, services, trade, and tourism.

Valuations are attractive and your Manager has positioned the portfolio to weather near-term risks - the majority of the companies in the portfolio hold net cash on their balance sheet - while keeping in mind the long-term secular trends across Asia: rising local demand, a move to a lower-carbon future and the growth of Asia's technology and supply chains.

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Sarah MacAulay, chairman, Schroder Asian Total Return Investment Trust – 15 March 2023

Although equity markets started the year well with a degree of optimism over the direction of interest rates and inflation this has swiftly abated. Markets have been unsettled by recent US economic data which may result in greater than expected rate rises from the US Federal Reserve. Furthermore, geopolitical tensions continue to hang over the markets. There is mounting concern over China's lack of condemnation for the Russian invasion of Ukraine. In addition, US/China relations remain delicate over Taiwan, US sanctions and US restrictions on technology transfer to Chinese companies. However, the impact of reopening in China, following the abandonment of their zero-COVID policy, will have positive implications across the region for both economic growth and earnings expectations. Asian equity valuations are moderate when compared both to their historical range and against other regions, with many attractive opportunities to be found.

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Managers, Pacific Horizon Investment Trust – 2 March 2023

For some time, Asia has faced a series of challenges as markets have grappled with the implications of soaring inflation, interest rate rises and tapering in the West, armed conflict in Eastern Europe, a housing collapse in China and a soaring US Dollar to name a few. Despite all these issues, there has been no Asian crisis, quite the opposite, Asian economies have remained remarkably resilient and are generally growing far faster than the majority of Western economies. This is extremely encouraging and suggests Asian economies are far better positioned than in the past, especially when compared to developed markets.

There are three key reasons. Firstly, Asian balance sheets are in superior shape having lacked the profligate monetary and fiscal stimulus of the west. For example, China's Covid stimulus has equated to c.10% of GDP compared to c.70% for many major European countries. Secondly, while Western markets have, for years, operated with ultra-low or even negative interest rates, most of Asia has maintained positive rates for many years. Arguably, it is Asian countries that have behaved like orthodox developed countries while much of the developed world has behaved like the emerging markets of old, (perhaps we are seeing the beginning of the 'converging markets'). Thirdly, capital flows into Asia have been negative for a decade and the region therefore far less vulnerable to money outflows than in the past. The result is that today, Asia's financial position is superior to much of the developed world. Combine this with Asia's structurally faster growth rates and valuations at multi-year lows relative to developed markets, and the long-term outlook for Asian investors looks very encouraging.

Why has this positive position not been reflected in the performance of Asian equities more recently? China has been the key issue. Regulatory clampdowns on the private sector, increasing geopolitical tensions, Covid induced lockdowns and problems in the property market have led to a collapse in investor sentiment about the country: the MSCI China Index is down nearly 50% since its 2021 peak, while many Chinese companies listed in the United States have fallen significantly more. Sentiment reached its nadir at the 20th Communist Party Congress this October, the results of which confirmed Xi's iron grip on the government with all the most senior positions in the country going to Xi loyalists, combined with the very public

removal of the former Chinese leader, Hu Jintao, from the closing ceremony. Sentiment, however, turned more positive towards the end of the year as China suddenly abandoned its zero Covid policies, effectively ending all forms of lockdowns which were seriously hurting the economy. With pent up consumer demand, a huge build up in personal savings (retail deposits at banks have increased by roughly 60% in the past 18 months) and a government clearly keen to see a stronger economy, growth in China is likely to accelerate rapidly and provide a strong backdrop for many domestic companies.

Over the past year, we have increasingly been finding compelling investment opportunities in China. This is especially true in the technology space, where valuations have been extreme. For example, during the period Dada Nexus' (Chinese ecommerce logistics) market capitalisation fell to almost the level of cash on its balance sheet, while Alibaba Group's core ecommerce business (stripping out cash and subsidiaries) was trading on a low single digit PE multiple. (We added to both of these holdings over the period). At the same time, many of the regulatory headwinds that have affected the sector have subsided. This is in part due to the geopolitical tensions with the United States, whose recent actions to stymie China's innovation, including drastic measures to cut China off from certain semiconductor chips, means China needs its own technological giants to thrive and innovate and is thus becoming more supportive of the sector.

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Europe

(compare European funds **here** and **here**)

Jack Perry CBE, chairman, European Assets Trust – 28 March 2023

After a strong start to the year, markets have weakened substantially following the failure of Silicon Valley Bank, other smaller regional banks in the US, and the sell-off of Credit Suisse in Europe. Although investors have been encouraged by the recent bail out of Credit Suisse by UBS and the Swiss authorities, there is clear concern over the risk of contagion to the rest of the financial system and of a renewed financial crisis. While it is too early to draw conclusions we believe that regulators and central banks have reacted quickly and with substance. This combined with more stringent regulation, particularly in Europe, since the global financial crisis provides further support. We do hold banks in the portfolio but these are conservatively run, well capitalised and do not have any funding mismatches. Consequently, we believe they will navigate through this period operationally well. We will however continue to monitor the situation closely.

The market's initial assessment of the impact of the banking crisis is that credit conditions are likely to tighten impacting economic growth and this may lower interest rate expectations. This more sober outlook is frustrating given that European markets were leading global markets higher on the combination of attractive valuations and a more optimistic outlook. This view has not yet been completely derailed and Europe's valuation metrics continue to look more attractive both in relative and absolute terms. In a very volatile environment there is the risk

that any pronouncement one day may look imprudent the next. So, while recognising that risk, we still look forward with a degree of tentative optimism.

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Nicola Ralston, chairman, Henderson Eurotrust – 22 March 2023

A year ago, I said that for a long-term investor, it was generally preferable to remain invested even in highly uncertain times, despite warning of elevated "event risk" and an expectation that valuations would come under pressure. Valuations did indeed come under pressure. However, the share price ended the interim period at its high for the twelve months, as markets began to look through the current interest rate cycle.

Over the six months to 31 January 2023 European markets were leading global markets, with the strongest performance of all the major geographical regions. This outperformance confounds the perhaps comfortable assumption we sometimes hear that there is no real need to own European stocks at all. Our view is that the recent outperformance of European markets is not simply a brief blip based on favourable short-term earnings projections, but also a response to a changing environment. Investors are, for example, re-thinking globalisation - in respect of geo-politics, supply chains and portfolio weightings. This may result in a greater willingness to invest in a region with attractive valuations, above average standards of regulation/governance and a wealth of interesting companies. We believe that investing in European stock markets, with a portfolio seeking to focus on high quality companies, is a worthwhile endeavour.

In mid-March markets were digesting the events in the banking sector, where in Europe Credit Suisse had to be absorbed by UBS Group AG orchestrated by the Swiss government after investors lost confidence in this scandal-prone bank. This removed a major, years-long overhang for Europe's banking industry which remains strong in terms of its aggregate capital and liquidity position, as do our portfolio companies.

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Vivian Bazalgette, chairman, Fidelity European Trust – 20 March 2023

Inflation appears to have peaked in Europe at 10.6% in October 2022. The last quarter of 2022 saw equity markets bounce given unusually mild weather in Europe which helped bring down gas prices from elevated levels, and of course, positive news from China where property market stimulus and a relaxation of zero-COVID policies helped to buoy markets. In Europe, results for the third quarter also held up better than expected, in part supported by a weak euro.

The risks of a global recession at some stage in 2023 loom large, however, and so there is a tone of caution about the operating environment for the year ahead. Companies with prudently managed balance sheets look well-positioned to weather any potential economic problems, and it is exactly these types of resilient companies in which the Company’s Portfolio Managers look to invest.

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Managers, Fidelity European Trust – 20 March 2023

The health of the consumer is critical especially in more mature economies where private consumption often represents the majority of GDP. The inflation shock of 2022 will continue to be a headwind for most consumers in 2023. It is unlikely that wages will rise as fast as the cost of living so disposable incomes will be squeezed again in real terms. Rising unemployment could also add fuel to the fire. Many of the companies we own in the Company’s portfolio, especially those that are consumer-facing, will suffer a headwind of declining demand and they will have to work hard to off-set the forces of operational leverage if they are to avoid seeing a geared negative impact on their bottom line. Pricing power will continue to be an important antidote in this battle, particularly while inflation remains elevated.

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Christopher Casey, chairman, European Smaller Companies Trust – 2 March 2023

The outlook remains uncertain due to the ongoing conflict in eastern Europe and high and volatile energy prices. Ukraine has confounded many of her sceptics and delivered a series of battlefield successes while demonstrating the impressive coherence of the Western Alliance and the EU. The cost of enduring conflict is tragic in human terms and has broader repercussions for ongoing expensive energy. However, there are reasons for optimism. The dramatic response in Europe, both from a demand reduction and a supply creation perspective, has muted the worst of the impact on the markets in which we invest. The supply chain issues that many corporates faced are now clearing, which should help drive recovery and dampen inflation's bigger impacts. In addition, the end of China's 'zero-covid' policy should further help improve the flow of global trade in due course. We believe that inflation has peaked, but will be a bit more persistent than we were accustomed to prior to the pandemic. The requirement to diversify energy sources, drive the green transition and build better resilience into supply chains will require a revival of capital expenditure. European smaller companies are well placed to benefit from this investment.

We would like to caution that policy risk has shifted after being accommodative for most of the pandemic. If the European Central Bank continues with its stated plan, there is a risk that monetary policy will become too restrictive as the short-term inflationary effects of the pandemic begin to clear. As a result, the market may experience bouts of volatility as we see things settle. We believe that a structurally higher interest rate environment will change the attitude of market valuation - the 'growth at any price' trend of recent years will end and the market will be more selective in rewarding businesses that generate cash. This aligns with our Fund Manager's approach of disciplined valuation which has worked to maximize returns for our shareholders.

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Ollie Beckett, Rory Stokes and Julia Scheufler, managers, European Smaller Companies Trust – 2 March 2023

The challenges the world faces in 2023 are not terribly different from those we faced in 2022: war in eastern Europe, high energy costs and inflation. Europe has done a far better job of navigating these than many commentators have expected, but

this has yet to be reflected in valuation multiples. We believe that valuation disciplines will be an important part of this cycle as the market re-learns how to price the cost of capital. There is still a moderate component of the European smaller companies market that trades on multiples which are hard to reconcile to the fundamental cash generation capacity of these companies. We remain focused on pursuing investment ideas that can create a return on your capital by generating cash and delivering growth.

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Japan

(compare Japanese funds **here**)

Manager, Baillie Gifford Shin Nippon – 31 March 2023

More interesting are several macro-economic developments over the past six months.

First, Japan has re-opened its borders, initially to business travel and then to tourists. This reopening improves the business prospects of many domestic holdings which have been starved of foreign visitors. It is also likely to have positive effects on societal openness and ideas flow. Although it has taken longer in Asia than the West, we are now firmly past the pandemic phase of Covid.

Second, Japan has clearly experienced inflation. This is a continuation of its long post-bubble journey from deflation, through a period in recent years with neither significant inflation nor deflation, finally to positive inflation. Inflation can be currently seen in headline numbers, in raw material and producer prices, in consumer products, and perhaps most significantly in wages. The wage rises that we have seen being announced in the past few months alone exceed anything that we have seen in Japan for the past 30 years.

Third, there are signs that Japan may be moving away from zero interest rates, which is the logical expectation as inflation becomes embedded. The Bank of Japan made a small adjustment to its yield curve control policy in December, announcing that it would target 10-year Japanese Government Bonds to yield up to 0.5% compared to the previous limit of 0.25%. Subsequently Mr Kuroda stepped down as Governor of the Bank of Japan and Mr Ueda has taken over.

There remain many exciting growth businesses in Japan and expectations embedded in share prices seem low, creating firm foundations for long-term investment.

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Nicholas Price, portfolio manager, Fidelity Japan Trust – 28 March 2023

Inflation surprises have driven market expectations for the pace of interest rate hikes by the US Fed. As economic activity weakens, however, bond yields are likely to be restrained by lower levels of growth. If the view that long-term rates have peaked gains traction, then this would help to put a floor under equity markets. It would also

support a bottoming out in growth stocks, and I would expect some of the names that performed poorly in 2022 to come back quite strongly.

Against this backdrop, there is the potential for beaten-up technology stocks to start performing again, especially as earnings disappointments are coming out as we approach the trough of the cycle. I also see huge potential for Japanese companies in the retail and consumer products space that have a strong presence in China and can benefit from the country's reopening. In terms of key risks, headwinds from external demand are most prominent, with signs of weakness in the manufacturing sector already becoming more apparent.

Meanwhile, BoJ Governor Haruhiko Kuroda's term will end in the spring and speculation over the future direction of monetary policy in Japan is set to intensify as Kazuo Ueda takes over. Looking forward, it is not yet clear how or when the central bank will adjust its policy framework, with the emergence of financial stress in the US and Europe complicating the path towards normalisation.

Japan continues to offer a wealth of under-researched mid/small-cap growth companies. Active managers, like me, based in Tokyo, have the opportunity not only to invest in established global leaders, but also to unearth less well-known companies (including pre-IPO), where lower levels of analyst coverage can often create some great mispriced opportunities.

More recently, Silicon Valley Bank's failure and the subsequent spread of banking system unease from the US to Europe are generating high levels of uncertainty in financial markets. These developments have resulted in lower expectations for Fed rate hikes, lower economic growth expectations and lower long-term rates. Although Japanese stocks, centred on financials, have not been immune to a global sell off, we do not expect any major direct impact on Japanese companies.

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Norman Crighton, chairman, AVI Japan Opportunity Trust – 15 March 2023

Japan reopened its doors to tourists on 11 October 2022 and much of the APAC region followed suit. As travel and tourism are set to resume across the continent, the added economic boost that this brings is likely to continue to drive inflation expectations upwards - a step-change from the long-entrenched deflationary mindset of Japan. The possible impact of these and other factors on BoJ and Japanese Government policy going forward has firmly returned this long neglected country to the forefront of global investors' minds for the first time in a generation.

Furthermore, the fundamental argument for Japanese equities remains compelling, especially when compared to developed market alternatives. Not only are we seeing continued improvements in capital management and corporate governance, but at the end of December 2022, the TOPIX traded at 1x price to book, lower than its long-term average, since 1993, of 2x. Similarly, the TOPIX's trailing PE stood at 14x at the end of December, below its long-term average of 21x (to 1993).

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Joe Bauernfreund, managers, AVI Japan Opportunity Trust – 15 March 2023

We are optimistic about the macro environment in Japan. The weak Yen makes Japan highly cost-competitive, both for tourism and manufacturing. Inflation has returned after a 40-year absence and, with wage growth and increased spending, we could see a more rational allocation of capital and improved productivity, which would bode well for your portfolio companies.

It is challenging to predict how 2023 will unfold, but we remain convinced that valuations are important. The potential for a reversal of foreign outflows, a stronger undervalued Yen, and a robust economic environment in the coming years, gives us reason to be optimistic about the potential for attractive absolute.

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North America

(compare North American funds here)

Dr Kevin Carter, chair, JPMorgan American Investment Trust – 31 March 2023

The material increases in interest rates effected by the US Federal Reserve in 2022 suggest that we are now nearing the end of this rate rising cycle. There is also mounting evidence that US inflation has peaked and is now on a downward trend. Together these suggest that the worst effect on the US stock market of these twin concerns has likely passed. This does not eliminate the risk of further volatility in the market as concerns about the lagged effects on company earnings come into investors' focus. The end of the era of low cost money that has obtained until recently, dating from the Global Financial Crisis of 2007-2008 was bound to have many consequences. The recent collapse of Silicon Valley Bank and stresses in other regional US banks is one such, and the US Federal Reserve will now need to have a heightened focus on financial stability as it pursues its inflation fight.

The pullback in the stock market in 2022 means that valuations are better placed for the improvement in economic conditions that will follow over the medium term. In parallel, the US market remains the global leader across many sectors and as the largest market in the world continues to provide a rich array of investment opportunities.

Shareholders who take a medium to long term view should have confidence that current market pricing is more attractive than it has been for some time.

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Don San Jose, Jon Brachle, Dan Percell, investment managers, JPMorgan US Smaller Companies Investment Trust – 20 March 2023

We remain optimistic about small caps as we begin 2023 given the constructive backdrop and valuation. The last decade has been challenging for small caps when compared to large caps, and 2022 was no exception. However, small cap valuations are at historic lows akin to those witnessed during the Technology-media-telecoms

bubble of the late 1990s/early 2000s or the Great Financial Crisis in 2008-2009. Forward looking performance coming out of those periods was very favourable for small caps for several years. The promising backdrop for small caps also includes an improving earnings picture in the face of high, but declining inflation coupled with higher rates.

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David Ross, chairman, JPMorgan US Smaller Companies Investment Trust – 20 March 2023

2022 was a difficult year with a number of headwinds and, while some still remain, there are reasons to be optimistic as 2023 unfolds. As the Investment Managers note in their report, we see small cap valuations at historic lows despite an improving earnings picture. Inflation, although remaining high, is now in retreat and we may be nearing the end of material interest rate increases. However, there are likely to be setbacks, as evidenced by recent issues in the banking sector. In addition, the potential for recession has not gone away.

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Global emerging markets

(compare global emerging markets funds here and country specialist funds here)

Carolan Dobson, chairman, BlackRock Latin American Investment Trust – 29 March 2023

The end of years of government and central banks creating ultra low interest rates, heavily intervening in the bond markets and creating excess money was never likely to be smooth. Sharp adjustments in specific areas are starting to emerge such as UK pensions Liability Driven Investing (LDI) problems in September 2022 and the collapse of US banks such as SVB in March 2023. It would be unduly optimistic not to expect more problems to suddenly emerge. Despite the fact that central banks in Latin America have not pursued these monetary policies, Latin America could remain vulnerable to getting caught in a fallout of repricing of risk globally. However, we believe once this adjustment is behind us the longer term fundamentals are much better in emerging markets than in developed markets, especially in Latin America. Central banks in the region have been ahead of the curve during this tightening cycle and most countries in the region are now offering some of the highest real interest rates in the world.

The region is rich in natural resources, including fossil fuels of crude oil and natural gas, creating favourable supply and demand dynamics. It is also a major source of copper and lithium, critical materials for the green energy revolution. With the removal of Russia from western supply chains, the importance of Latin America in these markets has increased. The post Covid-19 trend for companies to move away from off-shoring (especially in China) to near-shoring should also benefit the Latin American region and your Board believes Mexico will continue to be an even stronger global beneficiary of new marginal foreign direct investment flows.

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Huw Evans, chairman, VinaCapital Vietnam Opportunity Fund – 23 March 2023

The world is going through a difficult period with rising inflation in many economies. In setting interest rates, central banks continue to wrestle with the dilemma that higher rates may help to control inflation but at the same time reduce growth. Against this background, the Vietnamese economy continues to perform well both relative to the rest of the world and in absolute terms, GDP having grown by 8% in calendar year 2022. Economic growth, however, is likely to be tempered in the short term by lower export volumes and tighter credit. However, we are still expecting another positive year for the Vietnamese economy in 2023 with our investment manager projecting GDP to grow by over 6% and that the recent strength of the US dollar will ease allowing the exchange rate with the Vietnamese Dong to stabilise.

Following the sharp sell-off in 2022, listed Vietnamese equities are trading at a low valuation compared with regional peers and their own history. While returns, as ever, are unlikely to be smooth, combining the low valuation with continued economic growth gives cause for optimism for Vietnamese equities in 2023.

The real estate sector in Vietnam has its own particular problems and continues to be of concern. However, any improvement in liquidity in the bond market and banking sector should ease the situation which we hope will lead to a recovery in values.

As we look into the future, the Board believes that Vietnam will continue to offer interesting and rewarding investment opportunities. However, the volatility of the stock markets over the past year has shaken the confidence of investors which will take some time to rebuild. The first half of this financial year has presented some particular challenges which the Board is hopeful will stabilise over the balance of the year.

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Andy Ho, managing director, VinaCapital Vietnam Opportunity Fund – 23 March 2023

As 2022 recedes in the rear-view mirror, we enter a new year full of opportunities, and possibly a year full of pivots. 2022 was one of the worst years on record for Vietnam's capital markets. It was a rare year where both the equity and the debt markets faced significant volatility. It was also a year where global portfolio valuations were dominated by a single factor, interest rates.

In 2023, we expect economic and market conditions, both globally and here in Vietnam, to go through several pivots. Inflation seems to have peaked (or at least to be nearing its peak) following the implementation of aggressive policy interest rate hikes in many parts of the world, including here in Vietnam. Once central bankers are comfortable that inflation has peaked, interest rates should stop increasing and remain steady, or maybe even possibly decline, to ensure that economies do not enter uncontrolled or deep recessions.

As interest rate levels stabilise, we should see a pivot in liquidity and we expect that more money will flow back into the world economy and markets, including in Vietnam. We have recently seen the SBV resume their purchase of US Dollars to

shore up their currency reserves again. This will ultimately add liquidity to the economy, as the SBV will encourage banks to resume lending activity to businesses, particularly for those that need help to restart their capital investment activities.

Furthermore, additional liquidity is expected to come in the form of increased government spending. Vietnam's government has signalled that it will invest significantly more in 2023 than in previous years and, alongside infrastructure spending as a fiscal lever, this will ensure that economic growth is sustained.

We believe that 2023 will be when the public equity markets pivot and the VN index recovers from its second-worst annual decline in its short history (behind only the decline in the global financial crisis in 2008). Vietnam's average PER tumbled to below 10 times in late 2022. At the same time, Vietnam's equity markets enjoyed a significant increase in trading volumes compared to 2019, a pre-Covid year. With valuations at an all-time low and trading volumes at a respectable level, market consensus points to a positive return for the VN Index in 2023.

A challenge for Vietnam is the fallout from the resignations of political leaders and arrests of several business leaders that have occurred over the past year. The anti-corruption campaign has been underway for several years, with many investigations and arrests of individuals at all levels of government, but these have not had a significant impact on the economy. These arrests have not altered economic policies and, if anything, have strengthened the rule of law in Vietnam.

The arrests of business leaders, particularly in the real estate and banking sectors, however, have had a significant impact, as we saw on several occasions during 2022. Fortunately, VOF's strategy and approach to privately negotiated investments, which include extensive due diligence conducted before investing, and our far-reaching business network built up over 20 years investing in Vietnam has given us insight into many of the challenges that the market has recently faced. VOF's investments have no direct exposure to the business or political leaders who have been arrested.

The key challenge in the year ahead is to regain investor confidence and trust in the market, a task that will take time but, given the growth drivers for the economy, the resilience of its people and their aspirations for better livelihoods, and the opening up of borders as we enter a post-Covid period of growth, we are confident that foreign direct and indirect investments into the country will gather momentum again. Nevertheless, we remain vigilant to the risks and challenges as we seek favourable opportunities to invest into strong, well-governed, and growing Vietnamese businesses for the long-term.x

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Managers, VietNam Holding Limited – 21 March 2023

2022 marked an important milestone in modern history when as many parts of the world, including Vietnam, were going "back to normal" after two years Covid-19 restrictions, Russia's invasion of Ukraine threw the world into further uncertainty. Although 2022 was a record year for Vietnam's economy, - with its decade high levels of GDP growth (8%), record levels of Foreign Direct Investment, and unmatched trade surplus - it was not a great year for equity investors.

Despite continuing uncertainties globally, 2023 could prove finer for Vietnam. Investors are starting to return to the country's stock markets, with net inflows recorded for the first time since 2019. Additionally, as detailed in the Manager's Report, the market appears to be at historically cheap levels of valuations accompanied with good growth prospects. The Manager also explains how Vietnam can achieve growth despite weakness in the global economy. For example, how reform of the nascent bond market could provide some respite for the real-estate sector in Vietnam, or how the recent government resignations related to corruption scandals can instil some added trust in the country's leadership.

Vietnam's trade levels are close to 200% of GDP - making it one of the most open economies in the world. Although the country has a diversified mix of trading partners, it will not be able to escape global headwinds resulting from economic recession in those export markets. Trade levels in December showed slowing demand for many goods, and it could take several months for inventory levels and demand levels to normalise. In Vietnam's favour is the fact that it produces a wide range of goods, and in many instances is a low-cost producer. Although demand may fall for some categories and therefore impact employment at the factories and industrial parks, the country will still be expected to earn foreign exchange from the many basic commodities it produces in quantity, including coffee, rice, rubber, pork, fruit and vegetables. The latter categories may also see firmer demand from China as the country opens-up from strict Covid restrictions.

Domestic spending on public infrastructure is expected to be a strong catalyst for economic growth in 2023. The Government was running behind its plans in 2022 but has earmarked a total of USD 30 billion for 2023. This may provide a buffer against headwinds from the global trading partners, many of whom may be close to or entering, recession in 2023. The domestic infrastructure expenditure is expected to cover core sections, including road and rail infrastructure. Improvements in these areas will support greater productivity for Vietnam's manufacturing centres and have a knock on or multiplier effect for the economy as a whole. Vietnam is still a rural-based country with urbanisation at less than 40%. While the country has made good strides in digital Infrastructure - mobile phone penetration is high and internet connectivity is affordable for much of the population - the arterial road network requires further development and the railway connections between the major cities need significant upgrades. A long-term project to connect Hanoi and Ho Chi Minh City in six hours with a high speed 'bullet-train' was reignited in 2022 and has been cited as one of the ways to help Vietnam deliver on the promises of Net-Zero by 2050. The single-track rail line today is old (completed in 1936) and slow, as the 1,726-kilometre journey between the cities takes more than 30 hours. Air-travel is the main commercial alternative, and the two-hour flight is the fourth busiest domestic air route in the world, according to the Director of the Civil Aviation Authority.

Vietnam was quick to open to foreign visitors in 2022. The rebounding effect of tourism should continue in 2023 and may be accelerated by the return of Chinese tourists in the second quarter, perhaps when the peak of recent Covid infections in China has passed.

Although domestic investors have been nursing their wounds, as mentioned before, foreign investors have started returning to Vietnam's stock market, attracted in part by historically low valuations with the overall market on a Price to Earnings ratio of

10x. As a result, 2022 saw the first net foreign inflows since 2019. Vietnam is still a frontier market, and 'emerging' status is elusive for now. 2023 should see the implementation of a new stock exchange infrastructure, but until foreign investors are convinced that there is a level playing field in terms of market access, Vietnam will remain the most developed of the Frontier Markets and the largest for some time to come.

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Nick Price, portfolio manager, Fidelity Emerging Markets – 13 March 2023

A recession is largely priced in

Inflation, geopolitical tensions and slowing growth all wreaked havoc on markets throughout 2022, and investors continue to grapple with recessionary risks. Earnings downgrades in certain industries will come, and some companies will be particularly vulnerable. However, it's easy to become fixated on the past and forget that the market is a forward discounting mechanism. We think a lot is already reflected in the price given that the emerging market asset class has derated significantly.

Inflation should ease in the near term but longer term the outlook is less clear cut

Although markets have been buffeted by highly unusual levels of inflation over the past year, and inflation figures have been stickier than anticipated, we expect inflation to fall, driven by a sharp decline in M2 money supply, restrictive monetary policies, and high levels of inventories. This should provide a better backdrop for equities in the near term.

We should, however, acknowledge that the price trajectory of key commodities is very hard to predict. There is currently a lot of uncertainty about the direction of oil prices, which could range from $50 to $130 a barrel in 2023 and will have very different outcomes for the level of inflation and the direction of markets.

We are mindful that inflationary pressures can reignite over the medium term, driven by China's economic reopening and the resumption of exports, as well as theinability of central banks to live with higher rates. Deglobalisation, ageing populations and shrinking workforces should also prove inflationary over the longer term, as will the shift to green energy and the impact of climate change in agriculture, soft commodities, and supply chain security.

China's reopening and accommodative policy set to buoy markets

We are currently seeing a considerably more accommodative backdrop and Chinese policy is expected to remain supportive throughout 2023. A rollback of regulation on internet companies follows an extended period of tightening.

Policy loosening can be seen in the property market, evidenced by increasing provisions and more local relaxations, including looser purchase restrictions and lower down payments introduced in high-tier cities. With the relaxation of China's zero-Covid policy and domestic mobility recovering, there appears to be ample room for a consumer recovery, with excess household savings and cheap mortgages offering additional fuel as China reopens.

Over the next year, market participants will need to be vigilant and judge how the situation is evolving, given that China plays a central role in driving sentiment towards the emerging market asset class and its influence on returns.

Looking ahead

Although as a risk asset, emerging market equities could come under pressure in a recessionary environment, we have witnessed bouts of dollar weakening in recent months which lends support to the asset class and should mitigate this to some extent.

With the emergence of more pronounced country risks, we have spent more time examining exogenous threats - and will continue to do so this year. Deglobalisation and geopolitics have a more profound impact, in some cases impairing the corporate activity or weighing heavily on sentiment.

We've remained focused on what we do best, and we've been active in repositioning and diversifying the portfolio as the period unfolded. Exposures to banks across all regions is an area which has worked well against a backdrop of synchronised rate hikes, as has the move to increase exposure to China as the country eases policies and regulatory pressure on key sectors.

We are in a secular bear market, and our focus is on trying to ensure that we buy the dips and sell the rallies. However, we see scope for the rest of the world to outperform the US, where net profit margins have been at record levels (and will revert), valuations are extended, and high sovereign debt levels will serve to constrain growth and hamper the ability to fight inflation. By contrast EM benefits from low valuation multiples by any standard.

The market will gradually accept that the age of free money is over, and while this volatility persists, we will continue to cast the net wide and look for opportunities in areas of the market that offer up quality at an attractive price.

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Aidan Lisser, chair, JPMorgan Emerging Markets Investment Trust – 6 March 2023

2022 was a difficult year for emerging markets and for your Company. The Russia-Ukraine conflict, COVID-19 resurgence in China and tightening US monetary policy posed various challenges. However, your Company has experienced several periods of volatility and uncertainty since its launch and your Investment Managers have considerable experience in navigating through such turbulence. Whilst the precise future direction of inflation and monetary policy remains unclear, recent US dollar weakness and the reopening of China after the COVID-19 restrictions have benefited emerging economies. Both these factors could be tailwinds for emerging market equities, especially after the large swathe of earnings downgrades seen last year. Meanwhile as a Board we will continue to be watchful around geopolitical issues and indeed around the possibility of future economic, political or regulatory disruption.

All that said, the Board is confident that emerging markets will continue to provide a wide selection of opportunities for disciplined stockpickers.

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Austin Forey, John Citron, managers, JPMorgan Emerging Markets Investment Trust – 6 March 2023

The more optimistic note in markets has carried over so far into 2023, and both of these main drivers of emerging equity markets, the US dollar and Chinese economic re-opening, may yet have further to run: the developed world faces a tough year economically, while emerging economies continue to grow, and will be helped further by a recovery in China.

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India

(compare Indian funds here)

Elisabeth Scott, chair, India Capital Growth Fund – 30 March 2023

Despite all the global uncertainties of 2022, it is clear that India and its economy have been resilient in the face of these challenges and that investors in emerging markets have favoured India over the stock markets of other emerging markets. While it is reasonable to expect that other emerging markets may catch up in terms of relative performance, the outlook for the Indian economy is positive and Indian companies will benefit from this and from the improvement in governance standards.

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Manager, India Capital Growth – 30 March 2023

A challenging global environment - the Russia Ukraine War; a spike in oil prices; rising interest rates; and a flight of capital out of emerging markets including India. In the past, the occurrence of any one of these factors would have led to a sell-off in the Indian equity markets.

The economy has shown `resilience', and this is a word we used repeatedly to describe India in the year 2022 which demonstrated that the fundamentals of the economy are stronger than ever. The Government strategy of limiting "freebies" during Covid but instead increasing spending on capex to aid the growth recovery, had a positive impact.

As we enter 2023, we are confronted with divergent commentaries: a) Western economies where discussions are centred around the probability of a recession; and b) positive and optimistic India where sustaining a 6-8% GDP growth for the next decade is the focal point of discussion. The positive outlook is reinforced by IMF / World Bank forecasts which list India as being among the fastest growing large economies in the world in the short term, and over the next decade emerging as the 3rd largest economy globally (India's GDP surpassed that of the UK in Q4 2022 to make it the 5th largest economy in the world). The Government has set a target of being a US$ 10tr economy in the next decade (compared with US$ 3.5tr at present). This optimism is also reflected in the management commentary of most corporates.

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Andrew Watkins chairman, Ashoka India Investment Trust – 6 March 2023

If one truly believed the daily press, investors could be forgiven for feeling gloomy. High inflation, rising interest rates, cost of living pressures and low growth forecasts enable editors to feature depressing headlines. However, the signs are becoming clearer that interest rates and inflation may be at or near their peaks in Europe and the US, energy prices are a fraction of their previous highs and the jobs market remains strong. India, whilst not having been immune from these global pressures, is particularly well placed to benefit from an upturn in global activity.

Domestic demand in India remains strong and the economy is being bolstered by recovering export growth. The shift of manufacturing from China to India is occurring even faster than anticipated and it is predicted that this trend will accelerate thus creating greatly increased job opportunities and prosperity. In addition, India is adopting a number of green initiatives that will not only create a large number of jobs and help wean the country off dependence on imported oil but greatly assist its commendable ambition of achieving net zero by 2070. India's GDP growth in 2023 is forecast to be the highest in the world and if the economy continues to grow apace, it will overtake countries such as Germany, Japan, France and the UK to become the third largest within 10 years.

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Managers, Ashoka India Investment Trust – 6 March 2023

Indian equity markets delivered a resilient performance in 2022, despite a challenging global macroeconomic environment. This was underpinned by strong fundamentals, healthy domestic demand, and the government's continued push on capital expenditure. Whilst most major economies expect to experience a slowdown in GDP growth in 2023, India remains one of the fastest-growing major economies in the world. As per consensus estimates, India is poised to become the third-largest economy (by nominal GDP) within the next 10 years.

Post COVID-19, the revival of export growth has been a key contributor to India's economic recovery. India's merchandise exports touched a record US$420 billion in the financial year 2021-22, after stagnating in the US$300 billion range for the last decade. Supply chain disruptions have accelerated the relocation of manufacturing out of China, with India emerging as a credible alternative. Policy supports in the form of Product Linked Incentive ("PLI") schemes for key sectors, and measures to improve the 'ease of doing business' have emerged as critical enablers. India has a marginal market share in many manufacturing industries, and even a 1-2% incremental market share gain from China could result in high-teens growth rates.

From a services perspective, Indian IT companies benefit from the accelerated digital transformation of global enterprises and cloud adoption. Enhanced by the business continuity showcased during COVID-19 lockdowns, global customers have preferred Indian IT & engineering services providers due to their exceptional talent pool and depth of competencies across service lines. The country's services export is expected to reach an all-time high of US$325 billion during the financial year 2022-23. This favourable dynamic is helping India boost its foreign exchange reserves, thereby increasing the cushion against external shocks.

On the domestic front, the government is supporting the economy through various supply-side measures. Infrastructure Capital Expenditure ("CapEx") continues its strong momentum with spending in sectors such as roads and railways the key focus areas for the government. As a proportion of GDP, capital expenditure edged closer to the levels witnessed between 2003 and 2006, which coincided with strong private sector CapEx and corporate earnings growth. The green shoots of private sector CapEx in asset-heavy sectors, such as cement and steel, are also visible. This is due to significantly deleveraged balance sheets and improved operating performance supported by an uptick in demand for housing and real estate.

Corporate earnings are predicted to remain resilient in 2023. MSCI India's consensus earnings growth for 2023 to 2024 is approximately 15%, compared with approximately 13% for China and approximately 9% for the APAC (ex-Japan) region - with financials, CapEx- sensitive, and consumer sectors driving most of the earnings growth. The underlying multi-decadal trend of market share consolidation in favour of stronger, well- run businesses continues. The unbranded segment of the market has found it challenging to deal with higher input costs and frequent supply chain disruptions. However, the businesses in the portfolio have shown immense resilience due to their industry leadership and strong execution capabilities, supported by robust balance sheets.

The recently announced Union Budget for the financial year 2023-24 builds on the foundation of sustainable growth laid out in previous budgets while signalling policy continuity with a focus on public CapEx, enhancing the ease of doing business and boosting exports and manufacturing. There is also an added emphasis on inclusive growth and green energy. The key announcements included:

- development of physical infrastructure, with the overall public sector CapEx projected to increase by 33% year-on-year to 3.3% of GDP;
- measures for further improving the ease of doing business with proposals to reduce compliance burdens, faster dispute resolution, continuous digitalization of public infrastructure and decriminalizing numerous legal provisions;
- managing the environment and climate (details covered below); and
- boosting manufacturing and exports through cuts and exemptions in customs/excise duties and investing in skills development.

From a 6.4% fiscal deficit in financial fear 2023, the government intends to follow the fiscal consolidation roadmap, prudently reducing the deficit to 5.9% of GDP in financial year 2024 and reaching below 4.5% by financial year 2026. To summarise, the government has resisted the temptation to be populist, despite this being a pre-election year budget.

At the 2021 United Nations Climate Change Conference (COP-26), India pledged to achieve net-zero carbon emissions by 2070. The government continues its focus on reducing the dependence on fossil fuels with its recent budget. It has allocated US$4.3 billion for energy transition expenditure by 2030. This includes the national green hydrogen mission, enhancing development and the use of renewables. The National Green Hydrogen Mission alone aims to develop a green hydrogen production capacity of at least five million metric tonnes per annum, with an associated renewable energy capacity addition of about 125 gigawatts in the country. This would result in total investments of over US$98 billion and would generate over 600,000 jobs. Based on past achievements, we believe India could

become a global leader in green hydrogen and significantly reduce its reliance on imported fuel.

From a potential risk perspective, private investments have remained subdued in the last decade, thereby holding back a domestic cyclical earnings recovery. An absence of any consistent improvement in external demand, escalation in geo-political tensions, or the onset of another COVID-19 wave weighing on domestic demand could pose risks to near-term growth. However, we believe the ingredients of an investment cycle revival remain skewed towards the positive, given the strong position of corporates and the financial sector and the government's push for infrastructure.

General elections in India are likely to be held in April or May 2024. Though the current Prime Minister's popularity remains strong and the risk of regime change appears low, such an event or a weak coalition central government could be a negative surprise for the markets, which would like to see policy continuity. Of course, any sustained weakness in global growth could weigh on market performance. On the other hand, a sharp reversal in anticipated global risk factors such as inflation, recession, or geopolitical tensions could boost investor sentiments.

We believe India is at the cusp of realising its true economic potential, while benefitting from several secular tailwinds. The most important are its favourable demographics and rising income levels, thereby allowing domestic consumption to flourish - with demand for discretionary goods, travel & leisure, financial and healthcare services on the rise. Additionally, the country is experiencing rapid digitalisation of services, supported by increasing Internet penetration, and formalisation on the back of crucial on-going structural reforms. The government is undertaking steps to manufacture imported goods domestically while developing the country's infrastructure like never before. We believe that all these factors place India as one of the most promising economies for years to come and makes for a highly compelling investment proposition.

Biotechnology and healthcare

(compare biotechnology and healthcare funds here)

Managers, Bellevue Healthcare – 6 March 2023

in what is generally a stable sector from a regulatory perspective, with very visible long-term demand growth drivers, the macro demand picture seldom changes quickly. As a consequence, stock-picking wins out over sub-sector allocations and the best long-term strategy has been to own the true innovators or the stocks where any future success has been fully discounted by the market for some reason or otherwise where one can get comfortable that this is the wrong conclusion. However, these approaches did not work well in 2022 and few active managers were able to beat the index. Generally speaking, the more tilted you were toward innovation and growth, the worse the performance.

important question for any healthcare investor is whether or not this dynamic represents a 'new normal' (after all, it has persisted for some fifteen months) or is simply an aberration. As noted previously, such things can only really be determined

in hindsight, when one looks back at a situation after it has changed or reverted to historical norms.

Ahead of any obvious inflection, one can only really ponder the question as to whether or not a revised dynamic would be appropriate. We all know the cost of equity has risen due to higher risk free rates. However, as we discussed in the May 2022 factsheet, the market's multiple compression went far beyond anything that could be justified by the application of a higher discount rate; the reverse discount rates implied by share prices between different sub-sectors and also between companies in the same sub-sectors suggest that the multiple compression was rather arbitrary and even capricious.

Has the regulatory or payor landscape changed in a way that merits lower valuations/higher risk premia on top of that risk-free rate increase? The simple answer is no. What about funding for non-commercial and non-profitable entities? The oft-touted biotech funding crisis (i.e. the risk that companies will not be able to raise money to continue operations) is a canard. Bad companies (of which the post-COVID IPO and SPAC boom created many) struggle and deservedly so. The good ones do not.

In conclusion, 2022 feels like an aberration to us and we continue to expect our investors to be handsomely rewarded for their patience in the fullness of time. To paraphrase (and misquote) Hemingway, these sorts of things happen slowly at first and then very quickly, so you need to stick to your knitting rather than try to rotate into these things when the timing feels right. The cream rises to the top eventually, even if the milk is sour.

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Commodities and natural resources

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

Investment Managers, Golden Prospect Precious Metals Limited – 30 March 2023

As the market has turned more constructive larger cap precious metal mining stocks have led the equity rebound as generalist funds have used more liquid stocks to cover underweight positions in the sector. This is especially the case on the TSX where gold miners represent ~16% of their benchmark. ETF inflows into the likes of the GDXJ have been more muted, but could become a further supporting factor. In addition, over recent months there has been a noticeable pick-up in consolidation across the sector.

As with many other resource extraction companies managements remain reluctant to commit investment to major greenfield projects but have instead taken the opportunity to acquire attractively valued listed assets. Further consolidation opportunity in the smaller cap end of the sector remains possible given the even more attractive valuations for assets that can be folded into a portfolio with the benefit of removing duplicated SGA costs.

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Helen Green, chairman, CQS Natural Resources Growth and Income – 22 March 2023

While the IMF expects global growth in 2023 to remain weak by historical standards, as the fight against inflation and Russia's war in Ukraine weigh on activity, its outlook was recently improved from a rather gloomy October forecast and, according to the IMF, we could be at a turning point, with low growth rates bottoming out and inflation declining. Any global recovery is likely to mean that energy demand tracks this growth and therefore energy prices, particularly for oil, gas and coal, could remain strong given they continue to comprise a major part of global energy supply, despite efforts underway in the transition to greener energy sources. Commodity cycles are driven by shifts in the balance of supply and demand and we continue to see constrained supply growth as producers maintain disciplined capital allocation in part due to shareholder pressure for dividends and buybacks, but also given increased environmental, social and governance (ESG) pressures and regulatory burdens from host nations. In addition, the macro environment is providing periods of uncertainty which is further deferring investment decisions. Your Fund is well positioned for a prolonged high commodities price environment supported by constrained supply which is expected to be reflected in enhanced producers' returns over the next decade.

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Ian Francis, Keith Watson, Rob Crayfourd, managers, CQS Natural Resources Growth and Income – 22 March 2023

We remain positive on the resource sector overall primarily due to the continued lack of investment in new supply, but also due to the commodity intensive nature of the energy transition. Building wind and solar farms, electric vehicles, charging points, and battery storage requires significant amounts of metals such as iron ore, copper, nickel, lithium, cobalt and rare earths. According to S&P Global, an electric vehicle requires 2.5 times as much copper as an internal combustion engine vehicle, and solar and offshore wind need two times and five times, respectively, more copper per megawatt of installed capacity than power generated using natural gas or coal. Supply remains constrained across energy, mining and shipping, in part due to an increased ESG focus, as shareholders pressure corporates to reduce emissions rather than add supply. In addition, previous boom and bust cycles have led to shareholder pressure for conservatism from corporate management teams, who are now focused on dividends and buybacks. This can be seen at the majors but is being felt more widely through the sector as a whole. Energy is likely to be a beneficiary in the near term as supply is being restricted to a greater extent than demand is adjusting. Global government policy has been woeful in its response to the energy crisis and the energy transition. This has resulted in conflicting decisions such as Germany shutting down its low emission nuclear industry while increasing the burning of lignite, or brown, coal which has the highest emissions of all coal types. Emerging markets, which have been priced out of gas and are concerned about energy security, have responded by burning more coal. The UK and European Union have added tax uncertainty to energy producers from the region by introducing windfall taxes which are likely to result in discouraging investment and taking cash away from those companies best placed to provide a solution. In these times of uncertainty, investing in unencumbered real assets through the equities that hold them, we believe is good protection. The Fund's allocation and

weighting is expected to benefit from an eventual global reopening of economies, and the longer-term energy transition.

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David M. Leuschen, Pierre F. Lapeyre Jr, co-founders Riverstone Energy – 1 March 2023

2022 provided a dismal backdrop for investors with both equity and bond indices posting negative returns. This sell-off was precipitated by coordinated and unprecedented action from central banks around the world as they hiked benchmark rates in an effort to contain runaway inflation while bracing themselves for an expected global recession. If this weren't bad enough, the Russian invasion of Ukraine in February only compounded supply chain issues lingering from the pandemic and highlighted structural deficiencies in global energy and critical materials supply chain security. Underinvestment in and outright disinvestment from conventional sources of energy over the past few years have caused tremendous volatility in underlying energy commodity prices and power prices in Europe.

When we set course for REL's strategy to invest in companies that will contribute to decarbonising the global economy, we had not foreseen two major events that occurred in 2022 that are having and will continue to have a profound impact on our strategy going forward. Firstly, the war in Ukraine has set off an irreversible trend among countries around the world to secure their energy needs by diversifying their supply and accelerating the production of native, renewable energy. Secondly, though late to the game the US has enacted a paradigm-shifting piece of legislation unleashing potentially trillions of dollars of investment in the form of the Inflation Reduction Act, passed in August 2022. This law apportions roughly half of its $738 billion budget to tackle energy and climate change. This occurred on the back of another piece of (mostly unnoticed) legislation in 2021, the Bipartisan Infrastructure and Jobs Act, which committed over $25 billion to EV charging, clean transportation and, EV battery components, critical minerals and materials.

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Technology

(compare technology funds **here**)

Robert Jeens, chairman, Allianz Technology Trust – 10 March 2023

It is difficult, if not impossible, to predict what might happen with the geopolitical landscape as well as with the global economy as we move forward through 2023. As I write, the war in Ukraine continues, unfortunately with no obvious end in sight yet, and other significant geopolitical tensions also persist.

There is some evidence of inflationary pressures easing from a macro perspective, but whilst markets have already made some positive moves on expectation of possible easing interest rates, there is also conflicting rhetoric from many central banks which indicate the easing may not be as swift or widespread as some would hope.

Despite recent volatility the long-term secular growth story for technology investing remains intact and is powerful. Returns are likely to accrue disproportionately to a small number of 'winners' and this should reward an active, and probably patient, style of portfolio management.

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Mike Seidenberg, portfolio manager, Allianz Technology Trust – 10 March 2023

While inflationary pressures have started to ebb, there is still some pain to come on the global economy. There may be further interest rate rises in the year ahead, and the Federal Reserve is unlikely to reverse direction in the short-term. Recession looks likely for many major economies, while the re-emergence of China could be a double-edged sword. It may move the dial on global growth, but may also contribute to inflation. Against this difficult backdrop, the Company remains defensively positioned.

However, there are reasons to be more optimistic. Share prices have fallen a long way and now reflect much of the bad economic news. Many technology companies continue to deliver strong earnings in spite of the economic conditions and have a significant runway of growth ahead of them. Equally, potential weakness in the Dollar should help those technology companies with large global markets, such as Apple and Microsoft.

This has been a tough period, but many of the structural growth opportunities for technology are intact. Digital transformation, cyber security and cloud computing are multi-year growth themes and the recent uncertainty has not changed their outlook. Technology remains an exciting sector in spite of its difficulties in 2022

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Debt

(compare debt funds **here**)

Pieter Staelens, investment manager, CVC Income & Growth Limited – 27 March 2023

2022 was one of the worst years for credit markets since the global financial crisis. Rampant inflation, geopolitical tensions and an energy crisis created high levels of uncertainty in financial markets and volatility spiked. Traditional correlations broke down and a considerable number of asset classes experienced their worst performance in many years.

When on 24 February 2022 Russian tanks crossed the Ukrainian border, both equities and credit were up for sale as uncertainty spiked. A full-blown war in such close proximity to Europe created several new unknowns that many investors had never had to contend with before.

There was significant volatility in European loans as investors repositioned their portfolios to move up in quality. However, actual default rates in Europe remained low at 1.90% of the market.

At the time of writing, in February 2023, there remains a great deal of uncertainty. However, there are some green shoots. Inflation appears to have peaked in most developed countries. The pace of interest rate hikes has slowed in the last few months and Europe appears to have ample gas reserves to see through the winter. The combination of a relatively mild winter, new sources of gas supply (mainly liquefied natural gas), but additionally structural drivers such as demand curbs and large investments in renewable energy means that the outlook for Europe is likely better than a large number of people may have feared when Russia shut down gas supply to Germany.

European loans started 2023 at attractive valuations. The average cash price on the CS WELLI, hedged to EUR, was at 91.56, the 3yr discount margin was 661 bps and base rates were well into positive territory for the first time since 2015. In the last 10 years, the average cash price has only been lower during the global financial crisis and briefly during Covid in 2020, and hence the market is already discounting a material spike in default rates. In S&P's annual study, it found that recovery rates on first lien senior secured loans over the 2003-2021 period were 72.5%, while in 2021 the three-year rolling average recovery was about 70%. This implies that the downside for first lien senior secured loans is fairly low even if there is an event of default. As a result, the Investment Vehicle Manager believes that leveraged loans are well positioned for a recovery in 2023.

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Richard Boléat, chairman, CVC Income & Growth Limited – 27 March 2023

Recent events in the banking sectors, both in the US and Europe, of course deserve special mention. The root causes of the failure of Silicon Valley Bank, and the difficulties faced by First Republic, are US centric, complex, technical and do not warrant comment here other than to note that we assess them as having no direct or indirect effect on the Investment Vehicle portfolio or our chosen asset class environment as a while. Credit Suisse's troubles are different, more driven by long terms problems in the senior management of the organisation, and whilst call into question the commercial viability of the organisation as a whole, do not call into question its solvency. So far so good. The difficulty, if there is one, is that banking sector stress generally drives tighter credit conditions. Tighter conditions are per se attractive for the Company, as they drive credit spreads higher, feeding through positively to the yield to maturity and running cash yields that I mentioned earlier. The inverse of this is that central bank reactions are naturally to adopt an easing bias when considering the direction of future risk-free rates. Currently, and has been observed by many economic commentators, central banks will struggle to position this way given that they have arguably fallen behind the curve in seeking to tame inflation through increases in risk-free rates, and would need to keep such rates higher for longer in order to have the desired monetary policy effects. Chris Giles wrote in the Financial Times just before Christmas that central bankers will, in 2023, need "nerves of steel and the hides of rhinos". They face significantly greater difficulties now.

Our base case, which is that relevant risk-free rates will remain at or around current levels through 2022, and credit spreads will remain elevated, remains unchanged.

When I say "relevant", I exclude UK rates, which are likely to show a materially softer performance than other developed markets due to the ongoing damage caused by the effects of Brexit and government missteps, because the underlying portfolio's geographical exposure to the UK is only 28% of the whole.

A necessary caveat to our base case is that it would not be surprising to see further pockets of stress arising in other parts of the financial markets, particularly within more highly leveraged market participants, which could exacerbate the dilemmas facing central banks and upend markets again, with unforeseeable consequences. Investors should be alive to this and monitor markets carefully in order to ensure that their portfolios are properly positioned and nimble.

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Tim Scholefield, chairman, Invesco Bond Income Plus – 27 March 2023

The course of inflation will continue to dominate the financial landscape for the foreseeable future. It is reasonable to expect the recent declines in energy and commodity prices to presage a fall in consumer price inflation over the next year which in turn should allow interest rates to plateau and for markets then to anticipate a more favourable monetary environment. The risks to this relatively benign outlook include the potential for the conflict in Ukraine to escalate, together with the possibility that inflation proves ‘sticky’ and hence difficult to force back within central bank target ranges. In any event we expect 2023 to be a year of weak economic growth as the impact of last year’s rapid interest rate hikes take hold.

Turning to prospects for high yield markets it is noteworthy that yields are well above the average levels of the past ten years and so markets do appear to be on a somewhat cautious footing.

My comments to shareholders in recent years have necessarily focussed on the adverse consequences of macroeconomic events such as Covid-19, the conflict in Ukraine and latterly the global surge in inflation. Moreover, as I write these comments, the plight of several weaker banks has necessitated intervention by authorities both in Europe and the USA. We are monitoring developments closely for signs these failures might suggest systematic challenges rather than, as it currently appears, problems which are largely confined to the banks concerned.

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Rhys Davies, Edward Craven, managers, Invesco Bond Income Plus – 27 March 2023

With consumer price growth rising to double-digit levels, central banks tightened monetary policy at an unprecedented rate. Their action prompted a sharp sell-off in global bond markets. Several parts of the market recorded their worst annual performance since records began. The UK gilt market was hit particularly hard after the mini-budget fiasco in late September when the Bank of England was forced to intervene in the market to restore stability as pension funds became stuck in a ‘doom loop’ of selling gilts to meet cash calls on leveraged bets. UK gilts lost a quarter of

their value in 2022. Interest rate sensitive investment grade bonds also lost significant ground, down about 20%. By comparison, the performance of high yield bonds held up relatively well with the ICE European Currency High Yield Index recording a 10.4% loss (hedged to sterling).

To stem surging inflation the US Federal Reserve raised interest rates several times in 2022. This took the federal funds rate to a targeted range between 4.25% and 4.50%, considerably higher than where it began the year at between 0.00% and 0.25%. Fears rose that the cumulative effect of these hikes could push the US economy into recession. This 'inflation versus growth' conundrum also played out in Europe where the Bank of England and the European Central Bank ('ECB') faced the quandary of increasing borrowing costs when data pointed to a slowdown in economic activity. Over the course of the year, the Bank of England rate was hiked from 0.25% to 3.5% and the ECB Main Refinancing Rate from 0% to 2.5%. Bond markets recovered some lost ground in Q4 on evidence that inflation had peaked, raising hopes that central banks would reduce the pace of rate hikes in 2023.

Against this backdrop the yield on the €/£ ICE European Currency High Yield Index rose significantly over the year, moving from 3.43% to 8.00%. With recessionary concerns mounting over rising borrowing costs, credit spreads for high yields bonds widened, increasing from 337bps to 515bps.

Looking ahead, it is important to contrast the set of conditions that exist now versus a year ago. The very low levels of yield that many bonds had reached by the start of 2022 exacerbated the negative impact of entering a rate-rising environment. Thankfully, that is not the case today, with bond yields at significantly higher levels. Not only does that offer more yield compensation for bond investors but it dampens the negative impact of any further rise in yield. Furthermore, there are tentative signs that inflation may have peaked in developed economies. In effect, the starting point for bonds in 2023 is much better than a year ago.

Whilst we are positive on the yield and opportunities available today in bonds, we remain cautious on our outlook for the global economy. Higher borrowing costs are a challenge for businesses and consumers in general. We have also seen evidence very recently of weakness in some banks. Apart from the direct impact for investors, this is always an important factor in wider economic sentiment. This leads us to focus the portfolio on the better-quality issuers. Periods of market strength allow an opportunity to re-examine and potentially sell the bonds of companies that face greater challenges in this environment. Meanwhile, the bonds of good quality companies continue to offer attractive yields. We also expect companies to use periods of market strength to issue bonds priced at much higher coupons than we have seen for several years.

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Managers, Starwood European Real Estate Finance – 27 March 2023

At the beginning of the year most economists had seen inflation having peaked and the expectations of future interest rises having peaked too. Goldman Sachs expected UK rates peaking at 4.5 per cent in May 2023 versus expectations by some economists that they might rise as far as 5 per cent or even 6 per cent previously, however fears that inflation and higher rates will be more sticky have

been growing in recent weeks due to economic data particularly the employment statistics.

Inflation and interest rates impact hard assets in a number of ways. For example higher inflation in labour and construction materials and higher interest rates for the financing of development all lead to a higher overall construction cost which can lead to reduced supply which benefits existing stock. Higher rates generally can also put pressure on real estate yields that may look less desirable versus other forms of long income such as long dated bonds and higher financing costs will leave levered real estate buyers with less free cash after debt. On the other side of the coin, the income of real assets is often strongly linked to inflation either through direct linking in the terms of a lease or through correlation of revenue with inflation.

In markets such as logistics and residential to rent, low levels of vacancy combined with high demand have seen increasing rents and this trend is likely to continue in a number of areas where there is insufficient new supply delivered although a bad recession could reset demand and / or the tenants ability to pay. Rising rents will be supportive of values in these asset classes even while yields are softening.

Real estate and leveraged finance volumes fell significantly in 2022. Conditions have improved in the first weeks of 2023 but volumes are still lower and pricing elevated. A large share of the increase in financing costs has been the base interest rate component mentioned earlier with spreads having widened as well. Larger loans that require distributions through syndication CMBS or CLOs are still rare in the US and there have been none in Europe. However, we do continue to see steady underlying activity in bilateral and small club deals with spreads in Europe having changed much less than in the bond markets since 2021 albeit with more conservative risk metrics and structures. As is common in lower volume markets there has been an increased gap in appetite between prime and secondary assets and stock selection through asset class, sponsor and business plan combination is absolutely key. Where rates settle is still uncertain and it is likely that until the equilibrium is met we will still see smaller volumes both in transaction and financing volumes.

We are also continuing to see the existing themes in the bank lending market. There is a focus on stress tests, capital treatment and managing risk weighted assets. As a result, the trend towards banks working together with non-banks in co-origination or financing of loans as opposed to providing direct loans is persisting. This is evident in the latest Bayes lending survey which tracks the UK commercial real estate lending market. The most recent report shows that alternative lenders now provide 24 per cent of new origination from almost none a decade ago and we see that trend towards an increased portion of the market with non-bank lenders continuing.

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William Scott, chairman, Axiom European Financial Debt – 22 March 2023

The outlook for our strategy is positive. Rising interest rates are in general good for banks, enabling wider spreads between lending and deposit rates and we have seen robust performances from banks as they have reported their results. Returns

on equity have been strong, interest margins widened, and non-performing loans have remained at low levels.

The background to our principal industry sector as a whole therefore remains positive. Of course, what is true for the industry in general is not necessarily true for all participants and sharply rising interest rates have exposed weaknesses at some institutions while others have exhibited their own idiosyncrasies, provoking a nervous depositor base to withdraw funds in classic bank runs and we have seen several high-profile examples in recent weeks, including one in our own universe of European banks, Credit Suisse. No customer has suffered losses as a result of its near-collapse. The same cannot be said for the AT1 bonds of Credit Suisse which have been wiped out by regulatory fiat as part of the transaction which has reportedly placed a $3.25 billion value on the Credit Suisse equity. This appears to a very strange decision in that it reverses the established order of insolvency whereby ordinary shareholders bear the first tranche of losses. This may yet have unintended consequences and set a dangerous precedent. As at the time of writing, the market is still digesting this news. Non-Swiss regulators, being the Single Resolution Board, the European Banking Authority, ECB Banking Supervision and the Bank of England have moved swiftly to give clarity to the markets that they will continue to follow the established hierarchy of capital instruments and the absorption of losses in a resolution or insolvency intervention.

Inflation is still elevated but appears to have reached a steady level and may soon fall back quite sharply as the pre-Ukrainian war price index levels drop out of the trailing 12-month comparison. The immediate danger to that trajectory is the extent to which this past consumer price inflation becomes baked into future inflation through significant current wage settlements, understandable as those are given the margin by which inflation has outstripped wages over the past year and the consequent erosion of living standards for workers. This may lead to interest rates remaining higher for longer than would otherwise be the case.

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Private equity

(compare private equity funds here)

Jeremy Rogers, Hermina Popa, managers, Schroder BSC Social Impact Trust – 29 March 2023

The government published a Spring Budget on 15 March 2023, after the period end, with a focus on reducing inflation, growing the economy, and reducing debt. The government's stated focus is to ensure sustainable long-term growth and reduce inflation to 2.9% by the end of 2023. A more positive macroeconomic backdrop has allowed the government to shift the focus from "stability" to "growth" - in an effort to counteract concerns of an impending UK recession in 2023.

There were a number of Budget measures with relevance for the Company:

- We are particularly encouraged by the government's recognition of the crucial role of charities and social enterprises in reaching "people in need that central or local government cannot". To support their work, the Spring Budget allocated over £100m of funding for charities and community organisations.

This will be allocated over the next two years to frontline organisations most impacted by increased demand for their services from vulnerable people and increased delivery costs, and measures to increase the energy efficiency and sustainability of voluntary, community and social enterprise (VCSE) organisations.

- One of the key pillars for the government's growth agenda is education, and the Spring Budget introduces additional funding of £63m to support "Returnerships", skills programmes aimed at the over-50s. Alongside the government's continued commitment to post-18 education, the measures offer a positive backdrop for the activities of organisations such as Skills Training in the Bridges Evergreen portfolio.
- Measures to reduce inflation include the extension of support for households to reduce the cost of living, including the extension of the Energy Price Guarantee (EPG) of £2,500 for a further three months until June 2023. After this time, energy prices are expected to fall below the guarantee threshold, reflecting a steep fall in wholesale energy prices since the start of the year. To support more vulnerable households, the government will also align charges for comparable direct debit and Pre-Payment Meter (PPMs) customers, ensuring that those on PPMs no longer pay a premium for their energy costs, a move that has been campaigned for among others by Fair by Design, a program established by Big Society Capital.

Despite the measures announced, it is estimated that UK households are still facing the largest fall in living standards since records began in the 1950s - and they will not return to their pre-pandemic level until at least 2028, reflecting the impact of the trade shock suffered by the UK since the energy crisis began, on top of structural weaknesses in the economy. As we have highlighted previously, this fall in living standards disproportionately affects those who are already most vulnerable in society, increasing the already high percentage of the population living in poverty, estimated at 20% in 2020/20217. In this environment the scaling of proven solutions tackling social issues - such as the organisations the Company supports - is needed more than ever.

Also, in early 2023, further issues have emerged in the banking sector, with knock-on effects on credit markets. As of the time of writing, there are no material impacts expected on the Company's investments. The underlying revenue sources of the portfolio are primarily from UK government backed sources (over 80% as of December 2022) and have been historically stable through economic cycles. We anticipate that stability will continue through the current turbulence and fiscal pressures, supported by the savings government and society make with the impact of our investments.

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Richard Gray, chairman, CT Private Equity Trust – 28 March 2023

Conditions within the private equity market have changed during 2022. An initially surprisingly benign reaction to the Russian invasion of Ukraine and its concomitant effects dissipated towards the end of the year as the challenges of inflation, higher interest rates and supply chain problems made their presence felt. That said the large element of the portfolio involved in tech enabled and healthcare related companies continued to make fundamental progress and to attract buyers at

attractive prices keeping the realisations not far below historically high levels. The positive momentum exceeded the drag factors in 2022 delivering another good overall return. We expect that it will be harder to achieve exits this year and it also looks as though fund raising for private equity funds is becoming considerably more arduous. Whilst a cautionary note is justified this does not mean that the underlying growth characteristics of so many of our investee companies and the skill of our investment partners will not continue to deliver positive returns for Shareholders. There are also other supportive factors. In particular there is a well-financed tier of larger private equity funds in the size bracket above us with the capital and the will to invest and many of our investee companies will prove attractive to them. Lastly there remains a steady increase in investors' appetite for private equity globally. This all adds up to the prospect of a healthy two-way market with continuing opportunity and strong demand for high quality and resilient investments.

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Manager, LMS Capital Trust – 20 March 2023

There was optimism as we entered 2022, with the successful rollout of the Covid-19 vaccine programme and the prospect of no further lockdown restrictions however, Russia's invasion of Ukraine in February 2022 created further uncertainty in the markets and resulted in a refugee and humanitarian crisis in Europe. International food and energy supplies were affected which had a massive effect on global inflation. Later in the year, political factors in the UK also created market uncertainty, resulting in sterling falling to a record low against the US dollar.

Domestically, the outlook for 2023 looks uncertain. Interest rates have risen to their highest in 14 years and inflation remains close to 10%, due in part to the rapidly increasing energy prices seen throughout 2022.

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Managers, Princess Private Equity – 20 March 2023

The global economy is undergoing a fundamental change. Inflation will remain structurally higher and real growth will be more modest. Looking beyond 2023, where recession risk is pronounced, we anticipate the impact on long-term nominal growth, i.e., the sum of real growth plus inflation, to be mild or even positive. Yet this change in the composition of growth will drive structurally higher interest rates and result in more volatile capital markets

While private markets will not be able to fully escape the heightened volatility that we expect to see in public markets, history shows private markets provide robust diversification benefits and improve the overall risk/return profile of a portfolio due to their structural advantages compared to public markets. These structural advantages include control positions, a long-term horizon, and a focus on entrepreneurial governance.

Across asset classes, while there is still near-term uncertainty on growth and inflation, we continue to place great importance on transformational thematic trends, demand resilience, and an asset's ability to pass on any potential pricing pressures.

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Luke Finch, manager, HgCapital Trust – 10 March 2023

We remain alert to the ongoing challenges in the broader economy from the geopolitical background, fiscal tightening, and cost increases, and are increasingly excited about the structural opportunities the current 'risk-off' environment could create for a long-term investor like Hg.

A 'typical' downturn tends to lead with multiple contraction, followed by reduced earnings, and an eventual recovery catalysed either, in recent downturns, by central bank stimulus, or historically, corporate earnings recovery. For our sector going into an economic downturn, short-term changes in value are largely a result of changes in valuation multiples; while the eventual change in earnings forecasts is typically a fraction of the change in multiple that precedes it. For example, in the 2008/9 downturn, multiples accounted for about three-quarters of the total change in value. Earnings typically remain very robust in comparison. Looking at the current situation, public market valuations stabilised in H2 2022, after a significant decline in H1. This is consistent with increased investor confidence around the path of interest rates over the next two years.

As important as multiples are for short-term changes in value, their relevance decreases with longer investment horizons, supplanted by the growing significance of earnings growth.

As we move into 2023, the focus shifts to earnings where we are seeing a heightened level of downgrades to expectations from public companies. Although currency (specifically the strength of the USD) is an important factor in this, the broader backdrop is less benign than prior years, and we expect to see some pressure on sales to new customers who may be more reluctant to commit to new software and services solutions. The impact across the industry from 2022's price increases (which may not take full effect until 2023), also helps to moderate any pressure from delayed new customer wins. These price increases across the sector result from a combination of ongoing long-term product innovation, and the greater value for customers of utilising software solutions in a constrained labour market (especially for higher-cost 'white collar' labour). This provides strong support for our ongoing view that inflation will have only a muted long-term impact on Hg investments.

A clear positive from all this is that as earnings reassert their dominance in valuation, we return to an environment where the operating performance of our portfolio once again becomes the main driver of value creation. We believe that the structural drivers of growth in our sector are, if anything, enhanced by the macro-economic shifts we see, as companies invest in technology in order to help offset wage and cost inflation.

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Tim Breedon, chairman, Apax Global Alpha – 01 March 2023

2022 saw a fundamental change in global economic conditions. The conflict in Ukraine compounded existing supply chain disruption, and triggered a sharp upward movement in energy prices. In the face of escalating inflationary pressures and tight labour markets, central banks began to raise interest rates aggressively, with the Federal Funds rate rising from 0.0-0.25% to 4.25-4.5% during the course of the year, bringing the era of "cheap money" to an abrupt end. Increased discount

rates and lower projected levels of economic growth contributed to a de-rating of many previously favoured sectors in equity markets, including Technology. The lack of availability and higher cost of leverage finance also dampened Private Equity transaction activity.

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Renewable Energy

(compare renewable energy funds **here**)

Managers, Octopus Renewables Infrastructure Trust – 29 March 2023

The energy generation industry as a whole continues to navigate through a challenging period, with the effects of the Russia-Ukraine war looking set to continue for some time and beyond. The most obvious impacts have been supply chain problems, rising inflation, upwards pressure on interest rates and abnormally high power prices (which are clearly inter-related). The intrinsic linkage of power prices to gas prices under the current market system in the UK has meant that day-ahead electricity prices saw a 72% increase in 2022 compared to 2021, and they were around four times pre-pandemic levels. European prices have also been abnormally high. In the long-term we are likely to see system re-designs in order to remove the linkage between gas and power prices for renewable generators, but for now short-term solutions have been put in place through price caps (in Europe) and the Electricity Generator Levy (in the UK). Whilst these measures reduce the returns available to investors and asset owners, the finalisation of their details gives the market clarity in this area after a period of uncertainty in Q4 2022. As a result, we expect the slow-down in transaction activity seen towards the end of 2022 to recede, and for a broad increase in investor activity to emerge as we move through the coming months.

Following three prime ministers in 2022, the political uncertainty in the UK has calmed and the future now looks brighter for the development of new projects: solar looks to have escaped a risk of changes to land-classification rules that would have hampered planning permissions, the long-standing ban on onshore wind is expected to be lifted, and Contracts for Difference ("CfD") auction frequency has been increased to once per year starting in 2023. We can therefore expect healthy development and construction pipelines to emerge which will provide a home for capital looking for new renewable generation projects.

Whilst there is now more certainty on revenues, high inflation rates (expected to remain for some time) mean increasing construction costs, and price caps or windfall taxes mean that returns available to developers may come under pressure. To compound this, the increases in base interest rates have led to higher discount rates for projects. However, we expect project valuations to be supported by a healthy amount of competition for assets from investors seeking attractive projects. Grid access challenges have become increasingly prevalent across several geographies. We are seeing projects coming to market with grid connection dates

in the late 2020s and beyond, due to aging networks and the need for capacity upgrades, and at this stage there is little clarity on how and when this will be resolved.

Newer technologies are gathering further momentum, especially the growing trend for battery storage, but also hydrogen and floating offshore wind, which saw its first CfD contract awarded in 2022.

In Europe there has been much focus on responding to the US Inflation Reduction Act, in order to ensure the continued competitiveness of European industry throughout the energy transition. The EU had already earmarked billions of Euros of funding, including through REPowerEU, but has now responded to the Inflation Reduction Act with measures to give member states more freedom to support industry, and to accelerate permitting and access to funding for relevant projects.

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Gill Nott, chairman, US Solar Fund – 27 March 2023

Global financial markets and politics were defined by volatility during 2022. Much of this has derived from the appalling war in Ukraine, which led to a surge in energy prices, markets in turmoil, and concerns about recessions across the globe. Of course, this happened on the heels of global concerns about the recovery from the Covid pandemic. This was particularly true for China, a major driver of global trade, where the pandemic led to lower economic growth. Another challenge for global markets has been rising interest rates. In 2022, the US Federal Funds Effective Rate rose from 0.08% to 4.10%, bringing concerns about the future pace of growth in the US economy. Unfortunately, 2023 thus far also seems to be dominated by volatility and concerns about potential economic recession.

However, alongside this, we are seeing important and exciting developments around climate policy and renewables adoption. In 2019, the UK was the first G7 economy to pass a net zero target. Today, after just four years, the countries that have a net zero target account for 91% of the world's GDP. In the US, the White House has repeatedly committed to taking meaningful action regarding climate change, including reducing US greenhouse gas emissions 50-52% below 2005 levels in 2030, reaching 100% carbon pollution-free electricity by 2035 and achieving a net-zero emissions economy by 2050. These efforts will require a significant shift toward clean energy, suggesting the outlook for renewable energy in the US is positive.

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Gillian Nott, chairman, Premier Miton Global Renewables – 14 March 2023

The macro-economic environment has been against the Company over the past year, and equity markets have been weak. While developed market interest rates are expected to reach their peaks in 2023, financial markets are likely to remain turbulent as historic monetary stimulus is withdrawn.

China faces a difficult situation as Covid-19 runs through the country. As a result, its government could see its domestic popularity fall, and it may be tempted into ill-

advised actions both at home and abroad, which have the potential to destabilise its economy and the region. Further, it is at this stage difficult to envisage a near term resolution to the conflict in Ukraine.

However, despite this troubling backdrop, the underlying earnings performance of the majority of the portfolio's holdings has been strong, and we expect this to continue in the short to medium term. We expect European power prices should remain elevated as the EU withdraws from its dependence on Russian natural gas.

The implementation of European windfall taxes has been a notable headwind over the year. However, with the relevant taxes now published and in operation, the market again hopefully has some clarity. Generally speaking, windfall taxes have been set at a level which, while providing some compensation to governments that can be used to subsidise tariffs, still allow generators to make good returns from the high pricing environment.

Over the long term, the issues of natural gas supply and high commodity prices further reinforce the benefits of moving to renewable energy. In addition to being much more environmentally friendly than traditional power sources, renewables have the advantage of generating electricity closer to where it is consumed, together with the potential for a less volatile pricing environment.

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James Smith, manager, Premier Miton Global Renewables – 14 March 2023

While there is much uncertainty in the global economy, and political risk remains an ongoing issue, 2023 should see a peak in inflation and therefore also in interest rates. As such, some of the negative macro headwinds should, I hope, abate.

While recent weeks have seen a welcome moderation in the high fuel commodity price environment, those driving the electricity price, such as natural gas and carbon permits, remain at elevated levels in comparison to recent history. The phase out of both coal and older nuclear capacity in coming years should keep the margin of supply over demand relatively tight in the European electricity market. I therefore believe that European electricity prices could stay higher for longer than anticipated by the market, sustaining a positive backdrop for the portfolio.

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Alexander Ohlsson, chairman, Foresight Solar Fund – 14 March 2023

We entered 2023 with central banks hopeful that the most rapid tightening of monetary policy in decades had begun to wrestle inflation down. The Company now faces a materially different macroeconomic backdrop to that of 12 months ago. Yields on 20-year UK Government bonds ended 2022 at 4% and a return to the exceptionally low interest rates of the last decade is not expected in the near term. With spreads over the risk-free rate narrowed, the Company's ability to focus on growth opportunities alongside reliable yield is now more desirable than it has been in the past. Following the political and regulatory turmoil of the past year, greater clarity has emerged in terms of government intervention in the energy markets. There is now defined guidance on the implementation of the Electricity Generator

Levy in the UK and on the price ceiling and clawback tax in Spain. This has allowed the impact of such policies to be factored into Company forecasts.

With its most recent acquisition targets, the Investment Manager has signalled that there are attractive investment opportunities for the Company in the UK battery storage market and in development-stage portfolios. They continually appraise all segments within the Fund's investment mandate to assess investment attractiveness. For the last few years, it has been the Investment Manager's view that the pricing for UK subsidy-backed operational solar projects is not returns accretive. Whilst this position may change with discount rates increasing, the Company has displayed capital discipline and has not acquired any assets on the secondary market since 2018. Instead, the focus has been on driving performance from the existing portfolio and pursuing value-accretive opportunities in earlier stage projects.

In battery storage, the UK continues to be the most active market in Europe, assisted by a clear framework that is attracting private capital to develop a potential pipeline of over 34GW of new projects. The successful deployment of this target is dependent on the availability of new grid connections and so, realistic expectations for connection dates need to be set for projects not already in planning.

Across Europe, the deployment of large-scale ground-mounted solar is expected to accelerate over the next few years with many nations expected to be "gigawatt plus" markets for annual installations. This includes Germany, Italy, the Netherlands, Poland and Spain, which are all aiming to deploy significant levels of solar to meet net zero pledges, while reducing reliance on foreign gas imports to improve energy security. In 2022, the UK also approved a record of over 4GW of new solar capacity, which bodes well for greater numbers of projects reaching the ready-to-build stage in the near term.

Looking forward, we continue to see significant opportunity in the Company's core solar and battery storage markets as governments carry on supporting the transition to a net zero economy and prioritising domestic energy security.

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Property

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

Aubrey Adams, chairman, Tritax Big Box REIT:

The second half of the year saw investment market conditions deteriorate due to macroeconomic and geopolitical issues. A significant adjustment in underlying interest rates, in an attempt to curb high levels of inflation in the UK economy, caused a sharp increase in overall cost of capital and subsequently drove property yields higher. The relatively low volumes of investment transactions that completed in the latter part of the year were likely to have been priced around the time of the UK's "mini-Budget" in September and October, when uncertainty was at its height. The valuers have been quick to reflect this in year-end valuations, which has led to a decline in our portfolio valuation and net asset value. We expect higher quality assets, of the type we own, to stabilise quicker and be more resilient in the face of a potentially weaker UK economy. Although we see the potential for some further

but limited outward yield movements in the first half of the year, since the year end we have seen encouraging signs of the investment market stabilising and we believe there remains significant capital waiting to be deployed into the logistics sector, given its favourable long-term fundamentals.

We have seen exceptionally high occupational demand for new logistics space in recent times although it is likely that a more challenging economic backdrop may moderate occupational demand to levels which historically would have still been considered strong. The structural demand drivers, combined with very low levels of new logistics buildings supply, are expected to continue to support attractive rental growth in the future.

Looking further ahead, the outlook for the sector remains positive. The structural tailwinds in the occupational market continue as occupiers seek to reduce their own cost pressures by generating greater internal operating efficiencies, led by optimisation of supply chains. As the current spike in inflation recedes, we see good prospects for rental growth to exceed inflation over the medium term which will help us to deliver attractive returns to our shareholders.

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Nick Hewson, chairman, Supermarket Income REIT:

2022 demonstrated the continuing strength of the grocery sector set against a rapidly changing economic backdrop. The strong performance of the UK grocery market highlights how non-discretionary grocery expenditure is highly resilient to the volatile peaks and troughs of the economic cycle, especially in the current inflationary environment.

The most recent data from Kantar shows that the UK grocery market has grown 8.8% on the prior year, with annualised sales now exceeding the levels seen at the height of the pandemic lockdowns in 2021. This growth is further enhancing the strength of our primary tenants, Sainsbury's and Tesco, which account for a combined 75% of our income. In January, Sainsbury's predicted a 20% increase in full-year free cash flow to £600m and Tesco increased its free cash flow target by 29% to £1.8bn. At the store level, this results in revenue growing significantly ahead of rental increases, which are typically capped at 4% annually. The resulting increase in affordability provides a strong tailwind for future ERV growth across our supermarket portfolio.

The robust performance of the grocery sector is in stark contrast to the decline in values seen in the property investment market caused by the challenging macroeconomic and geopolitical backdrop. The significant increase in interest rates since September has caused a rapid decline in property values, with the MSCI Capital Values Index declining by over 19%. Supermarket property has been less volatile, but not immune, with a 13% like-for-like decline in our portfolio value resulting in a net initial yield of 5.5% as at 31 December 2022 (30 June 2022: 4.6%).

While the sharp adjustment in interest rates has impacted our property values, we took the prudent decision during the period, to protect earnings through hedging 100% of our drawn debt at a weighted average cost of 2.8%. As a result, we remain on track to deliver our 6 pence per share dividend target for the year.

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David Hunter, chairman, Capital & Regional:

After the very obvious challenges of 2020 and 2021, the retail environment facing the Company in 2022 was more nuanced. On the positive side, we saw an end to the pandemic restrictions with all traders open for business and footfall trending back upwards towards 2019 levels. Retail failures were significantly down and rent collection levels much improved. Counteracting the good news, the UK economy faced increasing difficulties from low growth, high inflation and a sharp end to over a decade of very low interest rates accompanying a dramatic fall in consumer confidence.

Whilst the market had anticipated that falls in 2020 and 2021 would mark the low point in valuations, steeply falling values in other sectors in the second half of 2022 coupled with an absence of available bank debt continued to impact retail valuations, albeit to a far lesser degree than other real estate sectors. This also reflected very limited investment comparable transactions and general continuation of negative sentiment. Our view is that following the repricing there is now a very selective buying opportunity in the sector.

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Rita-Rose Gagné, chief executive, Hammerson:

Best-in-class occupiers recognise the importance of city centre locations and the symbiotic nature of their physical and online channels, and we are working in partnership to deliver our proposition to this new reality. This integrated experience is the Hammerson offering and will continue to attract the very best occupiers during the ongoing flight to quality. We are well placed to benefit from these trends. Rents and rates have been largely re-based, vacancy is tight, and we have long term certainty in our lease expiry, and attractive yields in our managed portfolio, that offer the potential to deliver attractive total returns.

Our unique development opportunities provide a distinctive opportunity to create further value by bringing a broader mix of uses to the existing estate through integral and complementary repurposing and development which will enhance the proposition of the whole estate. Meanwhile, we will also create option value on stand-alone projects. We have a strong platform and over the medium term we see multiple opportunities to continue to unlock deep value.

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Chris Phillips, chairman, Triple Point Social Housing REIT:

2022 has proven to be another year of unforeseen challenges. Inflation and resultant rising interest rates were to be expected, but their pace of increase was accelerated by geopolitical events, most notably the tragic war in Ukraine, as well as the fallout from heightened domestic political volatility in the UK in the latter half of the year. The Bank of England base rate increased by 375 basis points in 12 months, and inflation reached levels not seen in over 40 years. Higher interest rates

have provided investors seeking income with a range of options, many of which have not been viable over the last 15 years, and inflation and its root causes have created operational challenges for business throughout the UK and indeed the world. Questions remain about the impact these challenges will have on property valuations as investors and valuers grapple with understanding the real impact on the performance of property assets, and their relative attractiveness when compared to alternative sources of income.

Specialised Supported Housing valuations showed resilience throughout the COVID pandemic and are relatively well-insulated from the impact of an economic downturn, however they are not impervious to the pressures of rising interest rates. Whilst we feel well positioned relative to most other real estate sectors, the risk of further outward movement in social housing yields remains, principally driven by the tighter spread versus the risk-free rate. We expect any movement to be limited relative to some other commercial property sectors due to the excess demand for Specialised Supported Housing coupled with a continued lack of supply.

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Steve Smith, chairman, PRS REIT:

The national supply of new homes continues to remain below required levels. Elevated house prices and increased borrowing costs remain obstacles to home purchases. This is illustrated in a survey published by Rightmove in August 2022, which reported that across Great Britain the average price of a first-time buyer home was 7.2 times the average salary. Affordability constraints are also being stretched by the increase in the cost-of-living. We expect these factors to continue to drive demand for rental property and the potential for further rental growth in 2023.

Against this backdrop, the company is offering high-quality, modern, energy-efficient, supported by high customer service standards provided by the award-winning rental brand, 'Simple Life'. The homes we provide are for the long-term and so remove the uncertainty many residents feel when renting in the private sector. We aim to foster a sense of community across our developments with regular events and an app that also acts as a hub, bringing together all of our stakeholders.

Critically, our homes are priced at an affordable level for average families. As previously stated, the portfolio's average rent as a proportion of household income is c.25%, well within Home England's stated affordability target of 35%.

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Fredrik Widlund, chief executive, CLS Holdings:

We expect 2023 to be in many ways the reverse of 2022 with the first six months being challenging whilst inflation and interest rates are forecast to peak before the economy and property market improve in the second half. Our strategy and our focus on the three largest countries in Europe remains unchanged but as usual with slightly different priorities as we expect to be a net seller in 2023 and thus will place even greater emphasis on operational improvements. Ultimately, we are confident

that CLS will remain successful by responding to tenant and market needs by having the best properties in our locations.

It is easy to confuse flexibility with working from home which are two very different things. Flexibility, alongside empowering employees, promotes a good work-life balance and helps employees achieve both personal and professional goals. As has become increasingly clear, working from home, more than a day or two, has been shown to simply not work very well for many roles and teams.

Fundamentally human beings are social creatures and the work benefits of this sociability such as collaboration, spontaneity, creativity, learning and mentoring are only effective when people meet. To encourage and help employees meet their objectives, the offices of the future must be flexible, inclusive and attractive. They must also provide both individual workspace as well as meeting rooms, video conferencing, chill-out areas, cafés and canteens amongst other amenities whilst being well-located to transport and urban facilities.

Ultimately, this might seem to be an unsurprising message from an owner of offices but we believe that deep down most people and organisations know this to be true. This belief is fundamental to our conviction of remaining a long-term office investor. To that end, we were a net acquirer in 2022, making two acquisitions for £76.9 million and six disposals for £57.9 million, resulting in net additions of £19.0 million. Given greater uncertainty in the market and focus, we expect to be a net disposer in 2023 although we do expect that there will be attractive acquisition opportunities emerging towards the end of the year.

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Duncan Garrood, chief executive, Empiric Student Property:

Student applications continued to grow into the 2022/23 academic year, and UCAS and HESA data illustrates that demand for UK higher education remains robust with both undergraduate and post-graduate applications forecast to continue growing. For academic year 2022/23, undergraduate applications from UK domestic students grew 1.3%, while applications from non-EU students grew 13.5%. UCAS predict overall undergraduate applications will increase by nearly 30% over the next five years. The number of post-graduates has climbed to 820,000 for academic year 2022/23, an increase of 10.4% from 2021/22, the highest annual increase experienced in the past five years.

The agency StuRents predicts the UK could have a shortfall of 450,000 student beds by 2025, exacerbated by a potential contraction in the HMO market which would drive more students towards the PBSA sector. Customer demand for purpose-built student accommodation has never been so strong. Having already secured 65% revenue occupancy for the 2023/24 academic year, a level reached some ten weeks earlier than in the prior year, we are confident of achieving another successful year from an occupancy perspective. In October 2022 we issued guidance that we anticipated achieving like-for-like rental growth in excess of 5% for academic year 2023/24, however our direct-let model and dynamic pricing capability provides management with confidence that like-for-like growth of at least 6% can now be achieved.

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Rupert Barclay, chairman, Impact Healthcare REIT:

Economic uncertainty peaked at the end of the third quarter, at the time of the mini-budget, and led to a sharp rise in interest rates. This contributed to falls in asset values in many real estate sectors in the second half of 2022. While healthcare was not immune, the essential nature of our tenants' services - which translated into zero voids, 100% rent collection for 2022 and further rental growth - helped our asset values to hold up much better than most other real estate sub-sectors. At the same time, the returns available to us on acquisitions remain above our cost of capital and rising rents over the life of our leases, all of which are long duration with inflation-linked rent reviews, should support capital growth.

We're a long-term responsible business and our resilient and defensive portfolio provides essential homes for the care of vulnerable older people across the UK. Our business model remains robust and we'll continue to be disciplined in investing capital, while managing the business efficiently. The acquisitions we've made and the indexation in our leases should support further earnings growth in 2023 and a rising dividend.

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Robert Hingley, chairman, Phoenix Spree Deutschland:

European real estate markets continue to adjust to more challenging economic conditions, particularly higher inflation and interest rates, with consequential impacts on transaction volumes and real asset pricing.

Whilst it is still too early to predict when the current real estate cycle will bottom out, PSD remains well positioned, with a strong balance sheet and conservative debt financing. Moreover, our core rental business continues to thrive, with rental values well supported by the positive demographic trends that continue to exist within the Berlin residential property market. This, combined with the ongoing programme of investment into our buildings, underpins the future reversionary potential that exists within the portfolio.

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