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September 2024 www.portfolio-adviser.com

A high bar

Are bumper fees and regulatory hurdles
detering retail investors from taking the leap
into private markets?

A sustainability stocktake

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rises, can it still be counted on as
a safety net?

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Editor's letter September 2024



Private enterprise



In a world of heightened volatility, geopolitical uncertainty and an increasing convergence between equity and bond market behaviour, it is no surprise that asset managers are thinking outside the box to offer diversified solutions.

'Private markets' has become the topic *du jour* among asset managers in the UK; at the start of this month, Aviva Investors announced it has further expanded its private markets arm by adding venture and strategic capital capabilities.

Last month, Janus Henderson acquired global private credit firm Victory Park Capital, which manages \$6bn (£4.57bn) in assets. Meanwhile, Fidelity International received approval to launch a private assets long-term asset fund (LTAF), with exposure to include private equity and credit, infrastructure and real estate.

The consensus is that this part of the market will continue to grow. Research from management consulting firm Bain & Company estimates private market assets under management will grow at a

compound annual growth rate of 9-10%, meaning the sector could reach \$65trn in assets by 2032.

But hurdles for wealth manager and fund selector clients remain. A recent study conducted by PGIM found that across Europe, 64% of fund buyers believe their clients are underinvested in private markets. And while Carne Group's 2024 *Atlas* report found that fund managers expect the sector to grow exponentially, illiquidity and high fees were cited as barriers to entry.

The appetite for fund managers to provide products which not only offer diversification, but offer exposure to an area of the market that simply cannot be replicated by passives, is irrefutable. But is a lack of education about the sector, as well as regulatory challenges, creating a lack of appetite from end-investors?

Companies such as Nuveen and Schroders are paving the way in terms of implementing educational series. And from a regulatory perspective, the FCA finally approved its first LTAF – from Schroders Capital – in September last year. But there is a sense that we are only at the start of a much wider movement within the industry.

As Charles Stanley Direct's Rob Morgan says in this month's cover story: "There is a gradual realisation that public markets don't have a monopoly on investment opportunities." **PA**

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MA Financial Media

'Research from Bain & Company estimates private market assets under management will grow at a compound annual growth rate of 9-10%, meaning the sector could reach \$65trn in assets by 2032'

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Trade associations

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'We are seeing an awful lot of consolidation – firms buying up firms. It is really important we make sure we are on the winning side of that'

Natalie Terry, head of distribution UK & Ireland, T Rowe Price

The human touch

Q: What is the biggest change you have seen in the industry since you joined?

The most significant change I've witnessed is the dramatic acceleration in the pace at which information is exchanged. This shift has fundamentally transformed client interactions. Today, clients are far more informed and engaged than ever before, thanks in large part to the easy access to real-time data and analysis.

The role of the pandemic as a catalyst for these changes cannot be overstated. The 2020-22 period pushed the adoption of digital tools and platforms at an unprecedented speed. As a result, businesses have found it easier to connect with clients across borders for a more global approach.

Q: What is the investment topic most often brought up by clients/investors?

This is a year of elections. Given nearly half the world's population will be going to the polls by the end of 2024, clients are asking how various political outcomes could impact their wealth.

Investors are particularly concerned with how different electoral results could affect their portfolios, seeking to understand potential policy shifts and economic strategies that might follow.

Though the focus on interest rates has diminished since last year, they continue to be a big concern for clients, with many wondering whether rates will start to decline, how much they might drop and what this means for their returns.

Q: What piece of regulation has had the biggest impact on your day-to-day role?

Consumer Duty has arguably been the most transformative regulation affecting our day-to-day operations, driving a renewed focus on the end-client. This shift has mandated that we reassess how we deliver value, ensuring all products and services meet the evolving needs and expectations of clients, particularly those in vulnerable circumstances.

The regulation has heightened the importance of transparency, compelling us to clearly communicate the costs, risks and benefits of our advice, thereby reinforcing client trust.

At the same time, ongoing changes in pensions legislation have added layers of complexity to

Consistently prioritise clients' needs by placing them at the heart of every decision, explains Nji Lorimer, head of UK domestic wealth planning at SG Kleinwort Hambros, and everything else will fall into place

Biography

Nji Lorimer is head of UK domestic wealth planning at SG Kleinwort Hambros. She joined the bank in 2021 as a senior wealth planner, specialising in tax planning, cashflow forecasting and investment management for high and ultra-high net-worth clients. Lorimer is a law graduate with almost 15 years' experience in wealth management and financial planning.



retirement planning. While these changes present challenges, they also offer opportunities for advisers to demonstrate our value. By guiding clients through intricate pension regulations – such as the impact of frozen tax thresholds, the potential reintroduction of the lifetime allowance or the effects of reduced inheritance tax thresholds – we can help them make informed decisions that align with their long-term financial goals.

Q: What single change would you make to the wealth management industry?

While adapting to technology is essential, our industry must not lose sight of the personalised service that clients rely on. As technology transforms client interactions – offering greater convenience, real-time information and tailored solutions – it's crucial that this shift doesn't come at the cost of the personal touch that defines private banking.

At SG Kleinwort Hambros, for example, we try to balance innovation with human support. Digital tools and virtual engagement methods introduce new ways to connect with clients, but we remain dedicated to ensuring that those who prefer traditional communication still receive the attentive, personalised service they value.

The industry must maintain this balance – leveraging technology to enhance service while preserving the relationships that build trust and loyalty. By doing so, we can meet clients' evolving needs without compromising the high standards they expect.

Q: What advice would you give to somebody starting out in the industry?

Prioritising clients and placing them at the heart of every decision is paramount.

The wealth landscape has evolved, and there is no longer a 'typical' client. Each client has unique needs, requiring tailored financial solutions that align with their individual circumstances. By deeply understanding your clients and focusing on personalised service, you'll not only deliver meaningful advice but also build trust and loyalty, which are essential for long-term success.

Clients value clear communication, quick responses and proactive service.

Prioritising these elements will set you apart in a competitive field, accelerate your career growth and help you establish a strong, enduring reputation. Remember, when you consistently prioritise your clients' needs, everything else will fall into place. **PA**

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Position in sector	2/58	1/183	22/193
Quartile	1	1	1

Past performance is not a guide to the future. Source: Lipper Limited, class I accumulation in sterling to 31 July 2024. Since launch data from 3 April 1998. Data prior to 1 September 2010 reflects class R accumulation in sterling. All figures show total returns with dividends and/or income reinvested, net of all charges. Performance does not take account of any costs incurred when investors buy or sell the fund. This class may have charges or a hedging approach different from those in the IA sector benchmark.

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ESG: a tale of extremes

When I was asked to contribute to this month's magazine, it got me thinking about the key topics in the world of sustainable investment as we approach the final quarter of the year (yes, really).

Looking at our most recent coverage, I realised the contradictions in what is driving – or holding back – the transition to a more sustainable world are stark. For example, the anti-ESG backlash in the US is ongoing, perhaps even gaining strength. At the same time, extreme weather events are becoming much more frequent – and more devastating.

Second, the investment industry has called for more stringent reporting requirements to combat greenwashing, and welcomed recent regulatory initiatives to do so. Meanwhile, it is also cutting ESG/sustainability teams and resources needed to meet fresh regulatory reporting requirements.

Third, we have, sadly, returned to the debate around whether investing sustainably means sacrificing returns, even while data from Morningstar and the Institute for Energy Economics and Financial Analysis (IEEFA) shows ESG funds are seeing stronger inflows and performance.

The year so far appears to be a tale of extremes, so let's try to understand how we got here.

Anti-ESG vs climate change impact

During Trump's final months as US president four years ago, he actively tried to prevent ESG principles being considered in retirement plans. He famously pulled out of the Paris Agreement and, as he campaigns again this year, his pro-fossil fuel stance is a cause for concern. If re-elected to the White House in November, the Securities and Exchange Commission (SEC) will likely curtail the rules recently adopted on climate disclosure.

This comes as warnings from climate scientists could not be stronger and extreme weather impact is breaking new records. So far this year, almost 3,400 lives have been lost in the 10 deadliest meteorological events during 2024. Three of these events – Hurricane Beryl, the May tornado outbreak and January winter storms – took place in the US, while the majority of the rest were in developing economies, for example the Afghanistan-Pakistan floods.

Reporting vs resources

In the 2020-21 frenzy of adoption of ESG principles in business models and investment solutions, and

Natalie Kenway,
editor of *PA Future*,
on some glaring
contradictions at
the heart of investing
in the transition
to a more
sustainable world

a flurry of new fund launches, regulators around the world have been trying to keep up with requirements that will both support consumer understanding and prevent greenwashing.

This year has been “a regulatory tsunami”, as described by Datamaran's community manager Lotti Hawkins, with many new reporting requirements coming into play such as the Corporate Sustainability Reporting Directive, the SEC's final rule on climate, the UK's Transition Plan Taskforce and anti-greenwashing rules, and the Corporate Sustainability Due Diligence Directive.

Meanwhile, firms are cutting back on sustainability resources. Neil Farrell, a headhunter in sustainable finance, recently observed the number of senior talent leaving sustainable finance to take on consultancy work, potentially due a lack of backing internally at companies, while Datamaran's Hawkins also notes people are leaving the sector in droves.

Sacrificing returns vs improving returns

When I first joined what was *ESG Clarity* (now *PA Future*) in early 2020, it felt like the retail investment industry had finally got its head around the fact that investing responsibly doesn't mean sacrificing returns. Indeed, that year, when Covid-19 forced many of us to work remotely, reduce our emissions and consider our impact on society, it was well evidenced that ESG funds were leading the performance tables and attracting a huge slice of the flows.

That was turned on its head during the energy security crisis of 2022 when Russia invaded Ukraine amid a background of high inflation, higher interest rates and further geopolitical turmoil. Sustainable funds suffered due to their very limited exposure to fossil fuel energy.

However, a recent report shows ESG funds actually outperformed traditional funds and ETFs in 2023. The IEEFA's *ESG investing: steady growth amidst adversity* report analysed Morningstar data and found sustainable funds had a median return of 12.6% versus 8.6% for traditional funds. This outperformance extended across equity and fixed-income funds asset classes.

As more businesses understand climate risk and integrate it into business model decision making, it is predicted this trend will continue.

So what about the future? Will these extremes continue to diverge and the industry become even more polarised? Will more groups move to the middle and accept it is not a case of either/or, love or hate (Marmite) sustainable investing?

What is certain is more regulation is coming, and more appetite for sustainable investing is on its way too, as evidenced in reports on the great intergenerational wealth transfer. Sadly, more geopolitical uncertainty will also be at the forefront.

PA Future will continue to bring you the industry-leading commentary, news updates and analysis on these developments as they happen. **PA**





Invest like an Olympian



Chris Jones, chief product director at Dynamic Planner, says managing risk makes all the difference when you're aiming for gold in your investment strategy

'To make the cut, talent and performance may not be enough. Consistency, reliability and delivering when it really matters are more important'

I've enjoyed watching the Olympic Games coverage as it's an opportunity to see sports that are not normally broadcast. Thinking back to PE as a kid, it seems that if all the Olympic sports had been an option, everyone would have found one they were good at.

So what is the difference between the people who naturally have the right attributes and predisposition for an event and the competing Olympians? What we hear in interviews and commentary is that 'process', 'discipline' and 'measurements' supersede the more nebulous idea of 'talent'.

It is easy to translate this recipe for success to mainstream retail investment solutions, particularly in the context of the FCA's retail strategy, Consumer Duty and the regulator's *Conduct of Business Sourcebook*.

There isn't an Olympic rule that says you must have a repeatable process, be disciplined, manage your resources or measure your performance – it's just that the winners who are interviewed all do this. As a kid, I might imagine I just need to run, cycle, swim or row as fast as I possibly can and then race against everyone else and see if I win. As we all know, the real world isn't like that.

The same applies to risk-targeted, risk-managed or risk-profiled retail investment solutions; the benefit to the consumer, adviser and fund manager is far more than just meeting the regulatory requirements.

A simple outcome of discipline and controls is they make you do things that in the moment you don't want to do – in the interest of long-term success.

For an Olympian, that might mean turning down a few beers with an old mate, getting up at 5am to train or holding back until the final straight. In a fund, it might mean investing less in the risky new thing you're excited about, selling down investments that are doing well in order to rebalance or putting consumer outcome ahead of what the market is telling you.

Aiming high

To examine this question, I will use our own insights and data from 6,950 adviser users, 2,300 firms, 1,650 solutions, 165 managers and thousands of consumers. Broadly, we divide the retail investment market into 10 profiles by *ex-ante* volatility and each has an example or benchmark asset allocation that is used in the MSCI Dynamic Planner indices. Together, this enables us to surface the following insights:

■ **Rebalancing** Having a risk-profiled solution means that periodically you need to sell things that have gone up and buy things that have gone down, so that the consumer continues to get the risk they agreed to.

For example, had you invested five years ago in our benchmark asset allocation for a Risk Profile 5 and not rebalanced, it would be a Risk Profile 6 today – changing from a 95% VaR of about 15.5% to one of 19%. Of course, this would vary per portfolio and timeframe, but rebalancing is important for the Consumer Duty outcomes, not least support.

If the average mixed asset fund, as represented by the IA 20-60% sector, had performed like the average risk-targeted fund, its assets would be 8.45% higher. For a fund of £100m and an OCF of 1%, that's an additional £84,500 in gross revenue.

■ **Getting selected** To make the cut, talent and performance may not be enough. Consistency, reliability and delivering when it really matters are more important. Dropping the baton, going off-plan or losing it when it really matters has a big impact on whether you or your team gets a medal.

Loss aversion means clients are much more upset when you lose them money than they are happy when you make them money. This is why we find that 66 of the top 100 funds by assets under management held by clients of Dynamic Planner users are risk-profiled.

■ **Good processes and controls empower individuality and creativity** This frees up capacity so that when the moment comes you can be confident to take an opportunity and know it is safe to do so.

An asset risk model is more than just a strategic asset allocation. Managers or advisers are free to select assets or instruments to meet consumers' needs and preferences yet still know that the solution matches the risk profile.

Investing in winners

Of course, below that there are all sorts of more granular investment decisions being made. As a result, many funds outperform our example/benchmark asset allocation net of charges as defined by the MSCI Dynamic Planner indices. If we take Risk Profile 5 on average over the year, 42% outperform in various time periods and 12% beat it 50% of the days.

There was a time when Team GB only had one or two star Olympians, and our fund universe had a few more star managers. Since then, sports management, science and psychology have developed and as a result, Team GB is much bigger in terms of medal winners and also support structure and teams.

Once again, asset management is similar: fewer stars and more systems, process, accountability, and use of independent external expertise and technology. If you want to keep winning, you need to keep investing in what the winners do. **PA**

People skills



Portfolio manager at Sarasin & Partners Tom Kynge tells **Christian Mayes** that in a world of rising geopolitical tension, understanding human behaviour is more important than ever when trying to predict where global markets will go next

Q: Which asset classes, sectors or strategies are attracting your attention and why?

From an asset allocation perspective, we still prefer equity risk to bond risk. However, we see evidence of the US labour market beginning to slow under the pressure of interest rates at 5.5%. Though it does not seem like we are about to enter an imminent recession, the probability has certainly risen compared with six months ago. That leaves us with a maintained pro-equity stance but more watchful than previously. Within bonds, this translates into a preference for investment-grade corporate bonds rather than government bonds.

Most of our security selection risk comes from our equity portfolio of 40-50 high-conviction positions. Having benefited from the exceptionally concentrated markets over the past 18 months, our attention has now turned to where the market will go next. We still believe there is value in some of the mega-cap tech companies but we are also seeing exciting opportunities in other areas so have become more balanced in our risk-taking.

Many of the most attractive equities in the market today are those that have suffered as a result of the high interest rate environment, such as the US home improvement companies. Likewise, credit agencies have suffered from declining issuance levels over the past 18 months but should receive a boost to revenues as corporates take advantage of lower interest rates to refinance.

Finally, one of the overarching themes of the next decade will be rising geopolitical tensions across the globe. As multi-asset investors we can access this trend through gold, which provides not only a store of value but benefits from emerging market central banks buying significant amounts of the metal to diversify away from the US dollar.

Q: How do you see sustainable and ESG-oriented investing evolving from here?

Multi-asset, ESG-oriented investing adds an extra layer of complexity compared with single-asset funds, given the variety of securities. Equity ESG is well-established and many companies will have a dedicated ESG strategy that details the exposures you are interested in, such as scope 1-3 emissions.

Fixed-income ESG is developing fast. As with equities, corporate disclosure is improving, meaning there is more scope to invest on an ESG-aligned basis. Government issuance of green bonds has also been helpful, although issues remain on the ringfencing of proceeds for environmental projects.

Alternatives are more difficult to analyse and subject to 'greenwashing' given the opacity of the

structures and lack of proper disclosure. In these cases, it is important to spend time on due diligence and only align yourself with managers who are prepared to disclose the required information.

Finally, SDR/SFDR labelling will be helpful from a commercial sense. By calling out greenwashing and other mislabelling practices, those funds that are genuinely ESG-focused should benefit.

Q: What will be different about the investment sector a decade from now?

Passive investment as a share of total investment will be higher and the quality of the remaining active managers will be better as a result. There is also likely to be a different role for active managers as customer needs develop. Providing market-beating returns will still be a priority, but more will be focused on investing in a sustainable manner – something not easily done by passive firms.

Q: What led you into a career in investment?

Having grown up in China, Malaysia and Taiwan, I have always had an interest in geopolitics and economics which carried through to my university studies. Outside of journalism, there are few areas of work in which staying on top of current events matters as much as they do for investment.

Q: What piece of advice do you wish you had been given on your first day as an investor?

The best investors are ready to admit they have got something wrong when confronted with evidence. Do not hold on to your convictions too tightly.

Q: Is there anything that has surprised you about a career in investment since you started?

The extent to which understanding human behaviour can be a useful skill. Investors and markets try every day to estimate the future, but human nature leads to periods of extraordinary mispricing. While it is vital to conduct precise analytical work, it is equally as important to understand if you have a different view from most other investors. Being able to behave differently from the crowd in times of stress is essential in making investment returns. **PA**

Biography

Tom Kynge is a deputy fund manager on the JSS Sustainable Multi-Asset funds. Prior to joining Sarasin & Partners, he worked at Vanguard Asset Management in the firm's investment strategy group for one year as part of his economics degree. Following graduation, he worked for Engelhart Commodity Trading Partners as a risk analyst and at Oxford University Press as a commercial finance analyst.

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A giant leap for mankind



Xuesong Zhao and Nick Dumas-Williams (pictured left to right) of the Polar Capital Artificial Intelligence fund tell Adam Lewis how AI is changing the world and explain that capturing the opportunities will require a much broader investment focus than the immediate technology market

How differentiated are artificial intelligence (AI) funds from traditional technology strategies?

Nick Dumas-Williams (NDW): When we launched this fund back in 2017, our belief was that artificial intelligence (AI) would change the world. Since the launch of ChatGPT, and the many other major developments since, we believe that AI is now the next general-purpose technology.

Such advancements are both very rare and incredibly impactful, and they ultimately change how every single industry operates.

This is the core tenet of why the fund was established, recognising that opportunities will emerge across all sectors, and that capturing them requires a broader investment focus than the immediate technology market.

Xuesong Zhao (XZ): Within this fund we invest in both the enablers and beneficiaries of AI. The enablers are currently more aligned with the technology universe and represent less than half of the fund, while the beneficiaries are largely non-technology companies that we expect to win through AI adoption.

We have seen in the past that sometimes the greatest opportunity to benefit from a technology is investment in these 'downstream' beneficiaries. It is an imperfect parallel, but one of the best ways to play the emergence of wifi was to invest in Starbucks. Starbucks used wifi to fundamentally transform the coffee shop, using free internet as a customer acquisition tool and larger shops to capture more traffic.

Our aim with this fund is to capture these Starbucks-type transformations in markets that we believe could offer far larger long-term opportunities than the tech angle alone.

Is the success of Nvidia overshadowing other opportunities in the AI theme?

NDW: Right now we are in the midst of an accelerated AI infrastructure build-out which has been driving exceptional earnings growth for Nvidia. However, while Nvidia is a central pillar of the AI compute stack, it's not the only

opportunity within AI because other parts of the computing stack are being completely overhauled at the same time.

Fundamentally, existing computing architecture is poorly suited to AI workloads. We consider traditional computing infrastructure as akin to a family car, and the new AI computing architecture as Formula 1; not only is the engine completely different, so too are the rest of the parts in the system.

XZ: Most AI work so far has been focused on the initial phase, the training of AI models. This is particularly suited to parallel computing in which Nvidia dominates. As such the majority of this early growth has come to Nvidia, and we would not expect to see those dynamics to change significantly in the near term.

However, we see plenty of opportunities beyond Nvidia due to the wider infrastructure changes taking place, especially as AI workloads move beyond the training phase to business and consumer usage, those workloads known as inference.

NDW: Away from infrastructure, we are starting to see greater recognition of AI winners within the beneficiaries. The first AI products and case studies of adoption are emerging with very promising results.

These are already delivering material earnings power to AI leaders within different industries, and this is slowly being recognised by investors. We have a significant portion of the portfolio invested in companies that we believe can accelerate their earnings growth through AI and are excited for this to become more widely understood and reflected in stocks in the near future.

What are some of the ways you expect AI to disrupt non-technology sectors?

NDW: The focus so far has very much been on augmentation; namely how can AI help us as humans do our jobs better? AI captured public attention initially in creative tasks, but we think the real opportunity is increasing productivity,

reducing the number of menial tasks we do and the errors we make.

The further we go into replacing manual, repetitive work, and freeing up people to do higher value work, the greater the returns potential for AI and it will apply to all sectors of the market. The early examples we are seeing are remarkable and suggest that AI can match, or even surpass, the hopes that many have for delivering these productivity gains.

XZ: AI is also starting to disrupt areas people wouldn't necessarily consider, impacting wider societal infrastructure. For example, we are seeing interesting applications of AI to solve problems like power intermittency with renewable energy, balancing the grid to deal with different conditions at different times of day.

At a time when questions are being asked of the power requirements of AI, we think it is underappreciated as part of the solution.

Which sectors are you currently favouring when seeking AI beneficiaries?

NDW: Given our excitement in the potential for AI to transform all sectors, it is almost easier to speak to areas to which we currently under-index. We have seen remarkable progress in a short space of time, with companies across all sectors embracing the potential to transform their businesses through AI.

This is reflected by the portfolio having holdings across most sectors. We are invested in AI leaders that are demonstrating tangible growth accelerations and profits across industrials, financials, advertising, legal and healthcare, where their adoption of AI is demonstrating the ability to generate differentiated returns.

Two areas where we have high longer-term hopes but moderated near-term expectations would be banks and drug discovery within healthcare. Banks are almost the poster child for old infrastructure, with legacy technology stacks that in many cases are complex to overhaul and not conducive to digital transformation.



While AI has a huge opportunity to solve some of these problems, the rates of adoption and the ability for AI to move the needle in the near future are also more limited because of these reasons. Hence it is a sector we are keeping a close eye on, but there are better opportunities elsewhere.

Drug discovery in healthcare has long been hoped to benefit from AI advancement given the scientific and financial challenges in bringing new drugs to market. AI-led drug discovery certainly has huge promise, however from an investment perspective we are more cautious because so many of the assets are early stage, with the associated potential initial high failure rates as both the industry and the technology mature. We are encouraged by continued progress and await further clinical data with interest.

That said, AI is helping to solve many smaller bottlenecks within healthcare, improving standards of care such as the accuracy of imaging, relieving administrative burden on doctors and easing workloads. With global healthcare systems under such strain, we are excited about the potential for perhaps more incremental improvements to sum to something meaningful.

Is there a company investors might not traditionally associate with AI, but which you are investing in?

XZ: One example which has been starting to garner more attention is a company we hold called Axon. Axon makes body cameras for police and public services and have recently released an AI product called Draft One.

By some estimates police officers spend up to 40% of their time writing up incident reports. Draft One can automatically generate a police report from the video and audio captured by the body cam. It has been estimated this could reduce the time taken to write reports by over 80%, a productivity improvement that helps to significantly reduce staff turnover and burnout.

This captures why the AI opportunity is ultimately so interesting, it is not just the incremental profit on offer, but the ability to solve for a different problem that technology has not been able to address before.

Why is now a good time to invest in the AI theme; are valuations still supportive?

XZ: Some investors believe AI is in a hype cycle, we would strongly disagree. AI was first developed in the 1950s, with the first applications used for weather forecasting.

We believe that the hype occurred in the following 60 years, and the 2017 advent of the transformer model, a new class of AI models that enabled ChatGPT, represent the inflection point.

The capabilities of the technology since that point continue to grow exponentially. Having hit this inflection point, the rapidly accelerating rates of broader adoption we are now seeing typically signal a sweet spot for investors.

NDW: It's twofold really. The first is from an infrastructure point of view, which is still a significant portion of the portfolio. It's our belief that we are at the beginning of the accelerated computing infrastructure build-out for AI. The reports we've seen show us this isn't slowing down; capex is being revised higher and the industry growth remain very strong.

The next generation of Nvidia chips are emerging, and the smartest people in the industry are telling us this infrastructure will unlock things we haven't yet been able to do. We think the data suggests that this is the next general-purpose technology, similar to steel, electricity or the internet, and that we are on track for a monumental step forward for society.

The second is the opportunity for the AI beneficiaries. We are still in the first generation of many generative AI tools and soon many people, in some form, will have AI contributing to parts of their lives. These first tools are delivering real utility and productivity gains, so are already delivering real, commensurate earnings growth for companies too. We see a very rare opportunity to invest alongside a technology with the potential to upend all industries, and are excited about the investment opportunity on both a near-term and multi-year view.

Xuesong Zhao is lead manager of the Polar Capital Artificial Intelligence fund and Nick Dumas-Williams is an analyst in the Polar Capital Global Technology team.



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Build back

Portfolio Adviser asks four experts if a more supportive environment for global listed infrastructure is on the horizon

The analyst's view

James Carthew (pictured below), head of investment companies, QuotedData

In a reversal of the pattern of the past couple of years, a trend towards lower interest rates should help rebuild confidence in the infrastructure sector. It came as a great surprise to many investors when listed infrastructure trusts started to trade on discounts to NAV rather than the premium ratings they had been used to.

It may have also caught some managers on the hop, as they had been accustomed to running up debts by buying assets with (then cheap) floating-rate debt and paying that back with the proceeds of new share issuance. Unfortunately, the rise in rates coincided with a buyers' strike by wealth managers and others on the back of misleading cost disclosure rules. That has created some real bargains.

One of the cheapest is Pantheon Infrastructure. The trust's portfolio has a fairly strong bias to digital infrastructure. As such, it is a beneficiary of a boom in data centre construction, but it is also helping to fund the rollout of high-speed fibre and supporting the growth in mobile data. The portfolio also has exposure to renewables and energy efficiency projects, district heating and cooling, and a stake in the UK's national gas grid.



Pantheon Infrastructure can be bought on a 29% discount to NAV, which is unjustified by its track record. During a 12-month period it has delivered the highest total return on net assets (over 13.2%) of any London-listed infrastructure trust, ahead even of the mighty 3i Infrastructure (up 11.6%).

Those NAV returns reflect the nature of its investment approach, which – like 3i Infrastructure – is designed to deliver both income and capital gains, but at the cost of a lower dividend yield. This trust is overdue a re-rating.

The wealth manager's view

Tom Hopkins (pictured above right), senior portfolio manager, BRI Wealth Management

Global listed infrastructure funds have tested the patience of most investors over the past three years in an environment clouded by interest rate uncertainties and concentrated returns within the artificial intelligence (AI)-hyped 'magnificent seven'. However, the market seems to be on the cusp of a broadening out of equity returns and this could provide an interesting catalyst for global listed infrastructure funds.

As global uncertainty intensifies due to ongoing conflicts, ever-changing political polls and fragile growth equity valuations, one relatively stable factor to focus on is the start of rate-cutting cycles in most developed economies, which should create favourable conditions for infrastructure-type investments.



The macro outlook in late-2024 into 2025 is more supportive of listed infrastructure due to slower global growth, above-trend inflation and interest rate reductions. I would not be surprised to see more M&A activity in the sector now rate stability has returned.

Infrastructure equities tend to be lower-beta than most global equities due to the more defensive sector exposures – utilities, real estate assets, toll roads etc. These businesses are typically more predictable, and investors are getting paid to be patient via some generous and growing dividends.

In July and August, there were some stark reminders for investors of just how quickly volatility can pick up in 'hyped' areas of the market. With investors obsessing over the capabilities of AI technologies, it can often be forgotten that critical infrastructure is needed behind the scenes.

The need to provide large technology companies with state-of-the-art data centre facilities, which are adequately powered by renewable and sustainable power sources, requires major infrastructure investment.

On top of other powerful themes over the coming decade including renewable energy, clean transportation and sustainable water and waste management, all of the above topics feature within the global infrastructure sector. Important structurally growing themes with generous dividends should compensate patience, while also providing defensive diversification benefits for portfolios.

better



The fund selector's view

Juliet Schooling Latter, research director, FundCalibre

Infrastructure assets have long been favoured for their stable, inflation-adjusted returns. However, as interest rates rose, investors shifted their focus to higher-yielding cash and fixed-income options, dampening valuations across the sector.

If interest rates decline as markets are currently anticipating, we believe this asset class is poised to regain its appeal. Even if rates do not return to previous lows, the sector's alignment with long-term structural growth trends, including urbanisation, technological advancements and climate change mitigation, underscore the enduring value of infrastructure investments. As a result, we expect strong returns from this sector going forward.

Governments worldwide are not just paying lip service; they are investing heavily in infrastructure development to stimulate economies and support energy transitions, creating new opportunities for investment in a variety of exciting asset classes. For example, in the US, the bipartisan infrastructure deal has allocated \$90bn (£68.01bn) to upgrade the country's transport system, \$25bn for airports and \$17bn for port infrastructure and waterways.

Private infrastructure investors are well-positioned to bridge the gap between government infrastructure targets and the challenging fiscal and monetary environment facing public sector finances. As populations grow, supply chains evolve and energy consumption increases, we can confidently

anticipate that global infrastructure can continue its current growth trajectory – while delivering reliable dividends for years to come.

Among the funds we favour are the First Sentier Global Listed Infrastructure and M&G Global Listed Infrastructure funds, which invest in 'hard' infrastructure globally through listed companies that own these assets. Additionally, VT Gravis Clean Energy Income is capitalising on the widespread adoption of renewable energy by investing in a diversified portfolio of the best listed vehicles across developed markets, providing defensive stability and steady income.

Furthermore, just as power, water, and road infrastructure are essential to our society, digital infrastructure is becoming increasingly vital. With digital technologies now embedded in our everyday lives and the rapid advancement of AI, which demands substantial computing power and network connectivity, there are strong reasons for investors to consider thematic funds like Schroder Digital Infrastructure.

The fund manager's view

James Davies (pictured right), investment director and multi-asset fund manager, Close Brothers Asset Management

Infrastructure is an asset class often viewed as a 'bond proxy', in that it should deliver stable returns from predictable cashflows. It is for this reason that we use the bulk of our infrastructure exposure as a diversifier of our bond allocation, as opposed to our equity weighting.

In a perfect world, therefore, central banks commencing rate cuts should be positive for infrastructure and by extension the holdings within our funds. Like most things in the investment world, however, it isn't quite as simple as that.

There are now so many different drivers that impact 'infrastructure' that it can be unhelpful to view it as

one homogenous asset class. For example, the outlook for different renewables, with different power prices and regulatory regimes, will not be the same as for a portfolio of Canadian police stations.

All this being said, we are positive on the sector's outlook for a number of reasons. First, as mentioned, many of the fundamental reasons for holding infrastructure are more aligned to its diversification qualities in respect to bonds, so falling rates should present a tailwind as investors who've been happy earning a return on cash and cash proxies look to reallocate to longer-dated forms of reliable income.

Second, the fact that in the UK many of the infrastructure investment trusts are still trading at a significant discount to their NAV presents an opportunity for share price appreciation.

Finally, and more broadly, I would argue that the need for additional spending on areas such as renewable energy and social infrastructure across the world presents opportunities for established infrastructure vehicles and teams to access what will be major growth sectors over the next decade. **PA**



Private eye

Just a small proportion of private equity trusts are owned by retail investors, despite predictions the asset class will be among the biggest earners of the next decade, writes **Tom Aylott**

Pprivate equity trusts have made some of the highest market returns over the past decade and are projected to continue to significantly outperform, yet retail investors have shown little interest in the asset class. Only 10% of private equity trusts are owned by retail clients, with institutional buyers dominating the space at 80%, according to AIC data. This contrasts with the overall ownership of trusts, which is split evenly between the two.

Investors are missing a beat by overlooking the top-returning asset class, according to Global Managed Portfolio Trust manager Peter Hewitt. "When you speak to people about private equity trusts their eyes begin to glaze over," he says. "They're not as easy to sell as equity trusts, but I think that's a missed opportunity."

Private equity trusts are not as easy to understand as those investing in listed stocks, but investors need only look at the asset class's returns to see the appeal. Some of the biggest names in the sector such as 3i Group, HG Capital and Oakley Capital are up a colossal 1,069.7%, 573.8% and 272.3%, respectively, during the past 10 years, outperforming not only the majority of trusts, but most open-ended funds, too.

And this outperformance is only expected to continue. Research from the Amundi Investment Institute forecasts private equity to deliver annualised returns of 8.2% over the next decade – the highest of any other asset class.

Fee-fi-fo-fum

So why have retail investors ignored these portfolio boosters? High fees may be the answer. The average private equity trust charges investors an ongoing fee of 1.8%, which is much higher than those investing in equities – especially passive vehicles. While this is less than ideal, Hewitt says their considerably higher returns make the loftier charges worthwhile.

"They do charge very high fees, but at the same time it's much more costly to run a private equity trust than it is to run one that invests in listed equities – and their track records are phenomenal. You just need to look at the likes of Pantheon, HG Capital and Oakley, and they're some of the best performers in the investment company sector. In fact, they're some of the best performers on the London stock market, full stop," he says.

Annabel Brodie-Smith, communications director of the Association of Investment Companies (AIC), points out that private equity trusts require much more specialist knowledge and thorough research compared with listed equity portfolios due to the opaque nature of the asset class.

However, these already-high fees are made to look worse by misleading cost disclosure rules, which double-count and artificially inflate costs. Resolving the deceptive regulation is a top priority for the AIC, which has already been lobbying the new Labour government for a solution, and has had meetings with economic secretary Tulip Siddiq.

Brodie-Smith notes the current cost disclosure rules are most detrimental to wealth managers and fund of funds, deterring them from allocating as much to private equity trusts as they might like. This view is echoed by Hewitt, who says keeping fees low is front of mind for many wealth managers – hence their avoidance of expensive trusts.



"If you're a wealth manager, you might want to put your client into HG Capital, but you have your own costs to think about. The underlying costs on private equity trusts are horrendous, and you're upping your own fees massively before you've even started," he says.

"If you want lower costs, you can go down the ETF route of course, but just look at the performance of private equity. Now, I wish the costs were lower, too, but over the long run that's where you make a lot of money because they're exposed to phenomenally attractive assets that are growing."

Archaic infrastructure

But costs are not the only issue preventing wealth managers from allocating to private equity trusts, according to Olivia Geldenhuys, investment director at Schroder Investment Solutions. When building her own model portfolios, she found most private equity vehicles were not available across many platforms. To gain access to the asset class, Geldenhuys had to create her own fund of funds – the Schroder Alternatives Portfolio.

"It's not that easy to access. There are constraints in the model portfolio world because you need an

instrument that is available on every platform, and you typically find that private equity investments aren't. They might be on one or two, but if you want to take an offering to all markets, you need it to be on every single platform," she says.

"So instead of us pushing back against platforms [to add private equity funds] or pushing back against fund managers to launch on platforms, a fund-of-fund structure solves that problem."

Geldenhuys may have had the backing to create her own shortcut to alternative assets, but smaller firms will not always have that same luxury. And it's unlikely to become widely available to other wealth managers, according to her colleague James Lowe, director of private assets and investment trusts at Schroders.

"This is so early stage that the market infrastructure has not yet adapted to new fund structures coming through in the UK," he says. "There's a chicken and egg dilemma as there always is with market infrastructure."

"There is no reason to build platform infrastructure if there's no demand, but equally, if the fund isn't on the platform, there is going to be no demand. So it's a circular argument." **PA**



'When you speak to people about private equity trusts their eyes begin to glaze over. They're not as easy to sell as equity trusts, but I think that's a missed opportunity'

Peter Hewitt, fund manager,
Global Managed Portfolio Trust

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Three fund managers share stocks that are making a difference

Labour policy lays solid foundations

The Labour Party's election victory in June is set to stand the £1.6bn JOHCM UK Equity Income fund in good stead, according to its co-manager James Lowen (pictured below), who explained the government's housing policy will offer "multi-dimensional benefits" to the portfolio.

As at the end of June 2024, JOHCM UK Equity Income has a 10% exposure to the UK housing market. While it holds housebuilders such as Vistry Group and Bellway, these weightings have been trimmed due to strong performance, meaning both account for a combined 1.75% of the fund.

Instead, Lowen and co-manager Clive Beagles hold a number of building suppliers, such as shower manufacturer Norcros, brick suppliers Ibstock

and Forterra, and UPVC window frame manufacturer Eurocell.

"The Labour victory is very good for this fund," Lowen said. "Its housing policy is to build 300,000 new houses per year. The Conservative quota has been 140,000. Even if Labour gets to 200,000, which is significantly below target, it is still 40% higher than current levels."

Eurocell, which has a 20% market share of window frame production, also boasts solid environmental credentials that factor into its longevity as a business, according to Lowen.

"It is the biggest recycler in the sector," the co-manager said. "When windows are taken out,

the pieces are collected and taken to a factory. The plastic from these old windows is

made into pellets, which are then used to make new windows. Around 28% of [Eurocell's] windows are made from recycled materials. This really has a positive impact on its oil and carbon footprint."

Building suppliers account for about 4% of the fund. A further 4.5%, also set to benefit from Labour's housing policy, is held across retail stocks tied into the housing market. These include Currys, DFS, flooring company Headlam Group and Wickes.

"DFS performed well during lockdown as everyone was ordering sofas," Lowen reasoned. "Over the past three years it has been sluggish, but now we are starting to come through the other side of that purchasing cycle again."

"The other good thing about DFS is that its competitors have gone bankrupt. It now has a 40% market share, so it's in a really dominant position."

The manager said Currys has a similar story to DFS, in that it had a strong year in 2020 followed by a three-year lull. "It's a market leader in the Nordics as well as the UK. It had a Covid surge because everyone bought new laptops and TVs, then hit a post-Covid low."

"But not only are we coming out of that now, it is being driven by the Labour government, as well as a change in the cost of living. Households are, on average, 10% better off this year than they were last year."

"It has also seen AI Microsoft products come into its stores, making it only one of two players globally for the consumer rollout of Microsoft Copilot laptops."

Lowen added: "With UK macro improving, we like to call these types of undervalued domestic UK small-caps 'coiled springs'. They could see 10x normalised earnings per share, which could end up giving us 200-300% upside."

Lauren Hardy

Mirabaud's Narula bags a bargain at TK Maxx

While high streets face a battle to keep stores open as shoppers increasingly move online, the appeal of bargain-hunting continues to attract footfall to stores such as TK Maxx.

Parent company TJX is a market leader in off-price retailing, a format based on discount

pricing relying on the purchase of excess goods from designer brands.

"It's a treasure hunt format," said Anu Narula, Mirabaud Asset Management's head of global equities and manager of the firm's Sustainable Global Focus fund. "Consumers go in there to get the best brands at the lowest prices."

TJX has over 4,900 stores in nine countries, across brands including TJ Maxx, TK Maxx in Europe and Australia, and HomeGoods and Homesense.

Narula said the firm is the market leader and, as 'off-price' makes up only 2% of overall retail, there is still a runway for growth.

TJX made up 4.5% of the £181m Sustainable Global Focus fund at the end of June, making it the strategy's fifth-largest position.

"The real advantage for TJX is the link-up with the brand companies that are already in place. They've had years of building out that and have a rapid turn of inventory compared with traditional retailers."

"They're expanding into more areas like beauty, for example, which is going very well for them," he added.

"They've also built more of an e-commerce online strategy in recent years. This is a company that offers what we call 'defensive growth'. It's a really good compounder, with mid-single-digit same-store sales growth consistently, a little bit of operating margin leverage and very strong returns on investor capital and done with double-digit earnings."

"This is a company we look to put away as it can do a good job for us from a portfolio construction point of view when it's risk-off, as we've seen in recent weeks, but can also then keep up with a growing market as well."

While the firm has invested in its e-commerce business, Narula circles back to the 'treasure-hunt' concept as a key factor in the physical stores bucking the trend as retailers increasingly move online.

"As the high-street brands are scaling back in their physical presence, more of their produce can go through places like TK Maxx. They need different ways of distributing and TK Maxx is an area that benefits disproportionately from that."

TJX shares were up 21.2% from the beginning of the year to the end of July.

Narula manages the Sustainable Global Focus fund alongside co-manager Paul Middleton. The 'best ideas' portfolio is made up of 25 to 35 positions in firms it believes are market leaders, which are well placed to benefit from sustainable themes and can grow across cycle. **PA**

Christian Mayes



Brunner Trust takes to the skies

Julian Bishop, portfolio manager of the Brunner Trust, made one thing clear about his position in General Electric: "This is not your grandfather's GE."

GE has long been an established name in the US market. In 1999, it had a market cap of \$451.7bn (£346.75bn) and until the stockmarket began to collapse in 2008, its market cap remained over \$300bn for all but two years. But General Electric's share price fell from near \$200 in September 2007 to about \$40 by February 2009.

"It's now used as a classic business case study of managerial hubris and overstretch. You had Jack Welch and his successor, Jeffrey Immelt," Bishop said. "Immelt moved from a core industrial business to loads of financial concerns that went wrong after the great financial crisis. It was a real disaster for a long time. The industrial business has slowly been dismantled and broken up into component parts."

Under CEO Larry Culp, who took up the role in 2018, the company has rid itself of its finance branch, appliance business and partial ownership of NBC. In 2021, GE announced it would separate into a variety of businesses, including GE Healthcare, GE Vernova and GE Aerospace. GE Aerospace has held onto the GE stock name – as well as CEO Culp. Over the past year, the share price has recovered with a near 90% increase.

Now, GE has focused its sprawling enterprise on jet engines.

"If you've flown on a plane recently, the overwhelming odds are that it had a GE engine. Three out of every four commercial flights that take off worldwide are powered by a GE engine. It's an extraordinary market position. There's a little bit of competition in wide-body long-haul planes from Rolls-Royce in the UK, and from Pratt & Whitney in short-haul planes," Bishop said, "but GE is the market leader by a long stretch. It has a \$2bn research and development budget, which is more than everyone else combined."

While GE seems to be on the road to becoming a steady business, its main customers have spent the year weathering the storm. Boeing has watched its share price collapse by near 25% this year following a flurry of setbacks after a door broke away from a plane mid-flight in January.

However, Bishop said GE creates some distance from the immediate downfalls and successes of its competitors because it does not rely on the sale of the engines as its profit maker, but rather the upkeep.

"Their customers are constantly short of cash. Airlines are tricky businesses," Bishop said. "The customers want to pay the smallest upfront payment as possible, and then to pay 'power by the hour' contracts."

"For every hour a plane is in the sky, they will pay GE. It's like a Netflix subscription. These engines last 30 years, so for as long as that engine is in use, they get paid for spare parts and servicing."

"So it's a great steady income stream for every new engine that goes into circulation."

Hannah Williford

Some UK cheer

A world in which the UK stockmarket outperforms the US seems implausible but the global economy could be lining up for a new cycle, reports **Tom Aylott**

Historically, the UK equity market has outperformed the US, but after 30 years where the States has dominated the global economy, a return to the old world seems rather far-fetched. Yet economic conditions could be lining up for this reversal to take place, according to Gervais Williams, head of equities at Premier Miton Investors.

He says governments that have had an “easy ride” for years, “largely unconstrained in their ability to spend”, will have to be far more frugal now they are under more pressing economic strains. Interest rates could stay at higher and more unstable levels than investors have grown used to, which would be bad news for the growth companies that account for most of the US market – but perfect for the defensive income stocks that populate the UK stockmarket.

“There’s been a virtuous cycle where growth companies like Tesla have generated absurdly strong returns and as their index weightings have become larger, passive funds have been buying loads of

them, too. That is great when cash is near unlimited, but there are so many more issues now that will put inflationary pressures into the system and constrain market liquidity,” Williams adds.

Growth companies excel when rates are low and are able to raise large sums of money to expand but struggle when capital is less readily available. Dividend-paying companies, on the other hand, often have a surplus of cash to fall back on. This could put them in a much sturdier position than growth companies, whose share prices are based more on their expected future earnings rather than their current balance sheets, according to Williams.

“The UK market is dominated by capital intensive businesses that don’t just produce a return in terms of capital growth, but produce a stream of income too. When you have tough economic conditions, interest rates are high, inflation is going up, margins are being compressed and you’re generating surplus cash, then you’re not likely to go bust in a hurry.”

And this change in the economic landscape may already be underway despite a lack of action from investors, says Williams. “There’s an assumption we are just going back to normal, and the normal has been where we’ve been for the past 30 years. But actually, that’s the exception.”

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The power of currency

The US's lead against the UK began in the early 1990s when its historically volatile inflation rates that had held it back became comparatively stable, but it has not been plain sailing since. US shares outperformed sharply in the 1990s and 2010s, but were beaten by the UK for much of the 2000s, namely due to currency, according to Polar Capital UK Value Opportunities manager George Godber.

And like Williams, he anticipates the US government will be under heightened monetary pressures over the years to come. "The US had \$35trn (£26.6trn) of debt and it adds another trillion of debt every 100 days at the moment. You almost can't get your brain around that. But if you're printing that amount of money, it tends to devalue the currency," Godber adds. "And whoever gets in – Democrat or Republican – they're both going to keep spending like crazy, and I think that will come at the cost of a weaker dollar."

Self-help

The prospect of the UK outperforming the US again may excite some investors, but it will take a long time for the cycle to play out, says Williams. However, he explains there are ways domestic investors can start boosting the UK stockmarket today.

Investors have been withdrawing money from their home market for the past few years, with £25.6bn exiting UK equity funds in 2022 and 2023 alone. One might assume this mass selloff would lead to negative returns, but the FTSE 100 has still made a 31.3% return over the past three years – not far off the S&P 500's 34.9% increase.

"But what's more important is that because UK companies have been buying back shares so aggressively, the FTSE 100 has actually broken out on the upside despite local investors selling hand over fist. Now that's a very unstable – but very exciting – equilibrium, because if the UK stockmarket is growing despite all this selling, then all it takes is for people to start selling less for it to grow even faster. Imagine if they stopped selling altogether."

More optimism from UK investors themselves could be enough to improve the market's performance. That could be exacerbated even further if some of the wealth that has been hoarded in the US is released into the global stockmarket.

Williams says: "If the US gets less hot, the amount of capital coming out of the US and into international markets, particularly the UK, would be phenomenal. Even tiny amounts will make a crazy amount of difference in terms of share price returns." **PA**



'There's an assumption we are just going back to normal, and the normal has been where we've been for the past 30 years. But actually, that's the exception'

Gervais Williams, head of equities, Premier Miton Investors

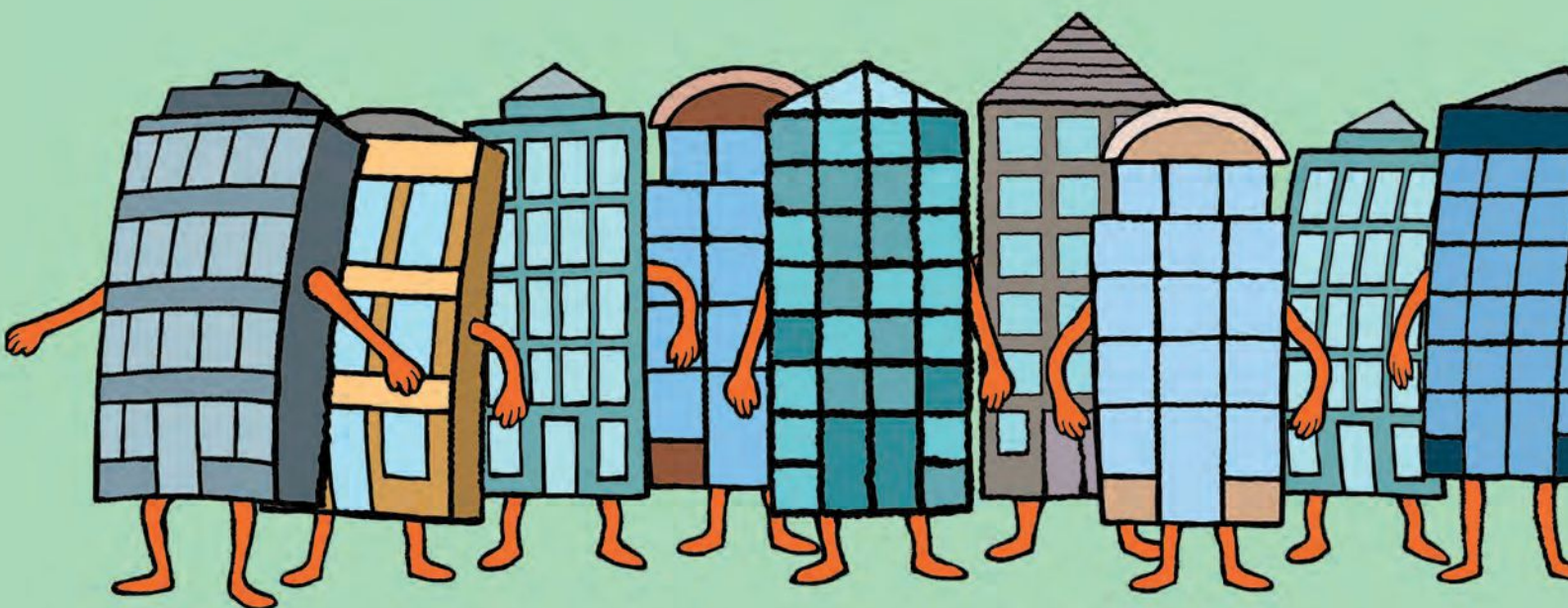
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Transition

The BlackRock Energy and Resources Income trust provides a pragmatic approach to the energy transition, says manager Tom Holl, generating growth without the volatility of some of the purer plays to be found in the sector.

Cherry Reynard
reports

The energy transition is unquestionably one of the mega-trends of the age, but investors looking to participate have a dilemma. They can pick one of the many 'clean energy' options, but these have proved volatile, and also neglect the extent to which fossil fuels will continue to play a role in energy generation in the near term. However, focusing on 'old energy' options seems a backward-looking approach, and may fall foul of increasing regulatory pressures.

The BlackRock Energy and Resources Income investment trust aims to bridge this gap, investing across the entire spectrum of energy generation. At any one time, the portfolio will include traditional fossil fuel companies, renewable energy and supply chain providers, and mining companies.

The trust started life in 2005 as the Commodities Income Investment trust, launched by the then-Merrill Lynch commodities team. It was inaugurated amid the commodities supercycle, a once-in-a-generation bull run for commodities prices fuelled by the industrialisation of China and India. It initially targeted an income of 4.25%, but also significant capital growth.

Investors may be familiar with the rest of the story. China's growth slowed, the supercycle ebbed and mining companies struggled to shake off the legacy of excessive capital spending. The Commodities Income trust continued to invest in mining and conventional energy until June 2020, when it became increasingly clear that a change of strategy was needed.

Portfolio manager Tom Holl says: "The trust had a focus on income, but also growth because of the supercycle. As that supercycle matured, the trust became a lot more focused on just the income element. Both the mining and conventional energy sectors were less 'growth' and more 'value'.

"When we and the board reflected on the trust, we came up with two challenges to address. The first was structural growth – mining and conventional energy are not areas of structural growth. China is still the world's largest consumer of most commodities and the growth rate has clearly slowed. On the conventional energy side, oil demand grows at around 1% per year. You might fund sub-sectors within it, but it's lower than the wider market.

"So we thought, how can we introduce a growthier element?"

Introducing sustainable energy was the obvious choice. This was also made possible by the growing maturity of the sector. When the trust was first launched, sustainable energy companies were still niche, technology was in a breakthrough stage and very reliant on subsidies.

Holl adds: "Companies were immature, small-cap and unprofitable. But those same companies had now grown up. While there were still venture-stage businesses and new technology, there were also very established companies.

"The breadth of what was defined as 'energy' had really changed. We wanted to introduce the energy transition into the portfolio to really capture that broader definition." The trust set a neutral weighting of 30%.

Initially, the trust started off with around 20% exposure to energy transition companies. It was happening just post-Covid when the energy transition companies had seen a phenomenal run, which had left them looking expensive. Holl says mining and conventional energy seemed to offer better risk-adjusted returns. It was a contrarian position at the time, but has started to shift.

"The energy transition space has now de-rated in terms of multiples. There have been some earnings headwinds, but a number of companies – particularly the industrials – have seen robust earnings.

"Today's opportunity set looks different. There has been such a derating that the trust is now 30% invested in those companies. The trust is designed to be flexible. We are passionate about understanding the whole energy ecosystem, the market dynamic and how it is changing, and how mined resources enable that."

This has meant the trust has avoided the boom and bust of many of the clean energy funds, and has outpaced its peer group over three and five years. The share price return is 43.8% over three years, compared with 24.4% for the wider AIC commodities and natural resources sector. Net asset value return is slightly higher, at 45.8%. In contrast, the iShares Clean Energy ETF is down 15.9% over the same period. The discount on the trust has remained reasonably steady, hovering between 10% and 12%.

'A critical enabler'

BlackRock Energy and Resources Income continues to invest in all forms of mining, not just mining related to the energy transition. Gold has been

'The fund invests in the picks and shovels that will enable the AI revolution'

Tom Holl, portfolio manager, BlackRock

mission

removed from the reference index, but the trust will still own gold companies from time to time if there is a compelling reason to do so. Holl also runs a separate gold fund.

Often, it is difficult to disaggregate energy transition materials from their broader uses. For iron ore – and the steel that is derived from it – demand is dominated by China and the majority of steel does not go into the energy transition. That said, it is impossible to build wind turbines or hydroelectric dams without steel. “You still need these for the energy transition. That’s why we felt we needed to keep them in,” says Holl. Limiting the mining component to energy transition materials would have been restrictive.

He adds: “The energy transition is a commodity-intensive transition. Five years ago, that was not a widely held view. Mining was associated with China’s economic growth and the mining company’s fortunes were linked only to that. It was thought of as an industry, in a clean energy future, that had problems to be solved – how to make diesel trucks cleaner, for example, or how to reduce the impact of mining on the landscape.”

BlackRock’s view was different, however. It was clear that solar panels could not be built without silver, wind turbines without steel, or batteries without lithium or nickel. Connecting it all without copper would also be impossible. “Mining is a critical enabler,” says Holl.

That said, Holl wants to ensure mining is done in a responsible way. This should enable the energy transition to be as sustainable as possible. “When we look at any investment, we try to understand the broader ESG risks of the company. It can open up opportunities as well. Governments that award permits will typically favour those companies with good track records on environmental stewardship and labour relations.” Companies that are good actors may see more opportunities come their way.

However, this is true across many of the companies in which they invest. By their nature, these businesses put a mark on the landscape. They need a ‘social licence’ to operate. If it goes wrong, it can be very painful for a company’s reputation. Holl’s team works hard to avoid this type of outcome. “It impacts the cost of capital for companies. Not just the more nebulous cost of equity capital, but also the interest they face on their debt facilities.”

He says the size of the energy transition part of the portfolio will be a function of where the investment

opportunities lie. As the market grows, and the scale of renewable production increases, the companies are likely to grow. This will inevitably create more opportunities to explore.

However, he also points out there will be oil and gas companies investing in other industries and this may expand the opportunity set there. This has already been seen with BP investing in electric car charging, or biofuels and hydrogen for Shell.

Energy demand is rising all the time and innovations such as artificial intelligence (AI) are energy-intensive. Holl says: “Over time, there is a strong relationship between energy output and GDP – we’ve never yet broken that relationship. As the world continues to develop and standards of living get higher, there will be more consumption of energy. A lot of investment is required.”

He believes this makes the case for a non-binary approach to investing in energy. “It’s important companies don’t try to transition too quickly and risk misallocation of capital. Active funds have great opportunities. Taking an active and flexible approach should be worthwhile.”

Weight and see

It has been a tough period for energy transition stocks but the trust is back up to its neutral weight of 30%. This includes companies such as NextEra Energy and Schneider Electric. Holl says: “As valuations have fallen, they have become more attractive. We have also been adding to utilities with a renewable focus in the US.”

The trust also has around 30% in conventional energy companies – with Shell and Exxon Mobil among its largest holdings. The balance is in mining, including Rio Tinto and Anglo America. Holl points out there is a relationship between many of the companies in which he invests and the AI revolution. They hold companies providing high voltage power cables and cooling for data centres. He says: “The fund invests in the picks and shovels that will enable the AI revolution.”

The BlackRock Energy and Resources Income trust is a pragmatic option to approach the energy transition. Its yield is lower than in its former incarnation, at 3.9%, but it has shown that it can generate growth in a variety of conditions. It has proved itself as a means to gain access to the energy transition – but without the volatility of some of the ‘pure’ options in the sector. **PA**



Biography

Tom Holl is a member of the natural resources team within the fundamental equity division of BlackRock’s Active Equity group. While Holl moved to his current role in 2008, he first joined BlackRock in 2006 after the firm merged with Merrill Lynch Investment Managers.

A high barrier to entry

Though wealth managers anticipate private market investments to account for around 11% of their AUM by 2030, more than three-quarters of them claim they have lost clients due to a lack of adequate access. **Hannah Williford** gets the lowdown on this rapidly growing but complex sector

Despite equities and bonds acting as a balancing scale for the past two decades, the asset classes started to move in tandem in 2022, leaving managers in search of a new diversifier. And as businesses remain cautious about entering the public sphere, eyes have turned towards private markets as an opportunity to generate alpha while diversifying a portfolio.

In both the US and the UK, household-name companies remain private, including Monzo, Bloomberg, SpaceX and Chick-fil-A. Tech businesses have also trended towards the private route and in the UK, a string of public companies have been acquired by private equity firms.

Rob Morgan, chief analyst at Charles Stanley Direct, says: "There is a gradual realisation that public markets don't have a monopoly on investment opportunities. Some of the most innovative and appealing companies are in the hands of private holders, often founders and exclusive bands of early investors in the case of relatively new businesses.

"Many companies, especially growing tech firms, are staying private for longer. It's not just earlier-stage

businesses, though, the stockmarket has been getting progressively narrower for some time."

From 2021 to 2023, global initial public offerings have fallen by 45%, according to management and consulting firm Bain & Company. However, it estimates that rate of private market assets under management (AUM) will increase 9-10%, making up 30% of all AUM by 2032.

Aaron Hussein, global market strategist at JP Morgan Asset Management, says: "The growing popularity of private markets has characterised the past couple of years. Reflecting on 2022, a challenging year for many investors that exposed the limitations of the traditional 60-40 stock-bond portfolio, this period also underscored the potential benefits of private market alternatives.

"As global stocks faced their steepest decline since 2008 and global bonds suffered their worst annual performance on record, private real assets such as transportation, infrastructure and timber stood out with impressive double-digit returns."

Because private assets cannot easily be recreated on an index, they also provide a unique opportunity for active fund managers, who in the public market are fighting a battle against passive products.



In numbers

9-10%

**Predicted compound
annual growth rate of
private market assets
under management**

30%

**Total AUM private
market assets will
account for by 2032**

Source: Bain & Company

Jock Glover, strategic relationships director at Square Mile Investment Consulting and Research, explains: “Asset managers are seeking ways to replace revenue they have lost from outflows or margin as investors switch from more expensive active strategies to passive and segregated accounts

“By allowing asset managers to create vehicles that enable the retail investor – ranging from wealth managers to DIY investors on platforms – to access private assets, the regulator would create a whole new sector for those managers who have in-house capability. This allows them to capture higher-margin business, offsetting some of the revenues they have been losing to passive solutions.

“It is difficult to replicate private market returns in a passive format, effectively creating a moat for the active asset managers within what is potentially a very significant end-market.”

The potential for retail investors to tap into private markets has been boosted by the advent of the Long Term Asset Fund (LTAF), designed, as its name suggests, as an open-ended fund for long-term assets with specific rules around managing liquidity. To qualify as an LTAF, at least half of the fund must comprise illiquid assets. However, it is a much larger proportion for most.

To provide protection for investors, managers must put in place redemption policies that align with the liquidity of the fund through their authorisation process. This can include lock-up periods, gates, extended notices and suspensions for dealing. It cannot be opened for redemption more frequently than monthly.

According to Mark Stockley, chief business development officer at Carne Group, the funds allow asset managers to access a much wider array of investors than was previously possible. He says: “This includes increasing allocations from defined contribution (DC) pension schemes and wealth managers.

“Of those we surveyed across the UK and Europe, DC schemes expect levels of investment into private markets to increase by 10% on average over the next three years, while wealth managers anticipate private market investments to account for around 11% of their AUM by 2030, up from 5% in 2021.”

The FCA finalised the regulations for LTAFs in October 2021, but the first fund – from Schroders Capital – was not approved until last September.

James Lowe, private assets and investment trusts sales director at Schroders, says: “Regulators are keen to enable private client access to this significantly growing part of capital markets, to avoid excluding attractive return sources.

“The emergence of new vehicles for private asset investments, such as long-term asset funds in the UK and European long-term investment funds (ELTIFs), is providing private clients with a broader range of access points to private market asset classes. Investors are also drawn to private markets in pursuit of enhanced performance and diversification.”



‘There is a gradual realisation that public markets don’t have a monopoly on investment opportunities. Some of the most innovative and appealing companies and investments are in the hands of private holders’

Rob Morgan, chief analyst,
Charles Stanley Direct

He adds: “The search for diversifiers is particularly acute following bouts of public market volatility and the experience many wealth managers had in 2022, when traditional 60/40 stock and bond portfolios saw large drawdowns due to increasing correlation.”

The knowledge gap

Regardless of the potential of private markets, the industry may not be ready to embrace their growth.

In Carne Group’s 2024 *Atlas Report*, over 75% of wealth managers reported losing clients due to a lack of access to private markets, and 20% of wealth managers marked their firm’s expertise of the private equity market as “average or below”.

The gap in understanding led asset manager Nuveen to create a course as it brought its private market offering over into the UK. The sessions covered the primary private asset classes, including private equity, credit, real estate and real assets, as well as reviewing the fund structures and regulations in private markets.

Harry Bush, head of UK wealth distribution for Nuveen, says: “I attended a private markets event the year before, and the key takeaway was that more education was needed before wealth clients in the UK start to allocate to private assets more broadly.

“Nuveen is one of the largest assets managers in the world. We manage over \$1.2trn (£0.91trn) and over \$300bn in private assets, but are brand new to the UK wealth market. Rather than enter the market and immediately start trying to sell products, we thought we could put on an education series that was helpful to clients but also helpful to us in sharing our story with the market.”

Lavanya Chari, global head of investments and wealth solutions for HSBC Global Private Banking and Wealth, says HSBC has also taken on the task of education. She says the aim is to help clients “understand the benefits of allocating to private markets, but also the risks and misconceptions around the liquidity of those products”.

“We have partnered with private equity firms to significantly ramp up face-to-face engagements with our clients and drive deeper understanding of this asset class. This year, we have hosted more than 300 clients at some of our physical events co-organised with our private equity partners,” Chari explains.

“Meanwhile, at our investment outlook client events, we have a dedicated session on private markets to provide timely market intelligence to our clients across multiple locations.”

The need for increased knowledge of the industry is echoed by Peter Dalglish, CIO at Parmenion, who believes this gap is not just limited to the adviser and wealth management space.

“Familiarity, knowledge and deep understanding of private markets is variable, but it is sensible to assume we start from a low base,” Dalglish says.

"There is also a wide spectrum of knowledge among asset managers themselves. But this is to be expected and arguably offers an opportunity to lean into the proven experts, acknowledging and understanding the inherent idiosyncratic risk that comes with investing in private markets."

In many ways, a need for more information on private markets makes sense. Aside from investment trusts, the vehicles required to access them are relatively new, regulation around the field is developing and fee structures present complications.

Henry Cobbe, head of research at Elston Consulting, points to fees as one of the main areas of misunderstanding. "The knowledge gap extends to how to understand and evaluate key metrics around performance and fees," he says.

"Comparing traditional daily priced funds that hold readily valued listed securities is easy. Comparing private market funds of different vintages using internal rate of returns based on hard-to-value assets, then comparing or converting them to a public market equivalent, is a specialist topic in itself.

"Similarly, working out what you might get after fees requires a careful reading of fund prospectuses, and – for fund of funds – of all the underlying fund prospectuses, too. Good luck with that!"

Typically, investments in private markets are offered at higher prices than their public counterparts. This is a deterrent for many in the wealth management community, especially as Consumer Duty shone a spotlight on costs.

Lowe says part of the reason for this is that private market investments are "a high-touch business", but points out there are a range of fees offered now that could leave clients "positively surprised".

"When a private market investor takes a stake in either a private company, a tangible real asset or originates a private loan, this doesn't take place on an exchange and therefore has very different characteristics. Private transactions are often bilaterally negotiated and can include a high degree of complexity. This requires specialist skills and can take many months, if not years, to go from deal origination to completing a transaction," Lowe says.

"Once the transaction is complete, the investor will then likely need to execute a business plan to operate and add value to that investment. This again requires specialist knowledge and resources. Fees in private markets therefore reflect the high-touch nature, higher degree of resource and specialist skills required to operate in the space."

Carne's research shows that 80% of wealth managers believe fees in private markets are due to rise in coming years. However, Glover explains that while the rates remain much higher than public markets, in general fees have fallen.

Private market funds typically charge investors a management fee, which is often in the 1.5-2% range, and a carried interest fee, which is usually 20% of the

Private market regulation

As interest in private markets expands, regulation will soon follow. According to research from Carne Group, the regulatory environment is the top challenge for fundraising and fund launches in the UK. Among managers, 68% anticipate spending 25-50% more on regulatory compliance in the next two years.

Mark Stockley, chief business development officer at Carne, says: "In response to these challenges, we have witnessed an increase in fund managers turning to third-party specialists who can support them in navigating and complying with the regulatory regime, enabling them to focus on driving positive outcomes for clients.

"The majority (87%) of those we surveyed expect their use of outsourcing to increase over the next five years, with 48% of UK managers citing reducing regulatory risk as a motivation for doing so."

However, among private market managers themselves, 34% say they leave regulatory planning until just before implementation, according to CSC's *SPV Global Outlook 2024*.

Jeremy Katzeff, head of buy-side solutions at GoldenSource, believes this attitude will have to change as more focus is placed on the industry.

"Firms operating in private markets may have been able to ensure compliance with a more ad hoc, last-minute approach in the past. With a growing sense globally that increased regulatory oversight on private markets is looming though, firms that don't adapt and strengthen their internal processes risk being caught out by rule makers," Katzeff says.

"As private market AUM continues to grow, it's understandable that regulators will look to increase oversight, and these findings from CSC exemplify the market's lack of preparedness for a potential overhaul. Asset managers and other market participants need to be proactive in updating and scaling their risk management processes and underlying data strategies if they want to avoid being hit hard by the increased complexity and volume of regulation they must comply with in private markets."

profits made from selling companies. Funds will also often have a 'hurdle rate', which does not allow the fund to charge carried interest until a specified profit level is reached.

"Clients and their advisers are increasingly sensitive to fund costs, even within managed portfolio services (MPS), with some actively avoiding funds with a higher ongoing charges figure," Glover says.

"The justification for higher fees is an increased level of risk, due diligence and involvement that comes from researching and investing in unlisted assets, but we believe the performance fee model as discussed above will remain under pressure as these strategies become more widely adopted within the retail market."

While a complex ecosystem may justify the price point, Alex Barr, head of Sarasin Bread Street, says performance can be a major pressure point when it comes to justifying fees in the private equity space.

"Fees come in many forms in private market portfolios. Headline management fees are certainly less than they have been historically, but the structure of performance-related fees remains consistent. New entrants have often taken on significant personal financial risk to establish a firm, plus operating costs can be high, and these factors inevitably lend themselves to higher fees," Barr says.



‘Many of our clients simply don’t have the time or expertise to manage a portfolio of closed-ended private market funds. Open-ended structures solve these issues, and can be used as core building blocks to an investment portfolio’

Lavanya Chari, global head of investments and wealth solutions, HSBC Global Private Banking and Wealth

“Top-quartile managers can charge higher fees as they have been able to consistently deliver good performance, and most clients of private equity firms are generally happy to pay for that, but that doesn’t mean we don’t push back. Limited partners (investors in private equity funds) are often vocal about this if a manager’s historical performance has had its challenges or they are at a truly iniquitous level.”

If private equity managers are not reaching a performance level that justifies the fees, Barr’s solution has been to simply not invest, which he says has been the case on many occasions.

Charles Stanley’s Morgan says concerns over cost encourage some to restrict private market investments to a small portion of the portfolio, though this can create its own issues if that section of the portfolio isn’t properly evaluated.

“Quite simply there is more cost involved in investing in private markets because it’s more hands-on and highly active. There is no passive way to invest and instead the best way to keep costs down is through scale,” he explains.

“When building a portfolio all investors are focused on cost to some extent, which is why many tend to keep private investments at the margin. That way they don’t take up too much of the total cost budget. This may prevent some investors taking a closer look at the asset class, and the knock-on effect is that the area is under-researched and could be a blindspot for some.”

Platform paradox

Yet even when fees are justified, the access to private equity is often far from simple for private investors who require some level of liquidity. Traditionally, investment trusts have been the primary way to access the market. However, in recent years, the industry has struggled to keep share prices from diving into deep discounts.

The advent of the LTAF has provided new opportunities that Nuveen’s Bush predicts will open the door for many whose investments were not cohesive within the previous structure, requiring large amounts of money and long investment periods.

“The main reason wealth clients have overlooked private assets to date is fund structuring. Closed-ended funds with long lock-up periods do not work for wealth investors for many reasons,” he explains.

“There has been some really positive progress in fund structuring recently that has brought about the invention of open-ended funds with more flexible liquidity terms – often referred to as semi-liquid funds. These provide clients with access to institutional-quality private investments with often quarterly liquidity and more favourable minimum investment limits. This is clearly a long way from the typically preferred daily liquidity, but a lot more manageable than a seven-plus-year lock-up and large minimum investments.”

He says the structure is showing signs of success in global private banks, which could bring good tidings to a larger set of wealth clients.

HSBC’s Chari says the company’s aim is to allow individual clients to manage investment portfolios in the same way as institutions, emphasising diversification. But previously, the investment process for private markets was too much of a strain for most clients, and the expression of performance as an internal rate of return and multiples added a layer of complication to understanding the portfolio.

“While we have tools to help and advise them, many of our clients simply don’t have the time or expertise to manage a portfolio of closed-ended private market funds. Open-ended structures solve these issues, and can be used as core building blocks to an investment portfolio. We have seen more clients allocating to private markets, thanks to our expanded offering of open-ended structures,” says Chari.

Bush and Chari’s excitement for the new structures is echoed across the wealth management industry, according to Carne’s research. Nearly 90% of wealth managers across the UK and Europe believe LTAF and ELTIF structures will lead to an increase of investment into private markets within three years and over a quarter believe the shift will be dramatic.

While fund structure seems to have a track to success for private clients, platforms have not yet adapted to the offering for many of the same reasons that private markets were originally branded as challenging: there is uncertainty around fee representations and while the new structures offer more liquidity, it is still out of the ordinary for platform dealings.

“The majority of the UK platform market is not currently set up to offer funds that deal less frequently than weekly and/or have notice periods,” Schroder’s Lowe says.

“Therefore, market infrastructure development is required for broader adoption to be possible. Investment trusts are also often not used within the MPS market due to illiquidity creating difficulties in rebalancing.”

Nuveen’s Bush agrees that at the domestic level, platform readiness is one of the “biggest barriers” to access for clients. “Largely they are not set up to host private assets which is very limiting for clients that offer MPS solutions. What happens next could have a huge impact on how clients access all types of investments,” he says.

“If the platform industry did work towards a way of hosting private assets then we will likely see a whole swath of LTAF launches.”

LTAFs would do well in this environment because those invested through a managed portfolio service are seen as non-professional investors. This means they would legally not have access through other structures that have been used in the past for private markets, forcing them towards LTAFs.

"If platforms don't find a way of hosting private assets then we could see a return of fund of funds. Fund of funds structured as non-Ucits retail scheme funds of alternative investment funds have a high degree of flexibility in what they invest in and could access many different types of vehicles," Nuveen's Bush says.

"In my conversations with clients, I am seeing the relative attractiveness of accessing an LTAF versus other structures diminishing significantly. I think there is a huge opportunity for fund of funds to innovate and claw back some market share."

Parmenion's Dalglish adds: "By definition each private market product is different, carrying meaningful idiosyncratic risk, and yet measuring and monitoring this appears challenging. Given the long-term nature of investing in private markets, daily valuations and liquidity are not available. For inclusion within a model portfolio where investments/divestments occur daily this represents a considerable hurdle for discretionary fund managers, platforms and advisers."

Sarasin Bread Street's Barr says as of now there is no "one-stop shop" for private equity, which is complicated by the fact that providers are not household names, even though they are well known among professional private market investors.

"Investors not only have to make informed decisions on what sort of 'financing stage' to back (ie buyout versus growth versus vent'ure), whether to access through 'primary' or 'secondary' routes, and they also need to think about what 'access strategy' or fund structure to choose. Even for professional investors that is not straightforward," Barr says.

Liquidity issue

By the very nature of the asset, private markets have little liquidity. Most private equity funds are set up with a 10-year horizon, with the private equity firm or general partner in near-total control throughout the duration. This can mean that managers will opt for short-term volatility if they believe it will create better outcomes over the fund's total duration.

Private equity funds typically have a commitment period of three to six years, where the investments made by the limited partnership into the fund are put into the companies themselves. Once this occurs, the investment cannot be withdrawn until it is liquidated.

HSBC's Chari says: "Investors need to recognise that private markets are illiquid. Investing in long-term assets also requires a long-term view, so we remain cautious when advocating for specific strategies over others. The best approach is to select and combine investments with different sources of return, including cyclical and structural trends, an income element and uncorrelated investments.

"For many investors, perceptions of higher yields and lower volatility have boosted interest in private

markets. But the drawback can be less liquidity and different risk profiles to those found in public ones."

Sarasin Bread Street's Barr adds: "Illiquidity is a concern for many, and because of that private markets aren't for everybody. But many public investments are kept in portfolios for years, often outstripping the tenure of private ownership, and selling down isn't always an easy process. Indeed, there are significant liquidity issues in much of the listed markets, particularly at the smaller-cap or more specialist end.

"Liquidity concerns in private markets have been partially addressed by the rapid maturation of the private equity secondary market, and new approaches to achieving an 'exit' such as continuation funds."

Continuation funds are secondary funds set up by the original sponsor. They typically have a looser set of restrictions than the established fund and allow the sponsor to keep assets beyond the typical maturation period by moving the asset into the secondary continuation fund, essentially restarting its 'timer'.

Clients can choose to invest only in the original fund, receiving the return on their investment when that sells to the continuation fund, or can back the sponsor in both the established and continuation funds.

While some have seen the method as a win-win scenario, others have argued the structure creates a conflict of interest among those investors who are selling out before the move and therefore desire a high price, and those electing to buy into the next fund who would want a low price.

Barr explains: "Getting the best out of private markets is knowing what appropriate diversification looks like (not too much, not too little), and understanding that both investment and divestment periods are multi-year processes. Patience is needed – but equally not taking one eye off what is going on in underlying portfolios is important."

Ultimately, Parmenion's Dalglish says investing in private markets comes down to structure, as on their own the assets are "long term, opaque, illiquid, hard to monitor and benchmark", despite being "conceptually appealing" as a diversifier.

"The liquidity and transparency of private markets is at best opaque," he adds. "Valuation methodology and regularity is variable, inconsistent and unregulated.

"The assumption that by badging private market products for retail investors as 'restricted mass market' and thereby caveat emptor – and that this provides a reasonable framework of protection – feels like a stretch and is likely to face challenges in years to come." **PA**

'The liquidity and transparency of private markets is at best opaque. The assumption that by badging private market products for retail investors as 'restricted mass market', and that this provides a reasonable framework of protection, feels like a stretch'

Peter Dalglish, CIO,
Parmenion



The winning side

Nataline Terry, head of distribution UK and Ireland at T Rowe Price, tells **Lauren Hardy** why marketing and distribution are two sides of the same coin – with the shared goal of delivering a win for the end-client

“From a young age, I always wanted to work in the City. My father worked in the City, so I followed in his footsteps,” T Rowe Price’s Nataline Terry tells *Portfolio Adviser*. “I went to university at Loughborough where I studied banking and finance and, after three years, I joined the City working at a private bank on their graduate scheme.

“It was there that I realised I enjoyed the marketing side of things, which actually, has been the case throughout most of my career.”

After holding marketing roles at the likes of Threadneedle Investments (now Columbia Threadneedle) and UBS Global Asset Management, as well as spending more than 18 years as a marketing director at BlackRock, Terry moved to T Rowe Price in 2017. Almost five years into her role as head of EMEA marketing, she was asked to take on the role of distribution head for UK and Ireland.

“I had thought about it previously, but it had never felt like the right time to move. But at this point, I thought: ‘Why not?’. So, I moved across and I have been involved with leading the distribution team for two and a half years.”

Joining forces

Founded in 1937, T Rowe Price is a global asset management firm providing equity, fixed income and multi-asset solutions. While the majority of its investment professionals are based in the US, the company has significant presence in the UK, with

a team of 169. It also has investment professionals located in Australia, China, Japan, Singapore, Italy, Denmark and Switzerland.

A substantial portion of T Rowe Price’s equity assets under management is concentrated in US equities amounting to \$728.1bn (£551.5bn). However, the firm also manages \$56.5bn in global equity funds, \$29.4bn in emerging market equities and \$109.8bn in other international investments.

In addition, T Rowe Price has a strong bond portfolio, managing \$259bn invested in fixed-income assets across various categories including government bonds, corporates, global high yield, emerging market debt and cash-type instruments. As at the end of July, the firm has more than \$1.5trn of assets under management.

So, no mean feat for Terry’s inaugural role as head of distribution UK and Ireland.

“For me, the role as a leader in both [marketing and distribution] camps is very similar. You’re inspiring a team, you’re setting a plan that meets the needs of the clients, you’re providing focus, you’re leading people and you’re managing. All of those attributes are the same, whether you’re in sales or marketing,” she explains.

“I have a wonderful sales team who receive exceptional feedback. I’m not there to do that role. My role is to enable them to do what they do as brilliantly and effectively as they can, to break down any personal challenges, to make things happen for our clients; I facilitate them doing the great job they do.



"It was a similar set of skills applied in a different context, but the appeal of actually getting closer to the client and feeling closer to the business as a result was really important. I think marketing and sales are integrated; and they have to be in order for us to engage with clients."

"When you have a conversation with the client, you're using the materials that the marketing team is developing. Then, the clients are visiting a website, which marketing has worked on, and returning to the salesperson for the data and the analytics. It's a circular piece, and it is so integrated that both departments have to work really closely [together]."

March 2022 was a particularly challenging time for Terry to take over the helm as distribution head, as it was just a week or two after Russia's invasion of Ukraine, which led to huge bouts of stockmarket volatility and sentiment swings.

"During times like that you can become distracted. It was a case of reminding the team that what we do well is being there for our clients, and providing them with the information they need to have better conversations and make good decisions," she explains. "We really doubled down and focused on what we felt mattered, without getting distracted by all the other things that were happening around the edges."

"For me personally, coming into sales from marketing, there was a bit of resilience that needed to be built. Being in a sales environment, market moves happen that are outside of your control, so becoming comfortable with this is really important. I took a lot of counsel from my colleagues, from my own team in terms of how to adapt to this type of environment."

'We are seeing an awful lot of consolidation – firms buying up firms. And with that, firms looking to partner with fewer asset managers. It is really important that we make sure we are on the winning side of that'

Nataline Terry, head of distribution UK & Ireland, T Rowe Price

Client sentiment

Fast forward to today and equity markets remain more volatile than they have been. Geopolitical uncertainty, macroeconomic pressures, market concentration and the wall of money continuing to flow into passives have made for a challenging environment for active fund houses.

But while clients continue to ask questions around the uncertain backdrop, Terry says she has noticed sentiment improve over the past two and a half years. "The feeling of sitting in this seat today even compared with last year is different – it feels as though there is more momentum for us as a business now," she explains.

"We are really pleased with our growth in flows. We are seeing more momentum still as we head into the second half of the year, and we are having some great conversations."

Terry describes her current stance as "cautiously optimistic" but peppered with "a heavy dose of realism". "Events like the market volatility we have just seen, will test us. We have to keep communicating and adapting how we communicate. But I do feel we are seeing momentum building and a greater appetite from investors. That is really encouraging."

In particular, interest had ticked up across T Rowe Price's US equity offering, including its recently launched US Structured Research Equity fund. Launched at the end of last year, the fund aims to provide core, lower-cost, 'modest alpha' allocation to US equities through stock selection, but with benchmark-like volatility and characteristics. Terry says that to date, the fund has been the firm's most successful Sicav launch. Now, T Rowe Price is launching an Oeic version of the product at the end of September.

Quickfire Q&A

Q: What is the best piece of advice you have ever been given?

I was told that to be happy and successful you need to bring your authentic self. There is no point pretending to be someone you are not, and I am lucky the culture at T Rowe Price allows for this. As a leader this is especially important to me. It is a juggle being a parent, for example, but it is important I don't shy away from sport days or parent evenings.

Q: Top tip on how to run a future business?

Change is an ever-constant, so adaptability is very important when running a business. Organisations change, the needs of clients change and markets change. As the requirements of clients evolve, it is important to listen and adapt as we move forward with them.

Q: What issue should concern investors most at the moment?

Clients are worrying about their investor proposition and how to adapt that for changing market dynamics, regulations or cost pressures. We believe they can partner with firms like ours to help think this through and use our funds or create bespoke solutions for their clients.

Q: Is there anything about your job that keeps you awake at night?

There are so many structural changes and opportunities in the UK asset management industry, so when I lie awake my thoughts move to

the longer term. I want to solidify the success we've had so far, and I am conscious of setting T Rowe Price for success in the coming decades. It is important to take a long-term view to meet the needs of the market.

Q: What excites you most about your job?

I am very lucky to work with a fantastic team. I really enjoy helping people develop their career and to see their accomplishments. Our UK business is doing well, it is exciting to help our clients succeed and to see the part my colleagues have in that success.

Q: If you were head of the FCA what would your priority be?

If I was head of the FCA, I'd do everything in my power to take the inherent complexity out of the financial services industry.

Q: What advice would you give to somebody starting out in the industry today?

I'd say to remember the importance of this industry which sometimes gets a bad reputation. We are helping people build better financial futures which is incredibly important. We should never forget the end-client we're working for. Listen, be curious and look for opportunities to expand your knowledge so you are even better informed for those client conversations.

“We are also seeing interest within the US smaller companies space – that’s an area where active management really does well at unearthing opportunities that are out there,” Terry says.

“We’re seeing interest in core offerings as well. Whereas previously clients were considering whether to go for growth or for value, they are asking us to find the best opportunities for them. We have a US Equity All Cap Opportunity fund which is more in the core space, but we are seeing this play out in the global equity space, too.”

Intentional impact

Another growing area for the business is impact, sustainability and ESG investing. The firm launched its first impact fund – Global Equity Impact – in 2021, which was followed by the launch of its US Impact Equity strategy a year later. At the end of 2021, T Rowe Price also launched its Global Impact Credit Oeic.

“We do have a broad range in the ESG space. Our article 8 funds in the Sicav range are much lighter green. But we are very much focused on our impact offering, where we think there is real desire from our clients for a dual mandate of having the outperformance, but with that impact element to it. This is where we are seeing the strongest interest from our clients,” Terry explains.

“As an organisation, we have really invested in terms of people, tools and resources in order to create a far more intentional impact outcome.

“We have also been seeing a lot more interest on the institutional side in terms of net zero. T Rowe is the full spectrum – the shop door, I suppose – in terms of ESG.”

And at the end of last year, T Rowe Price partnered with the International Finance Corporation (IFC), part of the World Bank Group, to grow the blue bond market and aim to address risks associated with the underfunding of protecting the blue economy.

“That’s really exciting for us. The fact the IFC chose to work with us really demonstrates the skills and capability we have within the organisation.”

Themes for the future

Looking ahead over the medium to long term – not that anybody has a crystal ball – what does Terry think the key challenges will be for the industry to grapple with?

“As always, the macro and geopolitical environment is going to be key. More people than ever are going to the polls this year. That is what I think is central for markets in the more immediate sense.

“For us as an industry, we are seeing an awful lot of consolidation – firms buying up firms. And with that, firms looking to partner with fewer asset managers. It is really important we make sure we are on the winning side of that, and working with those key consolidators and clients to help them as they make that transition.

Solutions space

Another key area of growth for the business is T Rowe Price’s Solutions arm, which offers bespoke portfolios that are recommended and managed on the client’s behalf; retirement is also a space the team is looking at increasing given its long-standing US retirement heritage.

And, at the start of the year, T Rowe Price embarked on a partnership with Mattioli Woods to launch an income-focused model portfolio. Yoram Lustig, T Rowe’s head of multi-asset solutions EMEA and Michael Walsh, multi-asset solutions strategist are the investment advisers, and work closely alongside Mattioli Woods’ investment team.

The launch marked a deepening UK footprint for T Rowe Price, and Terry says this is a potential area for future growth for the business.

“We now have a number of clients who we are working with in that way, and that is certainly a space we are looking to grow. We think we can really help clients as they look at their own investment propositions. We have a very broad and diverse book of business. This is one element of it, but we are increasingly making progress here,” she says.

“We’re looking at expanding our solutions offering for other businesses, and making sure we have a really strong set of core holdings for our clients.

“The US SRS Oeic launch is one example of how we’re always looking at that local Oeic range to see how we’re building and developing our products. For instance, we have a huge retirement business in the US. What does that mean for us here in the UK? It is very early days in terms of discussions here, but we have real heritage in this part of the market and some fantastic products, as well as a vast depth of knowledge. It sits nicely in our solutions space.”

Elsewhere, the distribution head says opportunities abound within fixed income, and that there is potential for some “more broadening here”.

“Speaking of consolidation, I think regulation – which is always important – is going to become an increasingly important part of our world. We are also very conscious that there is a divergence between the UK and Europe. In Europe, we have both the UK business and we have a business across Europe. We’re very mindful of what that means. As you know, regulation may slightly differ. We can see that through SDR and SFDR, for instance.

“We are seeing greater complexity for our clients in terms of the due diligence process, the operational complexity of bringing assets into our organisations and just the sheer volume of platforms they’re on.”

Over the longer term, Terry says artificial intelligence (AI) should be a key consideration both for T Rowe Price and other asset management businesses.

“Not only on the investment side, but across our business in terms of how we can use AI to make us more efficient and effective at what we do. It’s going to be really interesting to see how that plays out.

“Ultimately it’s all about delivering for the client. It’s really important we understand the full package, that we know what our distributors are doing and ultimately how everything looks for Mr and Mrs Smith on the street.

“Because that’s what we’re here for ultimately, and we shouldn’t lose sight of that. And things like Consumer Duty help here, which I think is very good for us as an industry.” **PA**

In numbers

£1.5trn

Assets under management in total

£259bn

Invested in fixed-income assets

Source: T Rowe Price



Tokyo story

The successes of Japan's corporate governance reforms and the market's renewed attraction for investors are no secret. Despite the positive sentiment towards Japanese equities in recent years, the market suffered a shock in early August, experiencing its worst day since 1987 with the Nikkei plunging 12% on the 6th, while the Topix recorded its second-largest three-day drawdown ever in the days that followed.

Many factors were identified in the aftermath of the correction, including concerns over the US economy following a weaker-than-expected unemployment report. The volatility also placed the Bank of Japan's (BoJ's) surprise interest rate rise to 0.25% at the end of July under the microscope, with the unwinding of the dollar-yen carry trade exacerbating the selloff.

Overall, have recent policy decisions from the BoJ, coupled with currency risk, changed the way investors are allocating to the country?

Christian Mayes finds out if the longer-term Japanese narrative remains attractive for investors following a recent period of bruising volatility

Carry trades and cappuccino

The move to end the zero interest rate policy was a major decision for the central bank. David Mitchinson, fund manager at Zennor Asset Management, says that in practice, the move is "part and parcel of Japan becoming a normal country again" in which capital has some cost.

"For many years the flow of capital, assets and people in Japan stalled – enabled by cost-free finance. Too much investment and talent has become stuck in the wrong places and a more dynamic economy will be able to increase productivity, wages and wealth."

Due to the interest rate differential that has persisted between the US and Japan, borrowing yen to buy dollars has been lucrative in recent years.

However, the BoJ's move to raise interest rates in order to strengthen the yen – at a time when most major central banks are looking to cut rates – prompted the carry trade to begin to unravel, contributing to the market selloff.

Despite the short-term volatility, however, a stronger yen could further enhance the positive outlook for investing in Japan.

In July, Stefan Sommerville, investment counselor at Orbis Investments, noted that, should the

strengthen and the dollar wobble, cracks could very quickly begin to show in the carry trade.

"If the yen were to strengthen from 150 to, say, 125 against the dollar, a US investor in Japan's market would pocket a 20% return, even if stock markets are flat."

Zennor's Mitchinson also believes the yen is "profoundly undervalued". "Our Starbucks Cappuccino indicator suggests that coffee in central Tokyo is roughly half the price it is in London – this feels broadly right across many goods and services," he says.

"While a weak yen may help some industries such as autos, the reality is that Japan is a rather domestic economy and has largely balanced its production with where its customers are.

"In time, we expect a stronger yen would help our companies and the Japanese consumers to which they are exposed," he adds.

Mitchinson, who runs the Zennor Japan and Japan Equity Income funds alongside James Salter, viewed the market correction in early August as a buying opportunity.

"We started with around 5% in cash and have deployed most of it during the selloff. We used the cash on hand to add to several positions, including in Genda and Secom where we felt the selloff was grossly excessive. We have had several companies on our watch for some time and after the share price drops, we felt they offered an attractive valuation.

"One example is software service company Simplex. Historically, this company has traded in the mid-20x PE ratio reflecting its strong growth and profitability. After the selloff this declined to a low-teens multiple while the structural growth opportunity remains intact."

Omar Malik, global equity portfolio manager at Hosking Partners, says his team's bullish outlook for the opportunity in Japan remains unchanged by the recent market volatility in the wake of the BoJ raising interest rates. The firm owns small to mid-cap stocks in Japan with net cash balance sheets which they believe have a clear path to benefit from corporate governance reform.

"Given the recent move in USD-JPY yield differentials, we don't think the BoJ decision should have been a surprise, but the selloff in Japanese equities following the rate hike was more surprising on the back of fears around the impact of a stronger yen," Malik says.

"We believe the Bank of Japan's efforts to increase inflation is catalysing business improvements and pricing discussions, with companies like Coca-Cola Bottlers Japan raising prices for the first time in three decades.

"In our view, higher-valued, blue-chip growth stocks are likely to face more interest rate sensitivity, while the undervalued, overcapitalised 'self-help' stories are less vulnerable to a new macro environment of higher rates."



'Short-term price fluctuations and market volatility only enhance the investment case for the region, as our basket of companies are buying back their own shares at record rates'

Omar Malik, global equity portfolio manager, Hosking Partners

'A confluence of factors'

Zennor's Mitchinson adds that a slow rotation away from stocks with increased currency and interest rate sensitivity has been underway for a while, with domestic areas such as financials being strong performers this year for governance reasons.

"We expect this will continue given the yen's undervaluation. Some exporters may face earnings downgrades but we suspect that most fund managers are sceptical about the yen's level today and are discounting those earnings to some extent.

"Many of those exporters are also cyclical and there are increasing concerns about the strength of the US economy. We think this factor will weigh on those shares more heavily than FX-driven changes."

Hosking Partners' Malik adds that the firm has taken a balanced approach between exporters versus domestic businesses across sector exposures, which should limit the impact of significant FX moves in either direction.

"At a high level, the real effective rate of the yen is at the cheapest level since the 1970s due to diverging monetary policy. With global rates expected to start falling while Japanese rates are ticking higher, this should lead the yen to outperformance. Having been a drag for foreign investors for the past two decades, a reverse of the yen's weakness would be a huge tailwind.

"As bottom-up investors, the direction of the yen is not a central tenet of our investment thesis, but our historical experience is that the combination of an undervalued currency and low valuations among equities is usually a good setup for stellar returns."

Malik adds that despite the short-term noise, Japan is still in the early stages of a compelling country-specific capital cycle.

"A confluence of factors bolstering corporate governance reform has reached a tipping point that should drive returns over the next decade. Short-term price fluctuations and market volatility only enhance the investment case for the region, as our basket of companies are buying back their own shares at record rates."

Daniel Haydon, Morningstar manager research analyst, understands investor caution given the volatility. Looking ahead, however, he argues the medium-term structural story will continue to play out.

"The notable shifts in market leadership between 'growth' and 'value' investments and a yawning gap between large versus small caps have been evident. Yet, corporate governance reforms and evolving economic conditions present opportunities for unlocking long-term value.

"Benefits may be unevenly distributed in the years to come, while Japan's lower market concentration offers ample opportunities for expressing investment convictions. Actively managed Japan equity portfolios, and particularly those with an active engagement approach, will serve a useful role within a broadly diversified portfolio." **PA**

Hidden gems: IA Global Mixed Bonds

Using data from FE Fundinfo, *Portfolio Adviser* shines a spotlight on the funds across different sectors that are smaller than £100m in size but have achieved top-quartile three-year returns relative to their average peer. This month, **Tom Aylott** looks at the IA Mixed Global Bond funds trouncing their larger peers following a period where fixed-income portfolios were at the top of investor shopping lists

T Rowe Price Dynamic Credit

Fund size: \$22.8m

Soaring interest rates sent the yields on bonds sky-rocketing in recent years and put fixed-income funds firmly on investors' radars. Last year alone, investors poured \$22.2bn (£17.1bn) into bond funds while equity portfolios suffered outflows of \$7.1bn. But with so many investors piling into the space, where were they best off? Many might be surprised to know they could have made the highest return in one of the smallest funds.

T Rowe Price Dynamic Credit beat all other IA Global Mixed Bond funds over the past three years despite being a fraction of the size of its peers. Its assets under management (AUM) of \$22.8m is dwarfed by its peers, which contain a whopping £1.9bn on average. Yet this possibly overlooked fund climbed 14.5% during the three-year timeframe while its far more popular peers fell by 3.1%.

However, most of this outperformance occurred under the management of Saurabh Sud, who exited the firm in July. This change in management may leave some investors feeling sceptical as to its future returns, but new manager Steven Boothe (pictured) has experience running other fixed-income portfolios for T Rowe Price, where he has worked since 1999.

Goldman Sachs Global Income Bond Portfolio

Fund size: \$97.9m

Following closely behind was the Goldman Sachs Global Income Bond Portfolio, which made a total return of 11.3% over the past three years. It is the fourth-highest performer in its peer group despite an AUM of \$97.9m making it one of the smaller funds in the sector.

It has grown investors' capital sizably over the past few years, but its main objective is providing investors with a steady income stream. By investing in bonds issued by governments and companies across the globe, lead managers Aakash Thombre and Ron Arons (who have led



Steven Boothe



Michael McGuinness

the fund since it launched in 2020) and deputy Sophia Ferguson (who joined them the following year) have built a portfolio with an overall yield to maturity of 6.5%.

GS Short Duration Opportunistic Corporate Bond Portfolio

Fund size: \$91.6m

Another small Goldman Sachs fund that beat its larger peers was the GS Short Duration Opportunistic Corporate Bond Portfolio. Its total return of 7.5% over the past three years was 10.6 percentage points ahead of the IA Global Mixed Bond sector average.

The \$91.6m fund managed by Michael McGuinness (pictured) invests predominantly in sub-investment-grade global corporate bonds, which the manager says have “the potential for higher returns but higher risk”. That is because these types of bonds could be at greater risk of defaulting. The vast majority (96%) of its 298 holdings are rated below BBB, graded as speculative or highly speculative, with 74.6% of those held in unsecured high-yield bonds.

Yet holding these types of bonds can result in higher payoffs, as the fund’s three-year return exemplifies, if investors are willing to take the risk. It often offers higher yields, too, hence a yield to maturity of 7.3%.

Courtiers Investment Grade Bond

Fund size: £28.8m

Compared with some of the other funds on this list, Courtiers Investment Grade Bond’s total return of 5.7% may not seem quite so impressive – but it is notably a top-quartile performer despite being the least volatile. The fund had the lowest volatility ranking of any of its peers in the IA Global Mixed Bond sector over the past three years at just 2.2, yet still managed to give investors some of the highest returns in the category.

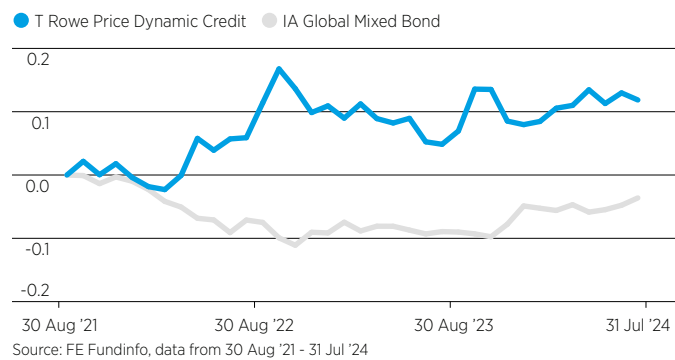
Unlike the GS Short Duration Opportunistic Corporate Bond Portfolio, this fund only holds investment-grade bonds with a rating of AAA or AA, which may appeal to more risk-averse investors who still want to make a higher-than-average return on their savings.

Barclays GlobalAccess Global Short Duration Bond

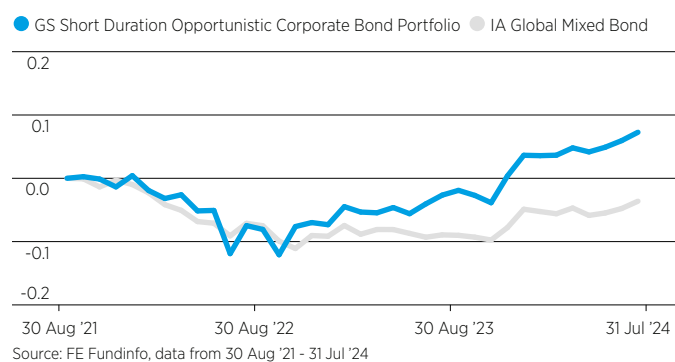
Fund size: \$54.6m

The Barclays GlobalAccess Global Short Duration Bond fund may also catch the eye of investors with a lower risk threshold but who don’t wish to skimp on performance. Lead manager Ian Aylward and deputy Chris Bamford invest purely in short-dated bonds with a maturity horizon of under five years,

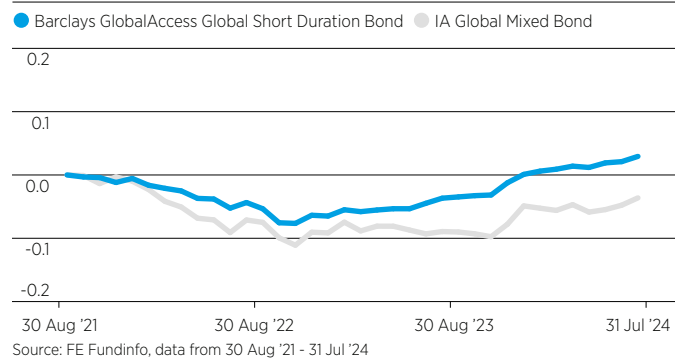
T Rowe Price Dynamic Credit 3-yr %



GS Short Duration Opportunistic Corporate Bond 3-yr %



Barclays GlobalAccess Global Short Duration Bond 3-yr %



and this timeframe can provide more predictability than longer-dated bonds. This could be especially true as investors are tempted to lock in high bond yields now before further interest rate cuts from central banks.

Short-dated bonds can provide slightly more certainty, but that also means they often yield less. That hasn’t been an issue for Barclays GlobalAccess Global Short Duration Bond though, which grew investors’ savings by 3% over the past three years and offered them a distribution yield of 3%. **PA**

Pedal to the metal

Recent research from Asset Risk Consultants (ARC) has suggested most private client discretionary managers have a low exposure to gold, despite current positive sentiment towards the asset class.

According to ARC's latest quarterly sentiment survey, within their typical 'steady growth' investment solution, 75% of the 83 managers who responded had either no gold exposure or a weighting of less than 2.5%. Meanwhile, no respondents had a weighting over 10%.

This lack of exposure could not be explained by managers being negative on forecast returns, according to the survey, with net sentiment towards the yellow metal positive at 35%.

So are investors right to be wary of gold, an asset class traditionally used by multi-asset funds to provide both diversification to equities and bonds, and as a balance against market volatility?

Ned Naylor-Leyland (pictured right), investment manager, Jupiter Asset Management

The case for gold and the performance of it is best explained as the inverse to market confidence in holding your local fiat currency.

Gold is the central banking system's true base currency (or numerator) and its role is as measuring stick and monetary collateral. Gold is the occulted tool that assesses the performance of sterling, dollars, euros and, yes, even Turkish lira, versus the inexorable rise in the cost of goods and services.

This hidden fact, that it isn't gold moving but rather the dollar (and other currencies), highlights the importance of the quote attributed to JP Morgan: "Gold is money, everything else is credit."

This truth explains both why central banks hold large amounts of gold in their reserves, and also why they have been buying more in the open market since the great financial crash.

Central bankers haven't wanted each other's paper ever since the toxicity in the system spilled forth 15 years ago; a behavioural shift

This month,
Ned Naylor-Leyland
of Jupiter and
Orbis Investments'
Alec Cutler go
head to head on
gold exposure.
Adam Lewis reports

that should have been obvious to all. In 2008/09, the financial sector toxic sludge of bad loans, ultra-loose lending practices and systemic derivative risk moved from private institutions (investment banks) onto the public balance sheet. This led creditor nation central bankers to quietly dispose of US treasuries and buy more gold.

The view from here

In terms of the current investment picture that emerges and opportunities that lie ahead, the fact that the dollar gold price has just broken out again above \$2,500 (£1,905)/oz to new all-time highs says a great deal about how the dollar/gold relationship is now rapidly changing.

This dollar-gold breakout in 2024 finally gives gold positive momentum and a technical tailwind. It infers that financial sector investor capital can soon follow the behaviour of the central bankers themselves and start to flow in a meaningful way towards monetary metals and even the associated mining equities that offer both value and optionality.

Our view is that silver represents the best bang for the buck in the monetary metals space owing to its extremely bullish supply/demand fundamentals. Indeed, we also suggest that due to momentum for the underlying metals and expanding operating margins it is finally time to look at gold and silver mining equities again as an equity subset that offers value and geared optionality to rising spot prices over the years ahead.

Silver and the miners are higher-beta expressions of the trending direction of the dollar-gold price and have lots of potential to outperform gold when investor behaviour shifts away from long-held allocations to technology and even the 60/40 model itself.

We think the risk-reward in silver and the miners looks attractive at this moment in time, in light of both the fraught macro picture and the very low free cashflow and net asset value multiples the miners are trading on at present.

The best time to buy gold, silver and the miners historically has been when the Fed (or your local central bank) switches from hawkish to dovish. Our view is that such a moment is upon us and that we could also finally see an asset allocation move towards the sector due to issues with the 60/40 model and the need for an equity sub-sector that is doing well when many others aren't.

Gold and silver mining equities reflect shifts in gold and silver prices, driven by US real interest rate expectations, rather than moves in the wider equity market. We are looking at a decent likelihood of equities and monetary metals heading in opposite directions in the near future unless we have a true Goldilocks soft landing for the US economy.

As Grandma used to say when talking about the actions of central bankers: "Do as they do, not as they say."





**Alec Cutler, director,
Orbis Investments**

We have substantial exposure to gold – our Global Balanced fund holds 3.5% in gold mining companies and 6% in exchange-traded gold securities (ETCs), and our Global Cautious fund holds 12% in ETCs and about 4% in the mining companies.

Deciding between exposure to the metal (via ETCs) versus the miners comes down to the miners' costs, their production of other metals and their valuations.

Throughout history, the miners have been awful. Naturally you'd think that if you want exposure to gold, go buy a miner, because their profits should be up 20% or 30% for every 10% increase in the gold price. That's not been the case. In past cycles the gold miners have over-invested into up-cycles, letting their costs balloon, so their profit per ounce stagnates even as the gold price rises.

Some of that is now changing, helped by consolidation among the major miners. Barrick merged with Randgold, and Newmont acquired Newcrest. Barrick and Newmont, both of which we own, are now working together in Nevada, where they used to have adjacent but separate operations. Mine discoveries have long since peaked and total industry production has stagnated, which helps to keep supply and demand tighter for the metal. The miners' management teams claim to have complete control over investing, costs and shareholder returns. But this isn't necessarily the case.

Covid restrictions ate into their productivity, but that's reversing. Diesel fuel for trucks and diggers is their second-biggest cost, and that spiked following Russia's invasion of Ukraine. That is now reversing too, however.

Alongside the precious metal, the gold miners are also major copper producers, and their costs in copper are very low. When you mine for gold, copper pops out, and copper has a very healthy demand outlook over the long term.

Value added

As investors, what matters to us is their valuations. If gold, copper and oil prices simply stay where they are, Barrick currently trades at a 7.5% free cashflow yield. That's a better yield than the average global stock, for one that is much less correlated with the rest. Those sorts of valuations look compelling to us, and are why we have exposure to the miners as well as the metal.

Gold itself is notoriously hard to value, because it doesn't produce cashflows to analyse. We like it for a few reasons.

For starters, gold is a nice diversifier. It tends to hold its own when stocks are down. Cash or bonds can also play that role, but central banks cannot print gold so, unlike bonds, gold can also hold its value against higher inflation.

Where gold really thrives is when there is less trust in the world. That can be trust between countries, trust in the financial system or broader trust in the dollar-based financial order. Recently, that last point has been a focus for us. We like gold as an anti-dollar asset.

The US dollar looks richly overpriced on a purchasing power basis against most other currencies. On top of that, the US government has got itself into a scary debt position. This year, the US will spend more on interest servicing its debt than it spends on its entire military, and based on the government's own forecasts, debt to gross domestic product is on track to exceed 120% over the coming decade.

On top of that, the US has weaponised the dollar system against its adversaries, cutting them off from Swift payments and freezing their central bank reserves.

Unsurprisingly, central banks for adversaries and non-adversaries alike are buying gold, and we expect that to continue. **PA**

'Where gold really thrives is when there is less trust in the world. That can be trust between countries, trust in the financial system or broader trust in the dollar-based financial order'

Alec Cutler



Special effects



Seismic geopolitical changes and the unwinding of low interest rates have showcased the magnitude, thematic range and diversity within the specialist sector and its potential appeal to investors. David Holder, senior investment research analyst at Square Mile Investment Consulting and Research, takes a closer look

Of the 4,000 funds that are members of the Investment Association (IA), allocated across more than 50 categories, the specialist sector is home to about 130 constituents. In 2021, the IA reviewed the global and specialist asset classes with a view to creating more granular and relevant classifications to facilitate more meaningful comparison and help investors and their advisers make better informed decisions.

From September 2021, new regional, sector and asset classes were created, such as Latin America, healthcare and infrastructure, as well as commodities and natural resources. Consequently, the specialist category was cleaned up and went from about 330 funds to the current 130. This was a welcome and necessary development.

A broad church

The specialist sector remains an exceptionally diverse 'catch-all' cohort that incorporates single-country funds, absolute return, sector funds, targeted return, fixed income, money market and commodities, among others. It is noteworthy that passive penetration, which is ubiquitous and growing rapidly elsewhere, is entirely absent here.

The IA sector classifications are rules based, and presided over by the sectors committee, who regularly review the definitions to ensure they remain relevant and to check that the constituent funds continue to meet the inclusion criteria.

In the case of the specialist sector the inclusion criteria set out by the IA is: funds that have an investment universe not accommodated by the mainstream sectors. Performance ranking of funds within the sector as a whole is inappropriate, given the diverse nature of its constituents.

To put this into sharper focus, and to illustrate the variety within the sector, mapping across the constituent funds leads to inclusion in upwards of 50 Lipper classification categories, including around 18 mixed asset funds with various objec-

Funds to watch

Assets under management

- Managers of the **Allianz Income and Growth fund** seek to deliver high monthly income, long-term capital growth and an asymmetric return profile through a static allocation across US convertible bonds, US high-yield bonds and US equities with covered call options. The team has built a highly successful franchise with over \$40bn (£31.13bn) invested in the wider strategy. The fund is able to offer an attractive income yield to investors, though this can come at the expense of reduced upside potential versus mainstream equity markets.
- The **Pictet Short Term Money Market fund** invests in short-term money market securities offering a defensive approach with little volatility and very liquid assets. It is a variable net asset value fund, meaning it has to hold at least 7.5% in daily liquid assets and 15% in weekly liquid assets, which is less stringent than other forms of money market strategies. In theory, it therefore can offer an enhanced return by taking on more duration or credit risk. That said, the bulk of securities held are rated A-AAA (around 90% of the total) and duration centred around 48 hours to 30 days (over 60% exposure) so limiting risk. Over 60% is held in high-quality commercial paper and certificate of deposit (low-risk) instruments.
- **Stewart Investors Asia Pacific Leaders Sustainability** provides a more conservative manner of accessing Asia Pacific equities. Managed by one of the most highly regarded teams investing in the region, and led by David Gait and Sashi Reddy, (pictured below, left to right), the approach is underpinned by a strong quality mantra. The fund might lag behind in strong rising markets but it tends to be much less volatile than its competitors, and over the long term it has

produced excellent results for investors.

The fund has a Responsible AA rating within the Square Mile Academy of Funds.



Top-ranked IA Specialist funds Assets under management

Fund	Square Mile rating	3-year chg (%)	3-yr alpha	3-yr beta	3-year std dev	3-year R ²	Launch date	Domicile	Fund size (£m)
Allianz Income and Growth		12.55			9.24		18 Nov 2011	Lux	38,344.59
Pictet-Short-Term Money Market		3.33	-0.01	1.11	4.29	0.79	8 Oct 1998	Lux	8,323.86
Pictet-Short-Term Money Market		20.15	0.00	1.07	7.95	0.58	26 Aug 1997	Lux	7,849.78
Stewart Inv Asia Pacific Leaders Sustainability	Responsible AA	5.57	0.10	0.54	11.71	0.47	1 Dec 2003	UK	6,649.44
BGF Sustainable Energy		3.92	-0.62	1.23	18.38	0.79	6 Apr 2001	Lux	4,273.54
Schroder ISF Asian Total Return		-0.84	0.05	0.92	13.88	0.89	16 Nov 2007	Lux	3,890.12
Pimco GIS Dynamic Bond		6.78	-0.31	1.77	5.72	0.19	11 May 2010	Ireland	2,744.06
Atlantic House Defined Returns		22.42			7.21		4 Nov 2013	Ireland	2,194.43
MFS Meridian Funds-Prudent Wealth		4.28	-0.54	0.50	4.80	0.79	3 Mar 2008	Lux	1,999.99
Vontobel Fund GI Environ Change		11.82	-0.68	1.28	17.83	0.83	17 Nov 2008	Lux	1,851.84
Pictet TR-Atlas €		4.31			4.49		15 Nov 2016	Lux	1,577.50

All data as of 30 June 2024. Benchmark: Sonia. Source: Square Mile Research

tives from aggressive to conservative, 14 bond/money market funds, 10 single country offerings, largely made up of Korean and Russian funds, nine emerging market equities, seven gold and precious metals products and four biotech funds, resulting in a very broad church.

While the specialist category is somewhat of a curate's egg, it is home to significant investor assets. At the end of June, the unweighted average size of the funds was around £940m and total invested across the sector was £118.7bn, although the top 10 largest vehicles accounted for two-thirds or £78bn of the funds under management.

The sector is dominated by Allianz Income and Growth at over £38bn in size or around a third of the total assets within the sector.

At the opposite end of the spectrum there are 24 funds that are sub-£50m in size, accounting in aggregate for £510m of assets and with an average unweighted fund size of £21m.

Given the focus on niche and arguably less mainstream investment themes this tail of smaller funds is perhaps not surprising. The arguments for and against smaller funds are nuanced, though fixed costs can be a negative drag on a smaller pool of assets, and they may also be unappealing to larger investors that tend to avoid overly high ownership levels within funds.

Macro influence

Given the sheer breadth of strategies contained within this asset class, the macro environment has wildly differing effects on the performance of the various constituents.

A more benign interest rate environment might, for example, be a tailwind for the bond, infrastructure, stylistically growth-oriented or long-duration assets and a headwind for the short-term money market funds. Meanwhile, higher inflation and firmer

Funds to watch Newcomers

■ The **Fiera Oaks EM Select fund** is an actively managed, bottom-up stock selection equity strategy focusing on smaller companies within the emerging market and frontier market regions. There is a fundamental approach with a growth at a reasonable price (Garp) remit. Diversification is evident by sector and geography. Conviction is demonstrated by the relatively concentrated portfolio of around 60 holdings and high active share of 90%. Lead managers are Dominic Bokor-Ingram (pictured below) and Stefan Böttcher, who both have more than 30 years' experience investing in emerging markets. That expertise proves a key attribute when it comes to stockpicking in the emerging and frontier regions, with performance ahead of the broad MSCI Emerging Market index between 2021-2023.

■ **Goldman Sachs Strategic Volatility Premium** is a 'risk-off' strategy that uses options to implement a proprietary volatility overlay where the 'strategic volatility premium' is a factor within Goldman Sachs' allocation process. This was developed to offer exposure to factors such as strategic volatility and generate enhanced but consistent returns across different market conditions. The fund sells options on securities indices such as US treasury futures. These may be hedged using long options on underlying instruments or directly investing in securities. As the seller of options, the fund receives cash ('the premium') from the purchaser. The options-based overlay is designed to provide enhanced returns and income with downside risk mitigated by long options.

■ The managers of **Goldman Sachs Alternative Trend** seek to replicate a portfolio of trend-following hedge funds. The team focuses on hedge fund replication across multiple strategies, and invest in a basket of funds with a relative value mandate. It is a quantitative driven process with internal algorithms measuring the strength of price signals with the ability to go long or short in markets. Allocations are determined by liquidity as well – the more liquid a market, the higher the allocation to it. It is designed to be uncorrelated to markets with the ability to generate returns across all conditions. In 2022, for example, the fund was up 17% while the wider sector benchmark remained negative.



Top-ranked Specialist funds Newcomers

Fund	Square Mile rating	1-year chg (%)	1-yr alpha	1-yr beta	1-year std dev	1-year R ²	Launch date	Domicile	Fund size (£m)
Barings Eastern Europe							24 Jul 2023	Ireland	251.27
Atlantic House Global Defined Returns			8.49			4.05	26 Jun 2023	Ireland	36.28
Goldman Sachs Alternative Trend			0.37	-0.44	1.21	12.55	19 Dec 2022	Lux	314.57
Neuberger Berman Commodities			6.74	0.09	1.05	11.28	15 Mar 2022	Ireland	130.75
Polar Capital Smart Energy			-6.76			21.11	30 Sep 2021	Ireland	211.65
Polar Capital Smart Mobility			-12.27			21.92	30 Sep 2021	Ireland	6.84
Goldman Sachs Strategic Volatility Premium			5.47			4.95	29 Mar 2021	Lux	362.03
Fiera Oaks EM Select Fund			19.29			12.29	6 Jan 2021	Ireland	393.46
Premier Miton Financials Capital Securities			14.90			3.35	14 Sep 2020	UK	173.05
Fidelity Pre Retirement Bond			7.22			8.70	9 Sep 2020	UK	58.51

All data as of 30 June 2024. Benchmark: Sonia. Source: Square Mile Research

energy and commodities prices act as a fillip for those funds investing in precious metals, energy and wider resources.

Recent seismic changes in the geopolitical landscape (ie Russia/Ukraine) and the unwinding of low interest rates as higher inflationary pressures emerged, have showcased the magnitude, thematic range and diversity within the specialist sector and its potential appeal to investors.

The heterogeneous nature of this cohort is illustrated in the extreme divergence in volatility seen through the sector over the past three years. Those funds exposed to gold-related assets and emerging European assets have, not surprising, been subject to extremely elevated levels of volatility, in the order of two to three times the magnitude of what might be expected from broad global equities.

At the other end of the spectrum, money market, and some absolute return-type strategies have exhibited exceptionally low levels of volatility as measured via their three-year standard deviation.

The resultant constituent three-year performance also exhibits significant dispersion from the top-performing fund's return of 83% to the worst performer at -64%, a difference of 147%. Comparing this with a more homogeneous category such as IA UK All Companies, the difference between the best- and worst-performing funds (+41 and -36%) is 77 percentage points.

Since the IA review in 2021, the specialist sector has shrunk in terms of number of funds but remains extremely heterogeneous which, as the IA itself states, limits the use of the specialist category as an effective comparator peer group. **PA**

Funds to watch 3-yr performance

■ **Goldman Sachs North American Energy & Energy Infrastructure** is the best-performing fund within the sector over three years. It is a concentrated equity strategy of around 40 holdings focused on the North American energy companies. It will hold MLP (Master Limited Partnerships) securities of midstream energy companies. MLPs are entities that own energy infrastructure assets and are treated as a corporation for US tax purposes rather than a partnership. The top 10 holdings make up over 50% of the portfolio while the conviction-led stock selection approach results in low turnover (under 20% per annum). Performance was strong throughout 2021 and 2022, up 42% and 36%, respectively, as the energy sector benefited from commodity price rises. Names held include Exxon Mobil, Chevron and Targa Resources.

■ The **Pimco GIS MLP & Energy Infrastructure fund** is an actively managed strategy of MLPs and related firms launched almost 10 years ago. The fund offers exposure to North American energy without direct exposure to commodity prices and offers diversification through this specialist sector focus. It will own equity and debt of MLPs but predominantly equity names. Lead portfolio manager is John Devir, supported by Mark Kiesel and Brendan Hanley. The portfolio is concentrated, with fewer than 30 names held and the top 10 accounting for two-thirds of total assets. Performance was strong in 2021 and 2022, up 43% and 25%, respectively, as geopolitics and rising inflation led to a surge in commodity prices.

■ **Magna Mena Equity** is focused on bottom-up stock selection within the Middle East region and is a concentrated portfolio of fewer than 50 names with a high active share of over 80%. It focuses on quality companies with strong management and sustainable growth at attractive valuations. The conviction-led approach seeks ideas across the market cap spectrum, hence being a well-diversified strategy. Lead managers are Stefan Böttcher (pictured) and Dominic Bokor-Ingram.



Top-ranked IA Specialist funds 3-yr performance

Fund	Square Mile rating	3-year chg (%)	3-yr alpha	3-yr beta	3-year std dev	3-year R ²	Launch date	Domicile	Fund size (£m)
Goldman Sachs North Am Energy & Energy Infra		83.33	-0.13	1.45	21.42	0.88	14 Apr 2014	Lux	54.30
Pimco GIS MLP & Energy Infrastructure		80.44	-0.32	1.00	18.56	0.92	25 Nov 2014	Ireland	78.79
Magna Mena Fund		65.62	0.90	0.91	14.63	0.84	22 Feb 2011	Ireland	172.62
Algebris Financial Equity		58.19	0.35	1.17	18.29	0.77	2 Feb 2017	Ireland	238.83
Fiera Oaks EM Select Fund		51.39			11.53		6 Jan 2021	Ireland	393.46
LO Funds – Transition Materials		37.21	0.23	0.74	12.86	0.64	6 Jul 2011	Lux	101.31
BlueBay Global Sovereign Opps		33.95			10.18		24 Feb 2017	Lux	374.40
EVI Irl PPA Gbl Def Eq		29.75	0.12	0.52	4.85	0.98	23 Jun 2017	Ireland	77.81
Artisan US Select Equity		28.08			12.26		20 Apr 2020	Ireland	1.53
Skagen Vekst		28.01			11.14		1 Dec 1993	Norway	886.87

All data as of 30 June 2024. Benchmark: Sonia. Source: Square Mile Research

Top 50 net inflows

Lipper data shows the 50 Investment Association funds, which are at least £300m in size, with the largest inflows and outflows over 2023, calculated as the fund share class registering largest estimated net flows (ENF) divided by the total net assets of the whole fund (TNA) over the month.

Name	Sector	Estimated net flows (£m)	Aggregate fund value (£m) 1 month		Index tracking	ENF/aggt fund value
			Jun '24 As at 30.06.24	Jul '24 As at 31.07.24		
	IA	Jun '24 - Jul '24			Indexed	
Scottish Widows Global Select Growth	Global	178.94	347.24	512.9		51.53%
SPDR Bloomberg 15+ Year Gilt Ucits ETF	UK Gilts	125.8	358.52	493.36	✓	35.09%
Goldman Sachs Abs Return Tracker	Specialist	257.7	774	1,003.36		33.29%
Scottish Widows International Bond Fund	Global Mixed Bond	241.55	730.18	978.44		33.08%
Xtrackers Russell 2000 Ucits ETF	North American Smaller Companies	256.35	778.56	1,100.15	✓	32.93%
abrdn American Equity Tracker Fund	North America	344.63	1,133.2	1,442.44	✓	30.41%
Amundi UK Government Bond Ucits ETF	UK Gilts	227.34	893.33	1,136.28	✓	25.45%
Amundi EUR Corporate Bond Ucits ETF	EUR Corporate Bond	258.65	1,048.18	1,352.51	✓	24.68%
Wellington Blended Oppc EM Debt	Global EMs Bond - Blended	174.21	853.75	1,042.23		20.41%
Ninety One American Franchise	North America	107.75	599.54	694.88		17.97%
Quilter Investors Corporate Bond	Sterling Corporate Bond	61.39	389.21	456.71		15.77%
iShares S&P 500 Cnsmr Dscrtmr Sctr Ucits ETF	North America	55.15	361.95	418.66	✓	15.24%
Pimco GIS StocksPlus	North America	438.19	2,879.94	3,329.44		15.22%
Xtrackers II Germany Government Bond Ucits ETF	Specialist Bond	63.68	436.67	501.59	✓	14.58%
iShares € Govt Bond 1-3yr Ucits ETF	EUR Government Bond	185.23	1,343.45	1,531.54	✓	13.79%
BNY Mellon Global Credit	Sterling Corporate Bond	150.27	1,240.66	1,394.21		12.11%
Vanguard FTSE 250 Ucits ETF	UK All Companies	271.85	2,305.54	2,823.58	✓	11.79%
iShares S&P 500 Cnsmr Staples Sctr Ucits ETF	North America	40.54	348.64	390.17	✓	11.63%
Fidelity Index UK Gilt Fund	UK Gilts	49.97	445.17	502.71	✓	11.22%
Xtrackers MSCI UK ESG Ucits ETF	UK All Companies	42.85	386.09	442.03	✓	11.10%
iShares US Property Yield Ucits ETF	Property Other	41.6	393.92	452.81	✓	10.56%
UBS Global Equity Climate Transition	Global	254.99	2,431.11	2,692.57		10.49%
SPDR Russell 2000 US Small Cap Ucits ETF	North American Smaller Companies	226.32	2,190.24	2,600.19	✓	10.33%
iShares MSCI USA Sm Cap ESG Enhcd Ucits ETF	North American Smaller Companies	128.29	1,243.53	1,449.17	✓	10.32%
Invesco Qnt Stgs ESG Global Eq MF Ucits ETF	Global	44.28	451.56	497.21		9.81%
iShares MSCI Canada Ucits ETF	Specialist	72.43	750.13	846.54	✓	9.66%
Xtrackers S&P 500 Equal Weight Ucits ETF	North America	454.57	4,749.46	5,370.04	✓	9.57%
BlueBay Global High Yield ESG Bond	Global High Yield Bond	34.7	376.95	412.31		9.21%
Latitude Global Fund	Global	27.75	302.37	335.81		9.18%
SW UK Climate Transition Index Eqty Tracker	Unclassified	36.18	408.02	454.85	✓	8.87%
iShares \$ Treasury Bond 1-3yr Ucits ETF	USD Government Bond	45.36	515.75	558.85	✓	8.79%
Xtrackers MSCI World Information Tech Ucits	Technology and Technology Innovation	278.49	3,230.56	3,391.85	✓	8.62%
Legal & General Property	UK Direct Property	92.97	1,091.3	1,195.16		8.52%
Vanguard Eurozone Infl Lnk Bd	EUR Government Bond	97.65	1,162.75	1,178.3	✓	8.40%
BlackRock Global Corporate ESG	Global Corporate Bond	163.08	1,990.11	2,183.02		8.19%
L&G Fut Wld ESG North America	North America	24.61	302.87	322.04	✓	8.13%
iShares Dev Wld Fsl Fl scmd Eq	Global	65.08	802.21	858.79	✓	8.11%
Vanguard UK Investment Grd Bd	Sterling Corporate Bond	339.54	4,350.49	4,766.66	✓	7.80%
Royal London Asia Pacific ex Japan EquityTilt	Asia Pacific Excluding Japan	119.37	1,585.35	1,664.93	✓	7.53%
Vanguard USD Corporate Bond Ucits ETF	USD Corporate Bond	161.15	2,184.89	2,371.58	✓	7.38%
Polar Capital Asia Stars	Asia Pacific Excluding Japan	22.55	307.46	315.57		7.33%
Orbis Oeic Global Balanced Fund	Mixed Investment 40-85% Shares	25.76	352.77	389.75		7.30%
JPM Korea Equity	Specialist	71.28	979.16	1,044.11		7.28%
iShares S&P SmallCap 600 Ucits ETF	North American Smaller Companies	96.46	1,327.05	1,533.87	✓	7.27%
Vanguard Global Corporate Bd	Global Corporate Bond	238.47	3,307.67	3,554.38	✓	7.21%
BlackRock MyMap	Volatility Managed	32.82	455.93	489.75		7.20%
Royal London Global Equity Diversified	Global	398.83	5,553.09	5,966.48		7.18%
iShares \$ Corp Bond 0-3yr ESG Ucits	USD Corporate Bond	51.83	727.65	869.18	✓	7.12%
HSBC MSCI Pacific ex Japan Ucits	Asia Pacific Excluding Japan	28.58	402.95	423.34	✓	7.09%
Xtrackers S&P Europe ex UK Ucits ETF	Europe Excluding UK	34.27	484.62	519.43	✓	7.07%

Bottom 50 net outflows

Name	Sector	Estimated net flows (£m)	Aggregate fund value (£m) 1 month		Index tracking	ENF/aggt fund value
			Jun '24 As at 30.06.24	Jul '24 As at 31.07.24		
	IA	Jun '24 - Jul '24			Indexed	
iShares Ageing Population Ucits ETF	Specialist	-20.71	358.28	352.17	✓	-5.78%
Royal London UK Mid Cap Growth	UK All Companies	-20.84	383.56	392.64		-5.43%
iShares MSCI Japan SRI Ucits ETF	Japan	-35.43	685.8	681.4	✓	-5.17%
Baillie Gifford Multi Asset Growth	Targeted Absolute Return	-20.46	415.61	405.63		-4.92%
Impax Environmental Markets	Global	-28.44	608.87	603.31		-4.67%
FTF Martin Currie UK Equity Income Fund	UK Equity Income	-39.75	894.56	889.58		-4.44%
Man GLG Japan CoreAlpha	Japan	-92.8	2,328.14	2,369.79		-3.99%
Xtrackers Nikkei 225 1D JPY Ucits ETF	Japan	-71.34	1,863.12	1,872.75	✓	-3.83%
Amundi Euro Stoxx Banks Ucits ETF	Specialist	-32.88	859.04	869.66	✓	-3.83%
Janus Henderson Strategic Bond	Sterling Strategic Bond	-81.73	2,221.26	2,167.66		-3.68%
iShares Dvlp Mkts Prop Yld Ucits ETF	Property Other	-42.88	1,171.97	1,197.32	✓	-3.66%
iShares Euro Stoxx Small Ucits ETF	European Smaller Companies	-16.36	447.33	438.78	✓	-3.66%
iShares Overseas Government Bond	Global Government Bond	-144.06	4,066.11	3,969.93	✓	-3.54%
Trojan Income	UK All Companies	-23.24	661.44	659		-3.51%
Royal London Global High Yield Bond Fund	Sterling High Yield	-104.75	3,043.32	2,982.76		-3.44%
Amundi Index MSCI Japan SRI PAB Ucits ETF	Japan	-17.42	508.63	541.77	✓	-3.42%
Quilter Investors Cirilium Moderate Portfolio	Mixed Investment 40-85% Shares	-51.5	1,516.33	1,480.65		-3.40%
Quilter Investors Cirilium Balanced Portfolio	Mixed Investment 20-60% Shares	-41.98	1,295.58	1,266.04		-3.24%
iShares MSCI Europe Qlty Div ESG Ucits ETF	Europe Including UK	-18.5	584.17	576.48	✓	-3.17%
Ninety One UK Alpha Fund	UK All Companies	-12.16	385.43	386.13		-3.15%
Scottish Widows UK Growth	UK All Companies	-52.44	1,680	1,658.11		-3.12%
Liontrust Sust Future Defensive	Mixed Investment 20-60% Shares	-22.6	725.33	712.32		-3.12%
iShares Idx Linked Gilt	UK Index Linked Gilts	-41.55	1,360.31	1,337.09	✓	-3.05%
WS Lancaster Absolute Return Fund	Targeted Absolute Return	-10.88	356.75	357.14		-3.05%
Scottish Widows Corporate Bond Fund	Sterling Corporate Bond	-65.29	2,146.78	2,109.82		-3.04%
Morgan Stanley Global Brands	Global	-29.66	992.52	978.96		-2.99%
CT Japan Retail	Japan	-15.41	518.21	513.06		-2.97%
Ninety One Diversified Income	Mixed Investment 0-35% Shares	-25.16	852.47	840.65		-2.95%
Russell Investments Global Bond	Global Mixed Bond	-33.63	1,139.59	1,118.45		-2.95%
Liontrust Sust Future Cautious	Mixed Investment 40-85% Shares	-23.56	804.83	791.89		-2.93%
Royal London Global Sustainable Credit	Global Corporate Bond	-10.54	361.88	359		-2.91%
abrdn Global Smaller Companies Fund	Global	-27.74	968.71	949.32		-2.86%
Aegon Diversified Monthly Income	Mixed Investment 20-60% Shares	-25.24	882.38	866.43		-2.86%
Amundi Euro Government Bond Ucits ETF	EUR Government Bond	-42.05	1,492.05	1,478.05	✓	-2.82%
Invesco CoinShares Global Blockchain Ucits ETF	Global	-13.17	469.9	472.38	✓	-2.80%
Quilter Investors Cirilium Dynamic Portfolio	Flexible Investment	-26.51	954.82	940.18		-2.78%
Baillie Gifford Global Discovery	Global	-13.44	497.07	501.94		-2.70%
Allianz Gilt Yield	UK Gilts	-30.35	1,141.18	1,126.46		-2.66%
Baillie Gifford UK & Worldwide Equity	Unclassified	-9.93	374.36	372.5		-2.65%
SPDR FTSE UK All Share Ucits ETF	UK All Companies	-12.41	470.33	472.4	✓	-2.64%
Amundi Euro Gov Inflation-Linked Bond Ucits ETF	EUR Government Bond	-23.42	895.83	884.29	✓	-2.61%
iShares MSCI USA SRI Ucits ETF	North America	-131.14	5,030.28	4,914.54	✓	-2.61%
Legal & General Multi-Index	Volatility Managed	-10.09	392.67	387.21		-2.57%
abrdn Global Real Estate Fund	Property Other	-9.69	378.72	370.98		-2.56%
Veritas Global Real Return	Targeted Absolute Return	-8.42	334.47	336.78		-2.52%
abrdn MyFolio Managed V Fund	Volatility Managed	-9.37	378.22	371.05		-2.48%
GAM Credit Opportunities	Specialist Bond	-9.18	376.35	373.08		-2.44%
BlueBay Global High Yield Bond	Global High Yield Bond	-30.55	1,266.12	1,238.14		-2.41%
BlackRock Cash	Short Term Money Market	-22.84	957.23	938.86		-2.39%
iShares MSCI EM SRI Ucits ETF	Global Emerging Markets	-62.47	2,618.65	2,558.56	✓	-2.39%

Five crown-rated performers over three years

Each month, FE Fundinfo selects all of the five FE crown-rated funds in the IA universe (excluding mixed asset, volatility managed, unclassified and specialist sectors) and highlights their three-year total returns, their three-year alpha generation relative to their respective benchmarks, and their three-year Sortino ratios – which measure risk-adjusted returns without penalising any captured upside volatility.

Name	Benchmark	3yr Total Rtn	3yr Alpha (Annualised)	3yr Max Drawdown	3yr Sortino Ratio
IA Asia Pacific excluding Japan					
BNY Mellon Asian Income	FTSE Asia Pacific ex-Japan TR Index	5.61	5.24	-10.52	0.07
Fidelity Asian Dividend	MSCI AC Asia Pacific ex Japan High Dividend Yield Index	3.65	3.32	-12.43	-0.11
Fidelity Asian Smaller Companies	MSCI AC Asia Pac ex Japan Sm Cap Australia Capped 10% Index	6.10	5.65	-8.55	0.14
Invesco Asian	IA Asia Pacific excluding Japan Sector	6.03	6.18	-15.49	0.08
Janus Henderson Inst Asia Pacific ex-Japan Index Opps	Solactive GBS Dev Markets Pacific ex Japan Customised Index	3.85	4.17	-14.57	-0.08
Jupiter Asian Income	FTSE AW Asia Pacific ex-Japan	12.56	12.31	-7.01	0.77
L&G Asia Pacific Equity Income	FTSE Asia Pacific ex-Japan TR Net Index	7.89	7.73	-11.06	0.26
Matthews Asia Small Companies	MSCI AC Asia ex Japan Small Cap	3.85	3.73	-14.53	-0.09
Quilter Investors Asia Pacific (ex Japan) Large-Cap Eq	MSCI AC Asia Pacific ex Japan	5.95	6.09	-15.41	0.07
Schroder Asian Income	MSCI AC Pacific ex Japan (Net Total Return) Index	6.25	6.10	-12.20	0.12
Schroder Institutional Pacific	MSCI Pacific ex Japan (Gross Total Return) index	2.69	2.55	-14.18	-0.18
IA Asia Pacific including Japan					
Stewart Investors Asia Pcfic and Japan Sustblty	MSCI AC Asia Pacific Net Index	3.71	3.44	-12.23	-0.22
IA China/Greater China					
AB Sicav I China A Share Equity Portfolio	MSCI China A Onshore	6.60	1.79	-27.92	-0.69
Fidelity China Focus	MSCI China Capped 10% Index	12.09	13.59	-24.96	-0.25
IA Commodity/Natural Resources					
Guinness Sustainable Energy	MSCI World	-11.96	-8.72	-25.36	-0.27
IA Europe excluding UK					
Chelverton Asset Mgmt Ltd MI Chelverton European Select	IA Europe ex-UK Sector	-2.25	-2.25	-21.24	-0.17
EdenTree Responsible and Sustainable European Equity	FTSE World Europe EX UK	3.88	4.46	-14.72	0.28
IFSL Marlborough European Special Situations	IA Europe (ex UK) Sector	-4.66	-4.37	-24.50	-0.30
Invesco European Equity	IA Europe Excluding UK Sector	3.57	3.97	-11.72	0.25
Invesco European Focus	IA Europe Excluding UK Sector	2.74	3.10	-11.20	0.19
Liontrust European Dynamic	MSCI Europe ex UK	5.66	5.70	-13.03	0.41
Quilter Investors Europe (ex UK) Equity Income	MSCI Europe ex UK	5.41	6.35	-13.89	0.36
Russell IC Continental European Equity	Russell Developed Europe ex-UK Large Cap Net	1.17	1.41	-15.71	0.08
SVM Continental Europe	MSCI Europe ex UK	-4.57	-4.11	-19.21	-0.35
WS Lightman European	MSCI Europe ex UK	4.37	5.66	-12.23	0.30
WS Ardtur Continental European	MSCI TR Net Europe Ex UK Index	8.76	9.75	-12.04	0.49
IA Europe including UK					
Pictet Quest Europe Sustainable Equities	MSCI Europe	3.83	3.83	-17.42	0.33
IA Global					
Artisan Global Value	MSCI ACWI	5.86	7.05	-8.27	0.66
Dodge & Cox Global Stock	MSCI World	5.78	7.08	-6.94	0.54
Fidelity Global Industrials	MSCI ACWI Energy + Materials + Industrials Index	11.83	12.35	-8.06	1.10
GMO Climate Change Investment		-11.51	-11.36	-31.66	-0.39
GMO Quality Investment		8.53	9.06	-7.91	0.89
JGF-Jupiter Global Value	MSCI AC World	3.34	5.53	-8.15	0.35
Kempfen (Lux) Global Small-cap	MSCI World Small Cap	-0.27	0.43	-10.95	0.00
Lazard Global Equity Franchise	MSCI World	5.52	6.46	-7.31	0.53
MFS Meridian Contrarian Value	MSCI World Value	8.37	9.13	-9.77	0.70
Natixis Harris Associates Global Equity	MSCI World	-0.74	-0.36	-13.61	-0.03

Name	Benchmark	3yr Total Rtn	3yr Alpha (Annualised)	3yr Max Drawdown	3yr Sortino Ratio
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IA Global (cont)

Robeco BP Global Premium Equities	MSCI World index	6.66	7.92	-7.11	0.68
Royal London Global Equity Select	MSCI World Net Total Return Index	13.27	13.41	-8.90	1.12
Schroder ISF Global Energy	MSCI World SMID Energy index	23.15	29.57	-14.99	1.25
Schroder ISF Global Equity Yield	MSCI World Net TR	3.13	5.39	-10.92	0.34
Thornbridge Thornbridge Global Opportunities	IA Global Sector	13.54	15.50	-7.02	1.01
Wellington Global Stewards	MSCI All Countries World Index	5.65	6.22	-7.15	0.67

IA Global Corporate Bond

Muzinich Global Short Duration Investment Grade	ICE BofAML 1-3 Year German Government Index	3.09	2.44	-5.47	-0.45
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IA Global Emerging Markets

Artemis SmartGARP Global Emerging Markets Equity	MSCI EMERGING MARKETS	7.95	7.91	-13.97	0.17
BNY Mellon Emerging Income	MSCI Emerging Markets	7.22	6.47	-7.77	0.14
Invesco Emerging Markets ex China	MSCI EM (Emerging Markets) ex China 10-40 Index	17.75	18.12	-12.64	0.86
Invesco Global Emerging Markets	IA Global Emerging Markets	5.75	6.14	-17.61	-0.02
JPM Emerging Markets Income	MSCI Emerging Markets	4.79	4.80	-18.70	-0.11
Lazard Emerging Markets	MSCI Emerging Markets Index	8.05	7.83	-12.89	0.20
M&G Global Emerging Markets	MSCI Emerging Markets Index	7.18	7.50	-10.55	0.11
Robeco QI Emerging Conservative Equities	MSCI Emerging Markets Index	8.48	7.13	-7.64	0.37
T Rowe Price Emerging Markets Discovery Equity	MSCI EMERGING MARKETS	3.56	3.42	-15.58	-0.22

IA Global EM Bonds – Blended

PGIM Emerging Market Total Return Bond	ICE BofA US 3-Month Treasury Bill Index	4.65	4.72	-5.54	0.25
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IA Global EM Bonds – Hard Currency

GS Emerging Markets Corporate Bond Portfolio	JPM CEMBI - Broad Div Index (Total Return Gross) (GBP-Hedged)	0.05	0.19	-20.80	-0.52
Muzinich Emerging Markets Short Duration	No Specified Index	1.41	0.88	-13.45	-0.60
Pictet Short Term Emerging Corporate Bonds	JP Morgan Cembi Broad Diversified 1-3	1.70	1.07	-10.87	-0.66

IA Global Equity Income

Aegon Global Equity Income	MSCI AC World	2.95	2.06	-8.24	0.70
Kempen (Lux) Global High Dividend	MSCI World Index	0.91	1.71	-7.00	0.44

IA Global Government Bond

IFSL Signia Sovereign	Sonia +1%	4.34	2.53	-4.56	-0.87
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IA Global Inflation Linked Bond

Pimco Global Low Duration Real Return	Bloomberg World Gov In-Linked Bond 1-5 Yr USD Hedged Index	4.17	3.36	-4.89	-0.28
Royal London Short Duration Global Index Linked	Bloomberg World Govt IL ex-UK 1-10yrs 70% + UK Govt IL 1-10yrs 30%	2.54	2.36	-6.83	-0.51

IA Global Mixed Bond

Courtiers Investment Grade Bond		3.15	2.25	-2.01	-0.65
Dimensional Global Short Dated Bond	No specified benchmark	0.47	-0.28	-9.63	-0.97
GS Global Dynamic Bond Plus Portfolio	UK Generic Treasury Bills 3M	3.71	3.43	-9.35	-0.22
Jupiter Global Macro Bond	Sterling Overnight Interbank Average Rate GBP	3.26	2.58	-2.37	-0.48
Muzinich Enhancedyield Short-Term Fund	BofA Merrill Lynch German Federal Govt (1-3 Yr) Index (G1D0)	2.88	2.28	-6.67	-0.52
PGIM Multi-Sector Credit	Bloomberg Multi 1-5yr Ex Ty A+ to B- USD GBP EUR Inx (USD Hd)	3.91	3.28	-7.64	-0.15
Pimco Diversified Income Duration		4.29	4.12	-11.90	-0.07
Pimco Low Duration Income Fund	Bloomberg US Aggregate 1-3 Years Index	3.72	3.53	-7.37	-0.23
Royal London Global Bond Opportunities		4.03	4.20	-10.92	-0.12

IA Healthcare

Candriam Equities L Oncology Impact	No Specified Index	1.95	2.06	-17.03	-0.08
Polar Capital Healthcare Blue Chip	MSCI AC World Daily Total Return Net Health Care Index	7.17	7.23	-6.35	0.48
Polar Capital Healthcare Discovery	MSCI World Small Cap Health Care Total Return Index (GBP)	-4.15	-3.62	-27.12	-0.39

Name	Benchmark	3yr Total Rtn	3yr Alpha (Annualised)	3yr Max Drawdown	3yr Sortino Ratio
IA Infrastructure					
Cohen & Steers Global Listed Infrastructure	FTSE Global Core Infrastructure 50/50	3.81	3.81	-15.36	0.25
Lazard Global Listed Infrastructure Equity	MSCI World Core Infrastructure	4.16	4.36	-14.20	0.21
Russell Investments Global Listed Infrastructure	S&P Global Infrastructure	4.93	4.90	-12.61	0.32
WS Macquarie Global Infrastructure Securities	S&P Global Infrastructure Net TR Index	6.15	6.18	-10.41	0.54
IA Japan					
Barclays GlobalAccess Japan	Topix	10.22	10.94	-10.36	0.79
Fidelity Japan	TOPIX Net Total Return Index	5.28	5.93	-8.46	0.63
GS Japan Equity Partners Portfolio	Topix	9.97	9.79	-20.65	0.62
M&G Japan	MSCI Japan	7.20	7.36	-7.50	0.74
Man GLG Japan Core Alpha	Topix Total Return Index	11.17	12.11	-8.87	0.94
New Capital Japan Equity	MSCI Japan	9.36	9.48	-17.10	0.63
Nikko AM Japan Value	Topix	4.52	4.78	-12.07	0.41
Nomura Japan Strategic Value	Topix Index (gross of tax with dividends reinvested)	21.06	22.21	-5.04	2.00
Polar Capital Japan Value	Topix	5.79	7.15	-11.42	0.71
Quilter Investors Japanese Equity	MSCI Japan	5.79	6.00	-8.69	0.55
Schroder Tokyo	Tokyo Stock Exchange 1st Section (Gross Total Return) Index	2.94	3.52	-12.40	0.34
WS Morant Wright Japan	Japan Topix	10.68	12.05	-8.74	1.12
WS Morant Wright Nippon Yield	Topix	12.16	13.68	-7.56	1.36
IA North America					
BlackRock US Dynamic	Russell 1000	2.25	3.34	-7.38	0.65
BlackRock US Mid-Cap Value	S&P US MidSmallCap Index	1.48	4.42	-8.22	0.49
BNY Mellon US Equity Income Fund	S&P 500	4.54	7.77	-10.65	0.88
BNY Mellon US Equity Income	S&P 500	4.61	8.86	-8.17	0.83
CT US Equity Income	S&P 500	2.52	4.48	-6.22	0.79
Dodge & Cox US Stock	S&P 500	1.72	3.58	-8.46	0.49
Fidelity American Special Situations	S&P 500	3.96	6.48	-10.36	0.81
FTF ClearBridge US Equity Income	S&P 500	2.10	4.70	-5.65	0.76
FTF ClearBridge US Value	Russell 1000 Value	3.05	4.47	-9.73	0.54
HSBC US Multi-Factor Equity	S&P 500	3.34	3.50	-10.83	0.67
JPM US Research Enhanced Index Equity	S&P 500 Index	3.48	4.07	-10.37	0.71
M&G North American Value	S&P 500	2.91	5.16	-6.82	0.77
Natixis Harris Associates US Value Equity	S&P 500	3.47	3.33	-8.92	0.65
Quilter Investors US Equity Income	MSCI North America	3.85	8.11	-8.68	0.76
Robeco BP US Large Cap Equities	Russell 1000	3.75	5.71	-10.71	0.67
Royal London US Growth Trust	MSCI USA Net Return GBP	3.91	3.67	-13.66	0.65
Scottish Widows American Growth	S&P 500 Index + 1.25% Outperformance Target	3.26	4.44	-8.93	0.73
UBS US Equity	S&P 500	-0.80	-0.18	-13.13	0.28
VT De Lisle America	No Specified Index	1.99	4.26	-10.92	0.45
IA North American Smaller Companies					
Federated Hermes US SMID Equity	Russell 2500	5.58	5.69	-13.43	0.26
IA Property Other					
CT Property Growth & Income	FTSE EPRA Nareit Developed Europe Capped	0.37	0.08	-29.10	-0.40
IA Short Term Money Market					
Royal London Short Term Money Market	Sterling Overnight Index Average (SONIA)	0.41	0.19	-0.01	-0.41
IA Specialist Bond					
GAM Star MBS Total Return	ICE BOFA US Mortgage Backed Securities Ix (GAM Hd) in GBP	2.99	2.35	-4.25	-0.45
Janus Henderson Multi Asset Credit	Euro Short-term Rate	4.51	4.07	-8.31	0.03
IA Standard Money Market					
abrdn Sterling Money Market	Sonia	0.04	0.31	-0.01	-0.45

Name	Benchmark	3yr Total Rtn	3yr Alpha (Annualised)	3yr Max Drawdown	3yr Sortino Ratio
IA Sterling Strategic Bond					
Axa Global Short Duration Bonds	Sonia Compounded Index	2.78	2.42	-6.47	-0.35
Axa Managed Income	No Specified Index	2.02	1.92	-12.55	-0.36
BNY Mellon Inflation Linked Corporate Bond Institutional	UK Investment Assoc Sterling Strategic Bond NR Sector Average	4.53	4.64	-11.55	0.05
Carmignac Portfolio Global Bond	JP Morgan Global Government Bond index	2.61	2.29	-4.18	-0.39
Close Sustainable Select Fixed Income Fund	IA £ Strategic Bond	2.16	2.21	-14.21	-0.31
FP Carmignac Global Bond	JP Morgan Global Government Bond index	-0.25	-0.72	-5.27	-0.72
Invesco Monthly Income Plus	IA Sterling Strategic Bond Sector	2.61	2.77	-13.47	-0.22
Invesco Tactical Bond	3 Month UK Treasury Bills	1.54	1.48	-9.31	-0.46
JPM Global Bond Opportunities	Bloomberg Multiverse Index hedged to GBP	0.94	0.85	-11.17	-0.53
Jupiter Monthly Income Bond		2.35	2.24	-11.98	-0.32
L&G Strategic Bond	ABI / IA Sector	2.91	2.85	-11.30	-0.18
M&G UK Inflation Linked Corporate Bond	UK Consumer Price Index	3.67	3.38	-5.45	-0.10
Pimco GIS Income	Bloomberg Barclays US Aggregate Bond Index (GBP Hedged)	1.47	1.48	-12.07	-0.38
Quilter Investors Diversified Bond	ICE BofAML Q880 Custom Index	1.99	1.62	-8.18	-0.53
Royal London Sterling Extra Yield Bond	FTSE Actuaries British Government 15 Years Index	4.18	4.03	-9.31	0.00
Schroder Strategic Bond	Bloomberg Multiverse ex treasuries A+-B- GBP hedged	2.31	2.45	-14.36	-0.25
Schroder Strategic Credit	ICE BofA Sterling 3 Month Government Bill Index	3.39	3.31	-11.69	-0.11
Schroder Sustainable Bond	ICE BofA Sterling 3-Month Government Bill Index plus 2.5%	2.55	2.20	-6.43	-0.47
Titan Hybrid Capital Bond	IA Sterling Strategic Bond	3.72	3.47	-9.79	-0.05
VT AI-Funds Tactical High Yield Bond		2.49	2.14	-6.14	-0.49
WS Charteris Strategic Bond	No Specified Index	4.29	4.38	-7.01	0.02

IA Targeted Absolute Return

AQR Managed Futures	BofA Merrill Lynch 3 Month T-Bill	7.75	16.33	-8.48	0.51
Jupiter Merian Global Equity Absolute Return	Bank of England Base Rate	6.87	10.37	-1.21	2.37
Liontrust GF European Strategic Equity	MSCI Europe	14.32	17.54	-5.49	2.37
M&G Global Target Return	Sonia + 2-4%	2.13	2.48	-1.80	0.58
Premier Miton Defensive Growth	Sonia	-1.61	0.02	-5.70	-0.67
Royal London Diversified Asset-Backed Securities	Sterling Overnight Index Average (Sonia)	2.20	3.35	-2.88	0.60
T Rowe Price Dynamic Global Bond	3-month GBP Sonia	-2.80	1.65	-8.74	-0.63
Thesis TM Tellworth UK Select	Sonia1M IR	4.71	7.85	-2.30	1.58
VT Woodhill UK Equity Strategic		5.48	6.48	-4.80	1.20

IA UK All Companies

Artemis SmartGARP UK Equity	FTSE AllShare	7.58	8.05	-8.62	0.44
Consistent Opportunities Unit Trust	FTSE All Share TR	-6.96	-6.69	-30.33	-0.56
Invesco UK Opportunities	IA UK All Companies Sector	10.70	11.05	-12.91	0.80
Liontrust UK Equity	FTSE All Share	2.81	2.84	-18.45	0.16
TM CRUX UK Special Situations	IA UK All Companies	-7.95	-7.95	-29.30	-0.45
VT Downing Unique Opportunities	IA UK All Companies	-5.83	-5.60	-29.72	-0.45

IA UK Equity Income

Quilter Investors UK Equity Income	MSCI UK All Cap index	1.93	1.64	-11.14	0.35
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IA UK Gilts

FTF Franklin UK Gilt	FTSE UK Gilts (All) Government Index	1.00	0.23	-26.06	-0.99
Wesleyan Risk Averse	ABI Money Market	6.95	2.98	-12.98	-0.80

IA UK Smaller Companies

Aberforth UK Small Companies	Numis Smaller Comp Index (excluding Investment Companies)	9.06	9.85	-25.89	-0.06
Artemis UK Smaller Companies	Deutsche Numis UK Smaller Companies (-InvTrust) TR	10.31	9.99	-18.63	0.02
Fidelity UK Smaller Companies	Numis UK Smaller Companies ex Inv Cos Index	10.77	11.24	-20.15	0.05
Liontrust UK Micro Cap	FTSE Small Cap ex ITs	3.19	1.08	-29.41	-0.50
Unicorn UK Smaller Companies	Numis UK Smaller Coms plus AIM Ix / IA UK Siller Comps Sector	6.07	5.44	-28.03	-0.31
VT Teviot UK Smaller Companies	Numis Smaller Companies	7.13	6.42	-22.41	-0.20
WS Gresham House UK Smaller Companies		6.91	6.05	-23.15	-0.27

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Shine on?

Trying to determine a fair value for gold is a bit like flogging a dead horse, but its recent incredible run causes Ernst Knacke, head of research at Shard Capital, to wonder if the yellow metal is overvalued

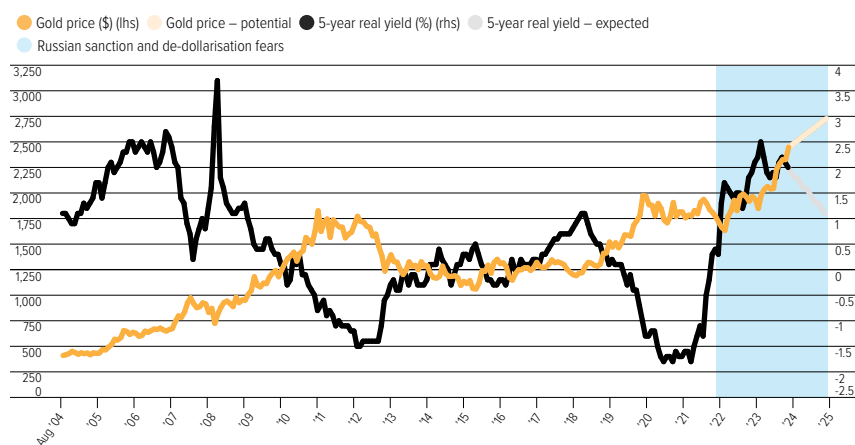
Longer term, the rising burden of government liabilities and shifting demographics will lead to an era of financial repression. As the world enters the 'fiscal age', governments are likely to fund the burgeoning welfare state by printing money. This strategy has historically led to the fall of empires and it is unlikely to be any different this time, as inflation uncertainty and wealth inequality continue to rise. Despite the enormous amount of money printed over the past two decades, gold prices have not kept pace, and one can reasonably believe upside potentials remain attractive.

Of greater importance in the near term are underlying supply-demand dynamics. Supply remains constrained, underpinned by rising costs and production difficulties. However, demand-side

dynamics are likely to change. Gold ETFs have experienced outflows in 24 of the past 36 months. This trend aligns with the recent surge in real yields. Surprisingly, as shown in the chart below, gold prices have remained strong despite their usual negative correlation with real yields. However, sanctions against Russia likely triggered fears of de-dollarisation, driving a surge in central bank demand for gold across many emerging economies, especially China.

As western central banks now begin to ease, a shift in western demand for gold is expected as real rates – the difference between nominal rates and inflation – decline. This, coupled with strong demand from emerging economies underpinned by an increasingly negative perception of the dollar as a reserve asset, will provide significant support for gold prices.

Correlation between real yields and gold



Source: Bloomberg, Shard Capital, August 2004 to August 2024

And another thing ...

'Ben Kumar incandescent with rage at morning traffic on his daily commute'

Obviously, I'm not 'incandescent' with rage. I'm not literally emitting light due to being so angry I've overheated. Neither am I livid with fury or apoplectic. Those just aren't the right words to describe my mildly annoyed frame of mind.

And words are important. They create emotions and provoke actions. Which is why the headlines of the likes of Bloomberg or CNBC bug me so much. Words that have a genuinely serious meaning in everyday life are pressed into service for financial non-events.

If a ship 'sinks' that's pretty damn bad – alert the coastguard and man the lifeboats. A market 'sinking' shouldn't have the same level of drama. Same thing applies to 'crashing' and 'tumbling' – or equally 'soaring', 'jumping' and 'surging'. From time to time there are financial events that merit a little bit of excitement. But most days, markets just bumble

around like a pollen-drunk bee on a hot day – with no real aim or sense of purpose.

On the investment desk, we have a daily game of sharing the most ludicrous headlines, but actually it's not that much of a joke. When these headlines creep into the wider world, they cause ripples. People read the word 'crisis', 'crash' or 'turmoil' and panic.

Now, I never mind picking up the phone to a scared client – it's a crucial part of my job. But it isn't healthy for clients to be in a constant state of anxiety about their portfolios when there's really nothing wrong in the world. And as the number of retirees who depend on their investments grows over the next decade, that's not good for the mental stability of the country.

And please, can everyone stop talking about how many 'billions of pounds are wiped off the market'. The FTSE 100 is worth around £2.2trn. A 1% move up or down (pretty common) is worth around £20bn. It's just a normal day.

Ben Kumar, head of equity strategy, 7IM



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