

Economic & Political Roundup

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

Roundup

Stock markets have suffered their first meaningful fall for nearly two years. At the quarter end, the FTSE 100 index was down nearly 10% from its January peak of approximately 7800. What looked like good news about the strength of global economies was taken as signs that inflation was on the rise and interest rates would have to rise. Politics, trade wars and protectionism collectively contributed to the market correction.

Global

Concerns remain about valuations, inflation, the end of QE and geopolitics.

In April 2017, the heading for this review spoke of high valuations, bond yields and inflation. The heading above in April 2018 is very similar, although the world has certainly moved on. The chairman of ScotGems, William Salomon noted that their investment manager has been cautiously deploying cash at today's high valuations. They prefer to wait to invest when valuations become more attractive. The chairman and investment manager of Murray International Growth both comment on the excesses that have been built up by the accommodative strategies of policy makers since the financial crisis in 2018. Chairman Kevin Carter states that whilst central banks seek to return conditions towards something approaching normal, the company will proceed with patience and caution. Investment manager Bruce Stout goes into far greater depth and states that Addictive behaviour seldom produces positive outcomes.

Exchange Rate	31/03/18	Chg. on month %
GBP / USD	1.4018	1.9
USD / EUR	0.813	-0.9
USD / JPY	106.43	-0.2
USD / CHF	0.9564	1.2
USD / CNY	6.2898	-0.7

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/03/17 to 31/03/18



Source: Bloomberg, Marten & Co

	31/03/18
Oil (Brent)	70.27
Gold	1325.5
US Tsy 10 yr yield	2.7389
UK Gilt 10 yr yield	1.35
Bund 10 yr yield	0.494

Source: Bloomberg, Marten & Co

The UK's economy, in contrast with the US and the Eurozone, has begun to slow and uncertainty over the outcome of Brexit negotiations may persist throughout 2018

United Kingdom

Margaret Littlejohns, Chairman of Henderson High Income, says that 2017 witnessed a period of robust economic growth in the major regions of the world, resulting in some record-breaking levels of equity indices. These steady, mostly uninterrupted, increases were achieved in market conditions of extraordinarily low volatility. She sees this as somewhat surprising, considering the initial fears of rising populism in Europe, Theresa May's misjudged snap election and President Trump's temperamental outbursts in his first year in office, including his battle of words with Kim Jong-un of North Korea. David Barron, chairman of Dunedin Income & Growth, commented that central banks are moving slowly and cautiously, but have a difficult balancing act to move to more normal interest rates without damaging growth. How valuations develop in an environment that pitches faster increases in interest rates against a continued strong global economic expansion remains to be seen. Andrew Sutch, the chairman of JPMorgan Claverhouse: believes that, notwithstanding the ongoing Brexit uncertainty and the political upheavals which the UK experienced during 2017, with the Government losing its absolute majority in the June general election, the UK stock market performed strongly in 2017, reaching an all-time high. Since the beginning of 2018, considerable volatility in stock markets has occurred but the global economic outlook remains robust.



Have Asian markets moved into a bear market and are the conditions in place for another financial crisis and more serious market correction?

Asia

David Brief, chairman of Schroders Asian Total Return, believes that, following a year of strong absolute performance in 2017, achieved in spite of the protective hedging which underpins the investment policy, it is possible that markets may prove more challenging this year. For Asian equities themselves, Schroders Asia Total Return's managers are a bit less worried. They say that market valuations are above trend but not in bubble territory. Having said this, the managers see the markets are clearly not cheap, and there are parts of the market that look very materially overvalued to them, whether this be selected internet names, consumer stocks in ASEAN and India, healthcare, or most Korean and Taiwanese domestic stocks. In a nutshell, the managers think caution is warranted and expect higher levels of market volatility to continue. They do not see the current conditions triggering a market meltdown in Asia, but do see them as a trigger for an overdue reality check.



Fundamentals for European smaller companies look encouraging

Europe

Jack Perry CBE, chairman, European Assets Trust, commented that fundamentals for European smaller companies look encouraging. He comments that the European economy is showing a broad-based recovery and companies are reaping the benefits of this, delivering better than expected profit growth. For European smaller companies, with their greater exposure to both the domestic economy and more cyclically sensitive areas, this is potentially a particularly powerful point in the market cycle. Valuations in aggregate do not look unreasonable either, in his view. Whilst focused on environmental issues in Europe, the chairman of IMPAX, John Scot, commented that Earnings growth accelerated in 2017. The investment manager is confident of healthy earnings growth in 2018 and continue to identify compelling new investment themes within Environmental Markets. Vivian Bazalgette, chairman of Fidelity European Values, believes that there is limited room for market earnings multiples to expand further. This may increase vulnerability to any disappointments when company results are announced, while geo-political shocks could have a similar effect.

US

Confident in the US economic environment helped by tax reforms

James Ferguson, chairman of North American Income Trust (NAIT), says that, while valuations are near the high end of recent ranges, it well underpinned by strong economic activity. NAIT expect the Federal Reserve to intervene to restrain inflation and growth somewhat by increasing interest rates during the year, while also reducing its holdings of bonds. Gordon Grender, chairman of Jupiter US Smaller Companies, also believes that the outlook for US economic growth is better than it has been in several years, with robust industrial activity helped by stimulus from Tax Reform and a weaker dollar. For now, the Fed seems to be in no hurry to raise interest rates. He thinks that US smaller company sector is still attractive and interesting for long term investors. It is generally under-researched and offers areas of undiscovered value.



Japan

Japan continues to enjoy a benign economic environment

The investment manager of Baillie Gifford Japan noted that the benign economic conditions that have existed in Japan over the past few years have continued with further expansion in the last two quarters of 2017. Growth estimates continue to be revised up and early indications are that wage rises for 2018 will be higher than in the recent past.



Emerging markets

Positive outlook for Latin America

Carolán Dobson, chairman BlackRock Latin American, continues to be positive about the prospects for the economies and stock markets of the region. Overall, the economic background seems set to improve across the region, with inflation under control or falling in most major economies. Political changes over the last year have supported economic reform and market-friendly legislation.



Commodities and natural resources

Macroeconomic and political risks

Geoff Burns, chairman of City Natural Resources High Yield, had previously said six months before, in the companies half year statement, that the outlook for commodity markets had improved and that there were grounds for optimism as to the durability of the recovery. He now says that, while the sector progress is encouraging, and global growth seems to be gaining momentum, clearly macro and political risks remain.



Financials

Unusually high levels of natural disasters putting pressure on reinsurance

Anthony Belisle, Chief Executive Officer of CATCo Reinsurance Opportunities Fund commented that with 2017 producing the highest level of catastrophe losses on record, the Investment Manager has been able to construct a portfolio with a stronger return profile and reduced risk levels as a result of rate increases and improved reinsurance buyer contract terms.



Whilst equities are positive but volatile, bond yields remain low

Listed Property & REITs

Martin Moore, chairman of Secure Income REIT, sees the outlook for 2018 reflecting global stock markets and providing a useful reminder that equity investors earn their rewards from living with volatility. He notes that bond yields and interest rates have also begun to rise but remain at very low levels compared to any time in history. 30 year gilts offer a paltry 2% yield, which is insufficient compensation, in his view, against inflation running at 3% per annum. Meanwhile, he argues that inflation protection remains eye-wateringly expensive with index-linked gilts yielding minus 1.5%, which he says is guaranteed to produce a loss in real terms for any investor holding until redemption. Rupert Barclay Chairman Impact Healthcare REIT believes that fundamentals of their market are strong, with growing demand for beds and limited supply. He notes that care is an essential service and the government needs to continue to relieve the pressure on adult social care and hospitals.

Support from governments remains high

Infrastructure

Rupert Dorey, Chairman of International Public Partnerships, supports the view that the market outlook remains positive as enhanced capital investment into infrastructure continues to rank highly on government agendas globally as a key economic driver.

Take-up of UK property remains strong

Property

Dawn Kendall, managing director of SQN Asset Management, continues to see a significant demand for borrowing from the SME sector in the UK, Europe and the US at both attractive interest rates and under terms suitable for investments. Melvyn Eglenton, chairman of Hansteen, believes that, notwithstanding the real challenges surrounding the EU exit process, they have not seen any negative effect on their tenants' take up of space. Real Estate Investors say that, in their experience, investor appetite for UK property remains very strong.

Other

TwentyFour Asset Management LLP, the manager of UK Mortgages, say the UK housing market uncertainty and subdued mortgage lending, at least to home movers other than first time buyers, as set to continue whilst the Brexit uncertainty remains. In ABS markets, whilst there is no expectation of a tidal wave of issuance, it says that there is a belief that new issuance levels will grow further again in 2018. In its view, the impending end of the TFS in the UK brings hope of renewed issuance from the UK bank and building society sector and tapering in Europe. It says that this, along with the new 'simple, transparent and standardised' ("STS") securitisation regulations should also help more widely.

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Global

(compare Global funds [here](#))

William Salomon, chairman, ScotGems: Our Investment Manager is cautious of deploying cash at today's high valuations, preferring to wait to invest when valuations become more attractive. However, the Investment Manager is optimistic about prospects for our holdings over the longer term and will use our cash reserves to add to them if prices weaken.

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The chairman and investment manager of Murray International Growth: Addictive behaviour seldom produces positive outcomes. The enslaving nature of obsessions and compulsions essentially paralyse unfortunate victims to a life of rigid, ritualistic routines. Viewed through the dispassionate lens of economic theory, such behaviour is deemed irrational. Compulsive shopping clearly contradicts the law of diminishing marginal returns; excessive gambling rarely provides sustainable returns on investment; and obsessive self-interest consistently fails to efficiently allocate resources. Irrational it may be, but the widespread prevalence of such behaviours provides irrefutable evidence of the enormous gulf that exists between economic theory and economic reality. The most profound and predominant influence during the period under review was the widening of this chasm.

For Central Bankers, cocooned in the economic theory of how the world should work, scant attention was paid to how it actually does. Close to thirty years of constant interest rate declines have created an economic landscape addicted to cheap money and available credit. Unable and unwilling to effectively manage expectations, Central Banks spawned a debt-dependent culture now endemic throughout most of the Developed World. How ironic then that, having created such an addiction, policy intentions over the past twelve months focused on theoretical initiatives inherently precarious to global debt-dependency. The stated intention to increase interest rates dominated policy debate. The desire to normalise monetary policy mutated from pragmatic pondering to dogmatic doctrine. In the United States, three consecutive interest rate hikes by the Federal Reserve ignored frail fundamentals, exposing economic fragility to rigid conventional theory. The implicit intention was rates would rise regardless, and they did. Policy rhetoric in the UK adopted similar resonance, but the Bank of England lacked the credibility to practise what it preached. With Brexit induced uncertainty undermining confidence, one solitary quarter point rise in base rates was all that could be stomach. Unperturbed by numerous years of monetary policy failure, by the period end even the European Central Bank and the Bank of Japan had boarded the bandwagon of philosophical sycophants. Voicing intentions to end expansionary monetary policies and increasingly allow the "invisible hand" of non-interventionist economics to shape the future, the arrogance and irresponsibility of such unelected institutions beggar belief. Having orchestrated and presided over the largest debt creation in history, were such Lords of Finance seriously considering abdicating their responsibilities? According to the Institute of International Finance, by year-end total global household, government and corporate debt reached record highs of over 300% of global GDP. Up 50% over the past decade, this unsustainable debt burden was no longer just a "growing source of concern" (according to the IMF). It had quite simply become the single largest influence on current and future economic policy, an addiction of epidemic proportions that detached global policymakers misjudge at their peril.

Unperturbed by academic arguments for tightening monetary policy, global equity markets took comfort from benign bond yields and investors' insatiable appetites for

growth. Asia provided the strongest regional equity market returns in Sterling terms, up +20.3% over the period. Behind the benchmark strength, Indonesia and Taiwan contributed most from a portfolio perspective, although aggregate regional performance was tempered by the exposure's income bias. Technology stocks continued to dominate positive performance in China, where the heavily weighted index returned over +40% in Sterling terms. Poor absolute yields and dividend growth unfortunately limit opportunities for income focused funds in China. Currency weakness in Latin America capped overall benchmark returns to just over 10%, but portfolio exposure delivered considerably more. Powerful performance from Mexican, Brazilian and Chilean holdings contributed most to overall absolute and relative performance. Somewhat surprisingly, European equity markets surged higher despite persistently disappointing fundamentals. Germany apart, the Continent remained mired in credit quality concerns and deflationary dynamics, but the European Central Bank's willingness to constantly print money kept liquidity flowing into equity markets. Relatively low exposure to both the UK and the US proved positive. Both stock market indices delivered low double digit returns; both portfolio exposures returned essentially in line with benchmark, so capital invested elsewhere generally produced higher relative capital and income returns. In short, diversification delivered the desired outcome in 2017. The portfolio's emerging market bond portfolio was extremely unlikely to replicate the previous year's near +50% return in Sterling terms, but the belief was that positive capital and income contributions would still be forthcoming. In the event they were, delivering high single digit gains and maintaining the objective of de-gearing the overall portfolio from equities. Current fixed income exposure will be kept around existing levels in expectation of further yield compression and currency uplift.

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United Kingdom

(compare UK funds [here](#))

Margaret Littlejohns, chairman, Henderson High Income: 2017 witnessed a period of robust economic growth in the major regions of the world, resulting in some record-breaking levels of equity indices. These steady, mostly uninterrupted, increases were achieved in market conditions of extraordinarily low volatility. This was somewhat surprising considering the initial fears of rising populism in Europe, Theresa May's misjudged snap election and President Trump's temperamental outbursts in his first year in office, including his battle of words with Kim Jong-un of North Korea.

The start of 2018 has proven somewhat different with fears about mounting inflation and the need for greater than anticipated rises in interest rates in the US. The major world stock and bond markets experienced a sharp spike in volatility in February, prompting an arguably overdue market correction. Regardless of whether such strong global economic growth can sustain momentum throughout 2018 without fuelling inflationary pressures, it is likely that markets will continue to be more volatile and capital returns more vulnerable this year, as central banks around the world begin to withdraw monetary stimulus. The UK's economy, in contrast with the US and the Eurozone, has begun to slow and uncertainty over the outcome of Brexit negotiations may persist throughout 2018. Despite these potential setbacks and more challenging times, there are still attractive opportunities to invest in high quality, cash-generative companies, with good management that can provide a reliable and growing level of dividends while retaining the potential for capital growth over the longer term

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David Barron, chairman, Dunedin Income Growth: Central banks are moving slowly and cautiously but have a difficult balancing act to move to more normal interest rates without damaging growth. How valuations develop in an environment that pitches faster increases in interest rates against a continued strong global economic expansion remains to be seen. Following a long period of positive equity market performance and subdued volatility it is likely that we may well see more challenging market conditions in the period ahead. Recognising such an environment, the Investment Manager will be increasingly rigorous in its focus on owning the best quality businesses that it can, consistent with delivering your company's strategy.

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Andrew Sutch, chairman, JPMorgan Claverhouse: Notwithstanding the ongoing Brexit uncertainty and the political upheavals which the UK experienced during 2017, with the Government losing its absolute majority in the June general election, the UK stock market performed strongly in 2017, reaching an all-time high. Since the beginning of 2018 we have seen considerable volatility in stock markets but the global economic outlook remains fairly robust.

The consensus forecasts appear to be for lower UK GDP growth over the coming few years, compared with other developed markets. This is largely because of the disruption that is expected to be caused by Brexit, whatever the outcome of the negotiations prior to the UK's departure from the EU in March 2019. Some modest interest rate rises in the UK over the coming year or so should be expected.

However, UK equities continue to be an attractive asset class in which to invest for the medium to long term. While we all should be prepared for continuing volatility in share prices, many UK companies will benefit from the growth in the global economy. The Investment Managers will continue to look for opportunities to invest in well-managed companies that exhibit between them a mixture of good earnings growth and reasonable valuations.

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Michael Quicke OBE, chairman, JPMorgan Smaller Companies: Most economies around the world are currently experiencing good growth, although potentially perverse political decisions could result in a significant reduction in the pace of expansion. This increases the risk of recession for the more exposed economies. The unilateral introduction of trade barriers leading to an increase in protectionism is a significant global risk, and a poor outcome of our negotiations with the EU would hit our domestic economy. These political risks are difficult to assess, and we hope that strong institutions and sound judgements will guide the ultimate outcome.

Markets have enjoyed an extended period of strong returns and whilst average earnings have grown, so have the level of valuations. As demonstrated since the period end, as equities in general have become more expensive, political and economic uncertainties have the capacity to drive a significant increase in short-term volatility.

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Asia

(compare Asian funds [here](#))

David Brief, chairman of Schroder Asian Total Return: Following a year of strong absolute performance in 2017, achieved in spite of the protective hedging which underpins the investment policy, it is possible that markets may prove more challenging this year. Should this be the case, we remain confident that the derivative protection integrated into the investment strategy will be of comfort for those looking for long-term exposure to Asia with lower volatility than the Reference Index.

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Fund managers Robin Parbrook, King Fuei Lee Schroder Asian Total Return: Asian markets started to trade off at the end of January 2018 with a fairly indiscriminate, broad-based sell-off. This seems to have pricked what increasingly looked like an incipient bubble in Asia and, whilst painful in absolute terms, comes with an element of relief as irrational markets are never good for the long-term health of an asset class.

The key question now for the fund managers is have markets moved into a bear market and are the conditions in place for another financial crisis and more serious market correction? With US interest rates now set to rise, and the US bond market vulnerable given an ill-timed fiscal stimulus and already rising inflationary pressures, we expect further volatility in markets. What is impossible to predict is, as interest rates rise, will there be significant financial dislocations and will we get a much larger market correction? Ten years of effectively zero percent interest rates is bound to mean there are distortions in the system and plenty of leverage where there shouldn't be.

For Asian equities themselves, we are a bit less worried. Market valuations are above trend but not in bubble territory. Debt levels, whilst they have risen, especially in China, are not at the levels that exist in the West, and unlike the 1997/98 financial crisis period, Asia does not have significant offshore short-term US borrowings that could trigger a crisis as overseas lenders panic. All in all, in Asia at least the managers don't see the ingredients for a major crisis. The economic outlook looks positive and the earnings picture mostly reassuring.

Having said this, we see the markets are clearly not cheap, and there are parts of the market that look very materially overvalued to them, whether this be selected internet names, consumer stocks in ASEAN and India, healthcare, or most Korean and Taiwanese domestic stocks.

In a nutshell the managers think caution is warranted and expect higher levels of market volatility to continue. We do not see the current conditions triggering a market meltdown in Asia but we do see them as a trigger for an overdue reality check.

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Europe

(compare European funds [here](#))

Jack Perry CBE, chairman, European Assets Trust: The fundamentals for European smaller companies look encouraging. The European economy is showing a broad based recovery and companies are reaping the benefits of this, delivering better than

expected profit growth. For European smaller companies, with their greater exposure to both the domestic economy and more cyclically sensitive areas, this is potentially a particularly powerful point in the market cycle. Valuations in aggregate do not look unreasonable either.

It would however be sensible to note some areas of caution. Global asset prices have obviously recovered strongly since the economic crisis. While we do not know the extent of the benefit that these assets have had from coordinated central bank actions, it is inevitable that this has played a significant role. We are now at the start of the withdrawal of this liquidity, which must entail some risk. Together with fears of greater inflationary pressure, markets have recently experienced heightened levels of volatility. Additionally there are areas of the market where valuations do not make sense to us and some assets appear to be driven by speculation rather than improvements in fundamental qualities. It is therefore essential to maintain our disciplined approach in order to deliver the best returns for our shareholders through the market cycle.

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Vivian Bazalgette, chairman, Fidelity European Values: European stocks have benefited from a rise in both earnings and valuations in 2017. While there is scope for companies to deliver more in the way of earnings growth, there is limited room for market earnings multiples to expand further. This may increase vulnerability to any disappointments when company results are announced, while geo-political shocks could have a similar effect. Overall, markets have been aided by liquidity injections from global central banks and may be impacted by liquidity withdrawal as 2018 unfolds, particularly if this happens more quickly than expected. In such an environment your Portfolio Manager's concentration on fundamentally strong businesses should help performance.

Naturally the continuing process of Brexit represents an additional uncertainty at present. While the first stage of negotiations focused on the UK's financial liability has concluded, the more complex discussions about trading relationships in the future are only just getting under way. It is quite possible that the arrangements will vary by sector, and they may yet fail to be agreed in their entirety. The Portfolio Manager of Fidelity European Values remains alert to the potential implications for individual European companies, particularly those in the portfolio, while the Euro could weaken or strengthen further against UK sterling depending on the outcome. In Note 17 to the accounts below there is an analysis of the sensitivity of the portfolio's value to currency movements.

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US

(compare US funds [here](#))

James Ferguson, chairman, North American Income Trust: While valuations are near the high end of recent ranges, it well underpinned by strong economic activity. US real GDP growth is expected to exceed 2.5% this year with core inflation around 2%. These are both higher than in recent years, spurred by the combination of strong demand drivers and the accelerated fiscal stimulus effects of recent U.S. tax policy changes. As a result, NAIT expect the Federal Reserve to intervene to restrain inflation and growth somewhat by increasing interest rates during the year while also reducing its holdings of bonds.

The political environment is likely to remain unsettled with US mid-term elections now in focus. Nearer term, the US has re-engaged on the trade front, creating uncertainty around both input costs and the potential for export-led growth. NAIT believe these issues would be of even more importance were it not for the generally strong domestic demand environment. NAIT will remain vigilant in their desire to avoid negative impacts from these external events.

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Gordon Grender, chairman, Jupiter US Smaller Companies: the outlook for US economic growth is better than it has been in several years with robust industrial activity helped by stimulus from Tax Reform and a weaker dollar. For now the Fed seems to be in no hurry to raise interest rates. He then goes on to say that US smaller company sector is still an attractive and interesting one for long term investors. It is generally under-researched and offers areas of undiscovered value.

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Japan

(compare US funds [here](#))

Baillie Gifford, manager, Baillie Gifford Japan: The benign economic conditions that have existed in Japan over the past few years have continued with further expansion in the last two quarters of 2017. Growth estimates continue to be revised up and early indications are that wage rises for 2018 will be higher than in the recent past. Employment remains strong, with the numbers of both female and foreign workers at record levels. Despite this deployment of additional pools of staff, to which must be added the increase in those working after the age of 65, the labour shortage is deepening. We expect that this will lead to positive change by corporate Japan as companies are forced to adopt new strategies. They can no longer solve problems by simply hiring people and there are already signs that investment in labour saving technology in the service sectors is accelerating. There will be fundamental mindset changes within traditional companies about how many business divisions are appropriate. It is one thing to have a substandard business area that continues to employ people as part of a social contract, but there is no need for its existence when labour is short and may be better deployed in core divisions of the company. It is interesting in this context that return on equity figures for Japan in 2018 will be over 10%, an all-time high reflecting the early stages of this trend along with the strong demand conditions that corporate Japan is experiencing. There will of course be some companies that suffer though and some reductions in holdings have already been made as a result.

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Global emerging markets

(compare global emerging market funds [here](#))

Carolan Dobson, chairman, BlackRock Latin American: Our portfolio manager continues to be positive about the prospects for the economies and stock markets of the region. Overall, the economic background seems set to improve across the region,

with inflation under control or falling in most major economies. Political changes over the last year have supported economic reform and market-friendly legislation. Latin America has experienced a political shift to the right of centre in recent elections in Argentina, Peru and Chile, although the outcome of forthcoming elections in Brazil and Mexico might reverse this trend. As such, elections here will be important for the region.

Rises in equity markets around the world continued into January 2018 but were then tempered by more volatile conditions in February. The immediate trigger for the correction was thought to be rising interest rates in response to concerns of higher inflation, predominantly in the US. In practice, market valuations were also stretched, and market participants were complacent about potential risks. In these circumstances, and after a very long bull run, a correction was probably inevitable at some point. In early 2018 we have duly entered a period of increased volatility and would expect markets to remain alert for problems of overheating as global economies experience a co-ordinated upswing for the first time since the 2008 financial crisis. As set out in the Investment Manager's Report, there are reasons for a balanced approach, both to be optimistic about the potential for further strong investment returns in Vietnam this year, yet also remain cautious, given current market valuation levels. Your Board continues to encourage the Investment Manager to seek attractive investment returns while remaining disciplined in their approach.

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Steven Bates, chairman, VinaCapital Vietnam Opportunity Fund Limited: The long term arguments for investment in Vietnam remain, in your Board's view, intact. The Vietnamese economy is growing at a good pace, led by substantial foreign direct investment and strong performance in particular in exporting manufactured goods. While there was undoubtedly some effect on trade from the US withdrawal from the Trans Pacific Partnership, this has largely been absorbed and the Vietnamese economy remains vibrant. As I said in the Company's annual report which was released in October, Vietnam remains one of the most interesting investment stories available and we are encouraged by evidence of increasing awareness of Vietnam as an attractive market for international investors.

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Commodities and natural resources

(compare commodities and natural resources funds [here](#))

Geoff Burns, chairman, City Natural Resources High Yield: When I wrote my outlook in the six-month statement in September 2017, I said that the outlook for commodity markets had improved and that there were grounds for optimism as to the durability of the recovery. The exit from a super-cycle as emerging markets growth, especially in China, slowed had been accompanied by the inevitable excesses of supply as mining companies over expanded and valuations reflected bankruptcy fears as funding evaporated. The recent recovery in commodity prices has prevented widespread failures, and improvements in balance sheet discipline, the reinstatement of dividends and better governance underpin that optimism of which he spoke.

While the sector progress is encouraging, and global growth seems to be gaining momentum, clearly macro and political risks remain. China is still seen by some as liable to slump into recession, devaluation and crisis, with credit growth and capital flight still a concern. The jury, of course, remains out. The apparent cap on oil prices in the face of the responsiveness of US production may help the case for the defence. Political

risk has certainly increased, above all in relation to the United States, with pessimists pointing to a certain lack of coherence in a policy apparently to be based on increased spending and tax cuts, protectionism and deregulation. At least that spending is to be concentrated on infrastructure, but the financing of that could be challenging if a trade war with China leads to the latter withdrawing from lending to the US Government.

Equity markets have seemingly accentuated only the positive from the above and, until recently, market volatility has been generally low. It has been left to the bond markets to reflect some of the risks, with global bond yields and spreads rising. In the view of the Federal Reserve, at least, a turning point has been reached in the interest rate cycle, while Europe's and Japan's increasingly desperate addiction to cheap credit do not feel deflationary anymore.

In such a world, the purgative that the commodities markets suffered for five years now stand them in good stead, with a new found realism that just may continue to repay the patience and confidence that shareholders manifested in the bad times.

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Debt

(compare debt funds [here](#))

CVC Credit Partners, manager, CVC Credit Partners European Opportunities:

Looking towards 2018, the market anticipates that the global recovery will be on-going for an extended period. There also appears to be scope for the strengthening to broaden further across Europe and emerging markets. Macroeconomic risks across these regions have receded and there is upside potential if productivity picks up alongside trade and investment.

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James G West, chairman, CQS New City High Yield: ...markets have digested a considerable amount of political change, but it is politics that continue to give us most cause for concern. Since the period end, equity markets which had looked to a robust United States' economy and a Eurozone that continues to recover strongly have begun to see increased volatility in the face of talk of a trade war. Bond markets, too, reflect some of the risks, with global bond yields and spreads rising.

Portfolio diversification remains our watchword as we look for opportunities in a world where, in the view of the Federal Reserve at least, a turning point has been reached in the interest rate cycle.

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Ian (Franco) Francis, manager, CQS New City High Yield: During the last six months it has become more apparent that the British economy is no longer matching either Europe or the United States.

The main knock on from the Brexit vote has been the weakness of Sterling against the Euro and to a lesser extent the US\$. This has had two major effects. Firstly inflation, which was already at 2.9% in June and finished the period under review at 3.0%. There is no doubt that these figures were part of the reasons behind the Bank of England's 25bp rate rise in December to 0.5%. Whilst prices were increasing at around 3.0%, household finances continued to be squeezed as wage growth was between 2.1% and 2.5% hitting savings ratios and increasing credit card spending. Further to this, a survey

released by the FCA disclosed that 1.4 million credit card holders had only paid their minimum payment for the last three years. This certainly had a negative effect on retail sales over much of the period, with nonfood retail relying even more on the Black Friday and pre-Christmas sales than previously. New car sales too took a pasting, down 11.2% in the month of November with the brunt shouldered by diesel, down 30.6%. The overall figure for calendar year 2017 was down 5.6% for all vehicle sales. So overall, not great for consumers or retail.

The second effect of the weakness in Sterling has been positive. UK factory orders, at plus 17%, are the highest since August 1998 with orders for chemicals, electronics, and transport goods noticeably up. Job creation was good in the period in both services and manufacturing sectors with employment highs being reached in November. Another positive piece of news was the lower than expected Public Sector Borrowing Requirement also announced in November with the year on year figure down by £4.1 bn to £38.5bn, the lowest since 2007.

We remain with our view that the biggest risk to the UK is political and highly influenced by the media with its addiction to having daily headlines on Brexit and Theresa May's position as Prime Minister.

By contrast Europe has continued to expand, be it in Manufacturing, Services, Retail Sales or the 4.1% increase in car sales up to the end of November. This can be evidenced by the composite Purchasing Managers Index data which are at their highest since April 2011 having increased throughout the period. Retail Sales grew consistently with a consecutive nine month rise in like-for-like sales which equals the record run seen in 2006. The coalition talks in Germany, now resolved, will have a greater effect on immigration to Europe rather than the economy. And Europe will not be giving much away in the Brexit talks; why would they? The overall message coming from Europe is that they are in a far better place in the cycle than the UK.

In the United States, away from the noise and tweeting inside the White House, the economy had a very good six months, continuing to add jobs throughout the period with unemployment falling to 4.1%. Add to this productivity improvements of 3%, compensation costs for workers at plus 2.5% against an all items inflation level of 2%, and the net result to the average American worker is that they should be feeling far more comfortable than their UK counterpart. When you add in the tax changes introduced in December by the Trump administration which benefitted the wealthier Americans, it is easy to see why there has been so much froth in equity markets.

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Financials

(compare reinsurance funds [here](#))

Anthony Belisle, chief executive officer, CATCo Reinsurance Opportunities: With 2017 producing the highest level of catastrophe losses on record, the Investment Manager has been able to construct a portfolio for Shareholders with a stronger return profile and reduced risk levels as a result of rate increases and improved reinsurance buyer contract terms.

According to Guy Carpenter, despite substantial insured losses in 2017, overall traditional reinsurance industry capital did not decline, leading to only a moderate year over year premium increase of 6.1 per cent for 2018 renewals.

However, the large losses of 2017 translated into more favourable opportunities for those in the ILS market. As a result of its unique product offering, the Investment Manager secured for the 2018 portfolio an illustrative maximum net return (assuming no losses)* of approximately 23 per cent on invested capital, a 43 per cent increase over the 2017 portfolio illustrative maximum net return of 16 per cent. These figures are inclusive of hedging costs.

The Investment Manager also improved terms and conditions related to the portfolio's underlying reinsurance contracts. As a result, the maximum capital exposed to a worst-case single event is limited to 8 per cent (net) for the 2018 portfolio, which represents a 20 per cent reduction over the 10 per cent worst-case single event net return for the 2017 portfolio. In addition, as a result of the reduction in the worst-case single event net return, the 2018 portfolio required the purchase of fewer ILW protections, leading to further cost savings for investors.

Despite the large losses of 2017, the demand for Market CATCo's product increased for yet another year and is at its highest point since the Company's inception, which has allowed the Investment Manager to deploy 100 per cent of its available capital during the 2018 renewal process.

With a broad geographic spread, a balanced exposure to differing risk perils and portfolio protections in place, the Investment Manager has successfully built a stronger investment portfolio for 2018, with a return and risk profile significantly improved compared to the 2017 portfolio.

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■ Listed Property & REITs

(compare property funds [here](#))

Martin Moore, chairman, Secure Income REIT: 2018 also reflected that has commenced with global stock markets providing a useful reminder that equity investors earn their rewards from living with volatility. Bond yields and interest rates have also begun to rise but remain at very low levels compared to any time in history. 30 year gilts offer a paltry 2% yield, insufficient compensation in our view against inflation running at 3% per annum. Meanwhile, inflation protection remains eye-wateringly expensive with index-linked gilts yielding minus 1.5%, guaranteed to produce a loss in real terms for any investor holding until redemption.

This background remains highly supportive for our business as the search for yield and income growth continues with roughly £4 billion raised in the UK stock market in the last 15 months by REITs in the logistics and alternative real estate sectors. Dedicated institutional long lease property funds have also been attracting cash at what appears to be a faster rate than most have been able to deploy it. Finally, mainstream institutional property investors continue to rebalance their portfolios, reducing their exposure to challenged high streets and taking advantage of strong overseas investor demand to switch out of cyclically high London office values. The cash released is typically being recycled into warehouses and alternatives. The squeeze is accentuated by the fact that high quality long lease assets are not so readily manufactured at a time when most strong businesses can raise cash more cheaply through the corporate bond market than via sale and leasebacks. The result is that the weight of cash seeking well-let index-linked property is in our judgement far in excess of the stock currently available on the market, which continues to put upward pressure on prices.

Early movers may have reaped the biggest rewards with the Group's NAV per share more than doubling since float in 2014, but we believe that we are only part way through this process and a significant value gap remains. To illustrate, if we take the current market projections for inflation over the next five years, we would anticipate dividend growth in the order of 6% per annum from our portfolio. When combined with a dividend yield of approaching 4%, this has the potential to provide a much healthier level of prospective return than current industry forecasts for UK commercial property, which are typically in mid-single figures over a similar time frame. With stronger covenants and longer leases generating, through fixed uplifts and upwards only RPI reviews, much greater income growth predictability than most property portfolios, we believe that our returns ought to be delivered with greater inflation protection and less risk. It is this potential to generate higher prospective returns at lower risk that is fuelling investor enthusiasm in our sector. Given that our Net Initial Yield of 5.1% stands at the same level as the all property Net Initial Yield on the IPD monthly index, we expect that this process has further to run and we continue to view the future with confidence.

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Rupert Barclay, chairman, Impact Healthcare REIT: The fundamentals of our market are strong, with growing demand for beds and limited supply. Care is an essential service and the government needs to continue to relieve the pressure on adult social care and hospitals. Residential care homes will be an important part of the solution and we therefore see good prospects for the Group.

2017 was generally seen as a year of two halves for commercial real estate lending activity, with market participants reporting a lower volume of lending prior to the summer break followed by a very active final quarter. According to Real Estate Capital, commercial real estate loan syndication volumes were down in the first half of the year by 25 per cent year on year, despite underlying investment market volumes being up. Sentiment changed after the summer and during the final quarter of the year: we frequently heard that borrowers were struggling to get traction on new loans because lenders were loaded up with existing transactions in execution and so they had little further capacity to take on more lending mandates. We also saw issues with capacity amongst financing lawyers, valuers and other advisers to cope with the requests in the market. The Group had a good start to the year with £115.5 million of new investments by 30 June 2017, making it the highest first half origination volume for the Group. We saw a similar pattern to the market in the second half of the year reflected in our origination. An additional four new loans, with a total commitment of £130.3 million, were all made in the period from the end of November to end of December, also making it the largest new origination volume for the full year for the Group.

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Starwood European Finance Partners Limited, Investment, Manager, Starwood European Real Estate: On the underlying commercial real estate market side, despite the continuing Brexit uncertainties, there was increased volume in the UK market with a total of £26 billion of London commercial real estate transactions in 2017 versus £22 billion in 2016 and £62 billion versus £52 billion for the UK as a whole, according to PropertyData. According to Savills, London still tops the table for global office investment at \$26 billion in 2017 with the next largest contributor of Hong Kong at only \$16 billion and Manhattan next at \$12 billion. The average yield is also down by 28bps for the UK as a whole and 19bps for London. Recent data on London office leasing activity has also been strong: according to Savills 2017 was the second highest year of take-up for the West End and the fourth highest take-up for the City since 2000.

There has been an increase in the number of participants in the loan brokerage market and the number of brokered loans. Loan brokers have traditionally been a large part of

the market in the U.S. but until recently have been a small part of the market in Europe. We believe this growth reflects a more diverse lender universe where it is harder for borrowers, especially those who access the market less frequently, to understand the market and so they are increasingly using brokers to help navigate the market to source debt. One example is HFF, a large player in the U.S. who set up in Europe at the end of 2016. The Group was the lender to their first European loan. We are also seeing increased volume coming through from the second tier brokerage teams at both established real estate services firms and from an increasing group of smaller, often one-man brokers.

We continue to see anomalies in loan pricing and terms around Europe. An example from CBRE European debt map is that Prague prime office is more competitive than Oslo and London. This is both from a higher LTV at 70 per cent versus 60 per cent and 55 per cent respectively and pricing of 100-125bps versus 150bps and 140bps respectively. On the face of it, this is counterintuitive given a lower country credit rating and a smaller, less liquid market. There are, however, many dynamics, including the size and regulatory environment for banks, the level of cross-border lending and currency considerations, which create these anomalies.

Overall, the more fragmented market and the market dynamics highlighted above continue to offer the Group good opportunities with our flexible mandate between jurisdictions, real estate asset classes and capital structure. The UK, Ireland and Spain remain the jurisdictions that provide the most interesting opportunities for the Group. It has been a strong start to 2018 with 5 loans totalling £135 million of commitments closed already and we expect to continue to see a robust pipeline of opportunities in line with the Group's Investment Policy and target dividend.

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Infrastructure

(compare infrastructure funds [here](#))

Rupert Dorey, chairman, International Public Partnerships: The market outlook remains positive as enhanced capital investment into infrastructure continues to rank highly on government agendas globally as a key economic driver. We anticipate that this will over time generate more investment opportunities in the developed countries in which the Company invests.

The Company continues to closely monitor the market reaction during the U.K.'s planned withdrawal from the European Union ('EU'). Whilst the immediate market-related volatility has not persisted to the scale widely anticipated by many industry participants, there remains uncertainty about the true impact of Brexit on the U.K. economy. As outlined in our 2016 Annual Report, we do not anticipate there will be significant impact on the Company's existing investments, however given the high degree of uncertainty the Board continues to monitor developments as the Brexit negotiations progress.

The Company also notes the heightened attention in the U.K. paid to the assessment of the economic and social value that private sector investment brings to public infrastructure projects, including suggestions by the Labour party to seek to renationalise key public infrastructure assets, companies and private finance contracts operating in the U.K. As a long-standing and leading originator, investor and operator of public infrastructure projects internationally, the Company firmly believes that the close partnerships between public clients and private investment brings significant

benefits to the public sector and ultimately the end-users and relevant parties. We also recognise that it is incumbent upon project owners and the broader investment industry to demonstrate the value we bring, not only to our investors but the communities in which our projects serve.

The Board continues to believe that there is an important role for private sector investors in the provision of infrastructure assets and in the benefits of PPP in terms of whole-life cost savings and risk transfer and are proud of the services provided at our projects. We regularly receive positive comment from end-users and staff around the quality of the facilities made available for their use and look forward to continuing to work with our public sector clients to continue to provide efficient and well-managed facilities that enhance and serve the communities in which they are located.

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David MacLellan, chairman, John Laing Infrastructure Fund: In terms of the pipeline for new projects and consequent investment opportunities for JLIF, we believe that the greatest opportunity in the short to medium term lies in overseas markets such as in North America and Continental Europe. While UK projects will remain a core component of JLIF's Portfolio, it is expected that in the immediate future our focus will be on re-weighting the Portfolio to overseas projects and the consequent need to protect returns by carefully managing exchange rate risk. We will continue to assess opportunities on their merits and seek accretive investments for our shareholders, but in the current environment will remain cautious in our approach to new investment.

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Private equity

(compare private equity funds [here](#))

Christopher Wetherhill, chairman, Oakley Capital Investments: Whilst it seems that uncertainty will continue to dominate over the coming year, the outlook is generally good for 2018. Although the outcome is not yet known, we should start to see some clarity over the UK's position as the Brexit deal begins to take shape. Valuations continue to be high, facilitating a strong exit environment, however the question still remains amongst investors whether returns will be affected in the long run if premiums are being paid for quality assets.

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Mark Tennant, chairman, F&C Private Equity: The private equity market internationally has raised record amounts of equity capital and is well supported by debt from diverse sources. Confidence levels amongst private equity professionals and company management are high and this makes for a healthy and active market in most geographies. The Company has many relationships with some of the most successful private equity investors and through partnership with them we have delivered good growth in shareholder value for many years. This is evidenced by the flow of exits which remains at impressive levels. We are also re-investing for the future with new commitments to funds and co-investments alongside experienced and motivated managers.

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Property

(compare UK property funds [here](#))

Dawn Kendall, managing director, SQN Asset Management: We continue to see a significant demand for borrowing from the SME sector in the UK, Europe and the US at both attractive interest rates and under terms suitable for investments by the Company.

We expect the dynamics of the alternative finance sector to change in the medium term, as the first cycle of refinancing deals start to take place and the poor quality of some previous credit underwriting becomes apparent, evidenced by published default and impairment data. We anticipate that there will be a widening of the performance achieved between sector participants. We also envisage that consolidation within the sector will accelerate. The stronger companies, backed by their shareholders and with more robust risk and credit management processes, are likely to grow at the expense of the poorly performing funds largely through corporate activity. We monitor the sector closely, in both private and public markets and remain alert to opportunities as they arise.

The last 12 months have been an extremely successful period for Hansteen with the three key elements of our buy, work and sell business model working well. We have acquired properties in a competitive market at good prices as shown with the corporate acquisition of IMPT, then managed our assets effectively with increases in rent, occupancy and value and finally sold a significant part of the portfolio through the disposal of the German and Dutch assets. Alongside that we have returned capital to shareholders and simplified the Company's Balance Sheet, settling the €100 million of convertible bonds. In 2018 we have already contracted to sell in excess of £150.0 million of property.

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Melvyn Egglenton, chairman, Hansteen: Notwithstanding the real challenges surrounding the EU exit process, we have not seen any negative effect on our tenants' take up of space. The extraordinarily broad spread of economic activities carried out in our properties brings both resilience and growth to our earnings. E-commerce continues to enhance demand for UK urban industrial and logistics space and limited availability combined with little new supply is driving rental growth. The Group retains a portfolio of mainly UK multi-let industrial property which is well positioned to continue to benefit from this demand. Our built portfolio has a yield of 7.5% which compares with an all-in cost of borrowing of 2.7%. We continue to believe that our diverse portfolio of urban industrial and warehouse properties presents a relatively rare opportunity in today's property sector to achieve a combination of income and capital growth.

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The managers of Real Estate Investors: Investor appetite for UK property remains very strong. According to Savills, national investment in UK commercial property rose 66% in January alone, compared to the same month last year, to £4.2 billion. Similarly, PwC announced that Midlands corporate deal activity is 'buoyant' and that in 2017 PwC completed 40 deals valued at £5 billion for private equity and corporate clients.

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QuotedData

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