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.

Exchange Rate	30/04/18	Chg. on month %
GBP / USD	1.3763	-2.2
USD / EUR	0.8279	1.9
USD / JPY	109.34	2.3
USD / CHF	0.9909	3.6
USD / CNY	6.2400	-0.8

Source: Bloomberg, Marten & Co

Roundup

Global stock markets rose in April. Concerns about protectionism appeared to soften and the oil price weakened and tensions in the Middle East abated. US and Eurozone equities posted a narrow gain, supported by ongoing strength in economic data, a buoyant oil sector and reduced trade worries. Sterling weakness and expectations of a rate hike in the UK fell after some disappointing economic data. Japanese equities gained as yen weaken against the US dollar on reduced geopolitical risk. Emerging markets equities return were negative due to US dollar strength.

MSCI Indices rebased to 100

Time period 30/04/17 to 30/04/18

Source: Bloomberg, Marten & Co

	30/04/18	Chg. on month %
Oil (Brent)	75.17	8.1
Gold	1315.39	-0.7
US Tsy 10 yr yield	2.9531	6.2
UK Gilt 10 yr yield	1.418	3.8
Bund 10 yr yield	0.557	11.4

Source: Bloomberg, Marten & Co

Global

Cautious optimism for equity markets, with rising inflation less of a concern. Geopolitical risks remain.

There has been a marked change in the views expressed by the chairs and managers of global investment managers. Alan Hodson, chairman of JPMorgan Elect suggested that robust global growth should support earnings and that they expect dividends to continue to increase. However, interest rates are expected to rise in the US and UK, and markets are already highly rated. The chairman of Henderson International Income, Simon Jeffreys wrote that economic growth has improved while unemployment continues to fall in most major economies. Although expected interest rate increases (although modest) in countries such as the US and UK have happened, elsewhere monetary policy has focused on stimulating economic activity. Against this, the political landscape remains as uneven as ever. Chairman of Martin Currie Global Portfolio Trust, Neil Gaskell, notes that the markets have been strong for some time, although there has already been one short-term market correction. He proposes that it is possible that others could occur, especially if inflation exceeds current expectations of a gradual increase during the year.

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United Kingdom

Cautious optimism: the growth of UK's domestic economy has underperformed the global economy, although this looks set to change

Although all of the commentators on UK equities in this month's review agree that the outlook for the UK economy is positive, they differ in the extent to which they expect it will perform. Tom Bartlam, chairman of Jupiter UK Growth Investment Trust, says that the UK domestic market has been out of favour with investors recently and believes that in due course this sentiment will change. The investment managers of Mercantile Investment Trust wrote that economic growth has displayed improving momentum across the globe for well over a year now, and that the UK has been less impressive. Alex Wright, manager of Fidelity Special Values, says that global growth trends remain intact, albeit the UK is now underperforming other developed markets. As do many, he sees this as at least partly due to concerns around Brexit negotiations and lower levels of disposable income for consumers. With regard to UK smaller companies, Nicholas, Fry (chairman) and Mike Prentis (manager) of BlackRock Smaller Companies Trust also write that the UK economy is underperforming global markets and they are wary of the UK economy, particularly for companies with a focus on the domestic market.

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Asia

Volatility has returned to Asian markets

After a strong period of performance and low interest rates, many of the chair-people and fund managers speculate how this might end. James Williams, chairman of Pacific Assets Trust and Peter Arthur, chairman of Aberdeen Asian Income Fund, both point to this and highlight the recent volatility that has come about as a result. Nigel Cayzer, chairman of Aberdeen Asian Smaller Companies Investment Trust, suggests that volatility can bring high valuations back down to sensible levels. Mike Kerley, fund manager of Henderson Far East Income, proposes that the outcome of the move to place tariffs on goods and services by the US is impossible to predict. The investment management team at First State Stewart, who manage The Scottish Oriental Smaller Companies Trust, say that their concern remains the economic growth in the region has happened against a backdrop of rising debt levels at a time when interest rates are near all-time lows. Although interest rates have started to rise, the pace of these increases has been modest. Susan Platts-Martin, chair of Witan Pacific Investment Trust, writes that corporate earnings growth remains a strong support for markets and the regional earnings outlook appears healthy.

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Europe

Although cognisant of the risks, investors see good prospects for European equities

Eric Sanderson, chairman BlackRock Greater Europe Investment Trust comments that, following a strong start to the year, markets suffered a slowdown and the Eurozone composite Purchasing Manager's Index (PMI) slipped to a three-month low, adding to concerns over the growth outlook. The management team at BlackRock suggest, however, that the recovery within the euro area remains broad based, with the outlook for expansion in both manufacturing and services robust. Indeed, they say that Europe also sees buoyant demand regionally, despite some more testing political situations.

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North America

Confident in the future for Canadian stocks, but wary of the outcome of NAFTA renegotiations

"We believe the Canadian economy will benefit from strengthening labour markets, a stable political environment and a recovering energy sector" writes Nicholas Villiers, chairman of Middlefield Canadian Income. The company is positive on Canadian equities due to the broad selection of quality companies paying high and growing dividends. In the near term, the primary risk to economic growth is the uncertainty surrounding the ongoing renegotiation of the North American Free Trade Agreement (NAFTA) between Canada, the U.S. and Mexico.

Japan

Japan continues to enjoy a benign economic environment, although headwinds are evident

David Robins, chairman of Fidelity Japanese Values believes the positive global economic outlook, along with the supportive domestic policy environment, should help Japanese companies to post another year of robust profits. The US tax reform legislation enacted in late 2017 could also provide a boost to Japanese companies that are heavily geared to the US market. The view of the managers of Schroder Japan Growth remains positive, although they recognise more headwinds than six months ago. Positive drivers include supportive monetary policy, relatively low valuations, corporate governance improvements and positive funds flow. Following a visit to Japan, there is much to be positive about, writes Neil Donaldson, chairman of Baillie Gifford Shin Nippon. There is a drive to improve corporate governance. More external, independent directors are being appointed to boards and this in turn will afford greater consideration and protection for shareholders.

Emerging markets

Continued positive outlook for Latin America, with caution for emerging markets overall.

The investment managers of JPMorgan Global Emerging Markets Income Trust, comment that valuations in Emerging Markets are at a more neutral level when compared to history, having been more clearly cheap in 2016 and 2017. This partly reflects the improvement in fundamentals after what had been a difficult few years for Emerging Markets economies and companies. The chairman of the company writes that, whilst recognising the investment manager's positive outlook for stock selection in Emerging markets, the board is mindful of the economic, market and political risks that could yet erode what is otherwise a reasonably constructive outlook. Richard Prosser, chairman of Aberdeen Latin American Income Fund believes that the outlook for Latin American markets remains positive. Supported by the broadening global growth and stabilised commodity prices, as well as improving fundamentals and benign inflation, the region seems to be in good shape to deal with domestic and external challenges

2017 was a year of strong economic growth and stock market performance for Vietnam. Wolfgang Bertelsmeier, chairman of Vietnam Enterprise Investments wrote that, with a stable currency, healthy IPO pipeline, continued GDP growth and low levels of inflation predicted for 2018, they remain positive on the outlook for Vietnam. Market prospects remain bright going into 2018 thanks to the stable growth of the economy with expected GDP growth of 6.7% and inflation remaining at around 3%.

The chairman of Weiss Korea Opportunities wrote about investing in a market that has been the focus of geopolitical concerns. The South Korean stock market and the South Korean economy shrugged off all this troubling news to achieve the best performance of any major market in 2017. (GDP grew 3.1% in 2017.)

Commodities and natural resources

The current global recovery has been supportive of sentiment towards the mining sector. Gold stocks remain cheap

Howard Myles, chairman of Baker Steel Resources Trust, comments that the current global recovery has been supportive of sentiment towards the mining sector. The sub-sector of the market enjoying the most investor interest is that associated with electrification of motor vehicles and battery technology.

Malcolm Burne, chairman of Golden Prospect Precious Metals believes that precious metals currently sit as an attractive investment asset class in relation to today's geo-political and macro-economic climate. He suggests that the salient factors currently in play include peak gold, inflation, China and Russia Central Bank buying, Fed policies on interest rates, mounting debt issues, equity bubbles, global conflicts and more recently the emergence of super power trade wars. The managers of company say that precious mining shares are truly languishing, trading at prices only seen when gold was half or even a quarter of current levels.

Debt

A positive outlook in the UK. The outlook for Europe is less clear.

Stuart Cruickshank, chairman of P2P Global comments that they continue to closely monitor the political and economic uncertainty created by Brexit. Although current market conditions remain benign, the longer-term economic outlook and impact of Brexit on customers and wider markets remain uncertain. William Frewen, chairman of NB Global Floating Rate Income Fund believes that the outlook for 2018 is favourable for short duration asset classes such as senior secured floating rate loans. He expects to see further rate rises in 2018 in the US and probably in the UK. He goes on to say that, all of these positive tailwinds come with the caveat of significant political uncertainty, such as Brexit negotiations and trade relations, which have the potential to derail any positive momentum and could lead to increased volatility across global markets. Andrew Adcock, chairman of VPC Specialty Lending agrees that the political and macroeconomic outlook continues to appear generally positive for lenders under the new administration in the U.S. The managers of VPC write that, heading into 2018, they are taking a very cautious approach to credit given the long economic expansion in the U.S. and a loosening corporate credit environment. The managers of Blackstone / GSO Loan Financing comment that in Europe, in their sector, they believe that the supply and demand imbalances will continue to performance in the European loan market. They too see the tax changes in the US as beneficial.

Property

The outlook for the coming year in the UK looks more moderate than last year

Robert Peto, chairman of the Standard Life Investments Property Income Trust, said that they expect more moderate economic growth for the next year. However, the extent of this moderation will be largely dependent on the perceived success or otherwise of the Brexit negotiations which, in turn, will impact on the level of business investment. Chris Russell, chairman of F&C Commercial Property Trust commented that an environment of higher interest rates and inflation, subdued economic growth, political uncertainty and some keen pricing may begin to weigh heavily on investor sentiment in 2018. Will Fulton of Standard Life Investments, and fund manager of UK Commercial Property Trust, said that the market is likely to be sentiment driven in the short term as politics and the real and perceived economic impact associated with the UK's withdrawal from the European Union continue to evolve. Given the backdrop of ongoing heightened macro uncertainty, investors are becoming more risk averse and better-quality assets are once again broadly outperforming poorer quality.

Phoenix Spree Deutschland invests in German property, particularly in Berlin. Writing in the company's annual report, chairman Robert Hingley said that the fundamentals of the Berlin residential market remain attractive: strong demand combined with limited supply, and high levels of transaction activity likely to be sustained by demand from both investors and owner-occupiers

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Economic & Political Roundup

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Global

(compare Global funds **here**)

Neil Gaskell, chairman, Martin Currie Global Portfolio Trust: The global equity markets have achieved a remarkable sterling return of just over 50% over the last two years. It is likely that this year will see more moderate market performance despite generally improved economic growth rates. There has already been one short term market correction and it is possible that others could occur, especially if inflation exceeds current expectations of a gradual increase during the year. Against this background, the portfolio is well positioned to produce a good performance, notwithstanding Brexit, focused as it is on global stocks with strong long term returns on invested capital.

Tom Walker, manager, Martin Currie Global Portfolio Trust: Just as the reporting year for the Trust concluded, global equity markets 'wobbled'. Coming after such a sustained period of equity strength, this understandably raised a number of questions in investors' minds. Was this merely a long-overdue, short-term correction, or an augury of the end of the nine-year bull market? Of course, only time will tell, and for our part we rarely expend much energy on divinations of economic, currency or interest rate movements (preferring instead to focus on the fundamental analysis of companies). However, we have often cited the US 10-year Treasury yield as indicative of the prospects for global equities. With this in mind, the yield has grown from just over 2% in early September, to now approaching the notionally significant 3% level.

So what does this potentially mean for equity-market prospects in the coming year? In our view, equity valuations are only 'excessive' if long-term interest rates are going to rise meaningfully and that is only likely to happen if economic growth or inflation make sustained upward moves. Market bears will point to rising inflation (notably wages in the US) or the synchronistic global economic growth outlook as reasons that long-term interest rates are likely to rise. We do not yet believe this is the case. We also perceive real reluctance on the part of central banks to raise interest rates too rapidly thereby potentially inducing another crisis. In our view, debt levels are worryingly high and global economies far from robust, and we believe central banks see it that way too.

So, we are not overly gloomy on market prospects and believe a severe market correction is unlikely. Our expectation is for a period of market consolidation, then in the next couple of years, more modest returns than we have seen in recent years. Having said that, our focus continues to be on identifying and researching companies that deliver consistent, strong returns on the capital that they invest; companies that do not rely most heavily on the external environment to create long-term value for their shareholders.

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Simon Jeffreys, chairman, Henderson International Income Trust: Economic growth has been improving around the world while unemployment continues to fall in most major economies. Despite expected, but modest, interest rate increases in some countries such as the US and UK, elsewhere, monetary policy in general remains focused on stimulating economic activity. Against this, the political landscape remains as uneven as ever.

In these circumstances international diversification has a significant role to play in portfolio design. The board believes that the Company's mandate provides our fund manager with the flexibility required to adapt to the circumstances of the day and to position our portfolio in the light of his interpretation of them. The Company's portfolio

has the ability to benefit from volatility and to deliver growth in dividend income and the potential to grow investors' capital in coming years.

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Alan Hodson, chairman, JPMorgan Elect: Despite the recent volatility of markets, our Managers remain cautiously optimistic on equities. Robust global growth should support earnings and dividends are expected to continue to increase. However, interest rates are expected to rise in the US and UK, and markets are already highly rated.

Over the next six months, we will see some modest changes to the Managed Income portfolio, as it is adjusted to reflect the change in its benchmark and the availability of a loan facility. The Board hopes that this will deliver enhanced returns to shareholders in the longer term.

John Baker and Katen Patel, managers, JPMorgan Elect: The current bull market, which has been running since March 2009, is one of the longest on record. Moreover, the exceptional returns that equity investors have enjoyed recently have been delivered with very little volatility. For example, the MSCI World Index rose in every month last year, which is without precedent. This benign backdrop will not last. Global inflation and growth are both picking up with long bond yields rising in response. After almost a decade of continuous monetary stimulus, central banks are beginning to pull in their horns and starting to pass risk from themselves to investors. Short-term interest rates are starting to nudge up in the UK and even more so in the US. Moreover, President Trump has announced tariffs and other measures designed to punish China, who has promised to retaliate. This will cause some degree of volatility in equity prices, which investors should be prepared for. Moreover, the continuing Brexit negotiations and a politically fragile government at home are both likely to magnify the volatility in UK equities in the year ahead. We aim, however, to use such volatility to our advantage by picking up more of the shares we like at lower prices. The yield and growth in dividends on UK equities continue to appeal.

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Flexible investment

(compare Flexible investment funds **here**)

Geoffrey Howard-Spink, chairman, New Star Investment Trust: In March 2018, economic growth looked healthy and inflation had risen modestly from subdued levels. Equity market weakness and volatility in January and February were signs of investor fears that stronger data would lead to more rapid US interest rate rises. If this occurs, some investors may switch from equities into cash and short-dated bonds. Monetary tightening increases the importance of having a strong valuation discipline. Your Company ended the period with a relatively low allocation to US equities, which appeared expensive, in favour of cheaper equities in Europe excluding the UK and emerging markets, where monetary policy was looser.

Rising inflation may also lead to rotation from high-quality “growth” companies, which have outperformed since the credit crisis, into cyclical “value” stocks. Some “growth” companies have suffered margin pressure as inflation increases costs, which may not easily be recovered from consumers. Yet their valuations have remained high and earnings disappointments may generate share price falls.

Rising inflation and interest rates may also affect bond markets. Your Company ended the period with no direct investments in longer-duration bonds or commercial property, which are typically more sensitive to rising interest rates and inflation. Diversification was instead maintained through holdings in dollar-denominated cash, gold equities and lower-risk multi-asset funds.

Brompton Asset Management, managers, New Star Investment Trust: In March 2018, global economic prospects were positive; growth remained steady and inflation had recovered modestly from subdued levels. Equity market weakness and increased volatility in January and February were, however, evidence of investor fears that stronger economic data would lead to a more rapid tightening of US monetary conditions. After recent Fed rate rises and reductions in the size of its balance sheet, further monetary tightening is expected in 2018. President Trump's newly signed tax cuts and jobs act should stimulate consumer spending and business investment but may also encourage Fed policy makers to tighten monetary conditions more rapidly. There were few signs in early spring 2018 that monetary policy had become restrictive. Increasing real interest rates may, however, lead some investors to sell equities in favour of safer assets such as cash and short-dated bonds.

The gradual withdrawal of liquidity introduces a greater degree of moral hazard for investors and increases the importance of investing in accordance with a strong valuation discipline. Your Company ended the period with a relatively low allocation to US equities, which appeared expensive, in favour of equities in Europe ex-UK and some emerging markets, where valuations were lower and where monetary policy remained more accommodative.

The rise in inflation and interest rates may lead to a change in equity market leadership. High-quality "growth" companies have outperformed more cyclical "value" stocks since the credit crisis as investors have sought out companies with strong and relatively dependable cash flows and dividends. Some of these companies have been experiencing margin pressure as rising inflation leads to increased costs, which may not easily be passed on to consumers. The high valuations of some of these stocks means that any disappointment in earnings expectations may lead to sharp falls in share prices.

Rising inflation and interest rates may also lead to falls in bond markets. Your Company ended the period with no direct investments in longer-duration bonds or other long-duration assets such as commercial property, which are typically more sensitive to increases in longer-term interest rates and inflation expectations. Diversification was instead maintained through allocations to cash held in dollars, gold equities and lower-risk multi-asset funds.

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Vic Holmes, chairman, Highbridge Multi-Strategy Fund: Whilst, generally, global markets have continued to perform strongly, there continue to be a number of potential political macro issues, which may spoil the party. Even though recent developments in North Korea are viewed by many as positive, or at least less concerning, closer to home the uncertainty surrounding the eventual outcome of Brexit remains as high as ever and the strength of Theresa May's position remains questionable. It is not appropriate to comment on global politics without mentioning the United States. The political environment in the US can best be described as divisive with a President whose leadership is far from steady and whose behaviour is now viewed as unstable and bullying by many US citizens. The future of NAFTA, the Italian election and claims of Russian State sponsorship of global cyber attacks all remain a concern.

Against such a backdrop of political uncertainties, some economic analysts are nevertheless predicting global growth for 2018 might rise as high as 4%, which would be the highest level since the financial crisis ten years ago.

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United Kingdom

(compare UK funds **here**)

Tom Bartlam, chairman, Jupiter UK Growth Investment Trust: While the UK domestic market has been out of favour with investors recently, we believe that in due course this sentiment will change. The disparity in returns between UK domestic stocks and international equities has rarely been as high as it is today. As the Brexit negotiations continue, if there is positive progress towards a sensible transition deal and a reasonable final settlement, then there is clearly room for investors to take a more positive view of the UK as an investment destination. Such an outcome would be positive for much of your company's portfolio of investments, which include UK growth and recovery stocks, and could produce a significant uplift in the value of your shares. Additionally, your company's recent increased investment in international stocks brings considerable upside potential.

Investor sentiment towards the UK is now as bad as it was during the Financial Crisis, there are a few catalysts that I think would make the market take a more positive view on UK domestics. With the pound now strengthening, inflationary pressures should subside noticeably in 2018. On the political front, a transitional agreement on Brexit has been secured and this should significantly reduce the chances of the UK economy falling off a cliff edge in 2019. Bond yields are also rising around the world, which should bode well for the Trust's substantial weighting to Financials. We hold no exposure to staples and utilities which tend to underperform as yields rise.

I am not blind to the political risk that could send the pound back down from here, so I am balancing our UK recovery plays with exciting (and reasonably valued) international growth stories such as Experian, Inchcape and Apple as well as the three newest additions to the portfolio - Ferrari, Formula One and YUM China.

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Peter H A Stanley, chairman, Manchester & London: Global events, both political and economic, continue to produce uncertainty and volatility in equity markets worldwide. Within this challenging environment, our performance in the first half of the year has been satisfactory.

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Angus Gordon Lennox, chairman, Mercantile Investment Trust: The Investment Managers highlight a positive economic backdrop for the companies we are invested in, but also identify some potential risks. The company is well placed to prosper in normal market conditions but also has the wherewithal to take advantage of opportunities should they arise. Mid and smaller UK companies have historically outperformed their larger counterparts and we see no reason for this to be different in the future. As a long-term investment, we look forward to the years ahead, confident that we have the right investment vehicle and the right Investment Managers investing in the right area of the market.

Guy Anderson, Martin Hudson, Anthony Lynch, managers, Mercantile Investment Trust: Economic growth has displayed improving momentum across the globe for well over a year now, and while this is not being uniformly experienced, it has been translating into an improving backdrop for many companies in our investment universe. In the UK specifically, growth has been less impressive, but has proved to be more resilient than feared by most commentators. While this should provide a positive backdrop for equities, the markets will also have to grapple with a number of counterbalancing factors, not least of which may be the gradual removal of monetary stimulus as well as the implications of any potential increase in inflation.

Furthermore, the geopolitical landscape presents a host of risks, some of which could generate far-reaching challenges in the future, but which have not yet caused a discernible impact. The lack of volatility in financial markets has been a surprise, but will not last forever, as we were reminded with the market correction through the second half of January and early February this year.

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Tristan Chapple, manager, Aurora Investment Trust: We think that the most relevant outlook statement we can make is that currently, the research that we do gives us confidence that the companies in our portfolio are performing well, in line with our investment theses. And, very importantly, the shares are cheap. These two elements augur well for future investment returns.

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Alex Wright, manager, Fidelity Special Values: The 6 months to the end of February saw further challenging market conditions, with increasing concerns of the impact of rising inflation and interest rates on the market outlook. Following a strong period of returns in the market over the past several years, it is reasonable to expect a few periods where overall returns might be lower. Global growth trends remain intact, albeit the UK is now underperforming other developed markets, at least partly due to concerns around Brexit negotiations and lower levels of disposable income for consumers.

I still see a good supply of attractive investment opportunities in diverse sectors such as financial services and industrials, but I remain focused primarily on analysing individual companies. This helps to improve focus on those elements that have the greatest impact on long term share price returns and reduce the temptation to become distracted by short term factors such as political rhetoric or economic uncertainty.

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Nicholas, Fry chairman, BlackRock Smaller Companies Trust: After a year of strong performance in 2017, UK markets have this year been characterised by greater uncertainty and higher levels of volatility. Overall, the global economy remains strong, in contrast with the UK domestic economy. Domestically, increasing inflation and low wage growth are putting the UK consumer under pressure, which will translate into tougher operating conditions for companies exposed to discretionary consumer spending.

Despite this note of caution, the company's portfolio managers believe that many UK small and mid-capitalisation companies have the ability to perform well given the more positive global economic backdrop.

Mike Prentis, manager, BlackRock Smaller Companies Trust: Following strong gains in equities in 2017, with low levels of volatility, 2018 so far has been much more

volatile. Fears about trade wars and other political disagreements have exacerbated this volatility. Our current view is that the global economy is in good health.

The UK domestic economy remains weaker than other major developed economies, and in the face of political uncertainty we see the possibility of weakness continuing for some time. We are cautious of those areas exposed to discretionary consumer spending. This is a view that we have held for some time and a number of profit warnings from consumer related companies have reinforced our view.

While we are wary on the outlook for the UK economy, we are positive on the prospects for many UK small and midcap companies.

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David Warnock, chairman, Troy Income & Growth Trust: The combination of a rate cycle in its early stages and what feels increasingly like mature equity market behaviour continues to frame the Managers' thinking. Despite a modest correction, the broad market continues to look fragile. Debt burdens continue to grow with the deteriorating state of the UK consumer's balance sheet, typified by the doubling of car financing loans in five years. In the corporate arena, borrowing to fund share buybacks and the move towards 'efficient' balance sheets have been widespread, particularly in the US. Inflation has also persisted; US CPI is now above the 2% target rate and UK CPI has only modestly ticked down from the 3% level. Against this backdrop it is no wonder that the 'Fed watchers' have been reawakened and both bond and equity markets have become increasingly sensitive to every statement released by policy makers. With an apparently hawkish but untested new Federal Reserve Chairman at the helm, the risk of a policy misstep may have been elevated further.

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David Seligman, manager, British & American: With the unprecedented run of low volatility and unabated growth in equities in 2017, we took the opportunity to take profits in some of our UK fund investments and reduce debt after having exited our fixed interest positions in the previous year.

The sustained pattern of growth in equity markets in the US and UK has now broken down and in the USA the market has now experienced two albeit brief technical corrections of 10 percent in the first 4 months of the year, perhaps presaging a possible end to the bull market which has run since 2009.

Erratic and seemingly ‘on the hoof’ policy making from the Trump administration together with the UK entering the politically difficult period of the final 12 months prior to Brexit do not bode well for strength in equity markets over the medium term, even if in the short term economic growth and corporate earnings remain firm.

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Asia

(compare Asian funds **here**)

James Williams, chairman, Pacific Assets Trust: There is a higher level of uncertainty in all global markets with a related rise in volatility. The rise in inflationary expectations by previous standards remain quite modest, but the difficult question is how the gradual reversal of years of monetary ease and extreme debt accumulation

will impact across asset classes that have risen, often exponentially, on a tide of liquidity.

The underlying growth characteristics found in Asia, and the attention to quality in the company's portfolio may help to mitigate some of these risks. However, we believe that, during this period of adjustment to rising interest rates, a cautious outlook is justified.

Stewart Investors, manager, Pacific Assets Trust: Asia's real attraction: in short, the presence of a family steward is no automatic guarantee of returns. It is, however, a powerful source of long-term competitive advantage for Asian companies and Asian investors in today's short-term world. This competitive advantage is becoming more important as Asia's businesses become ever more global. As a result, we remain as convinced as ever about the long-term returns to be generated from investing in Asia. Our conviction is not, however, based upon old arguments of economic convergence or political reform. Nor is it based upon favourable demographics, rising real wages or high savings rates. Instead, it is simply driven by the opportunity to partner with a very large number of good quality Asian families as they patiently build their Asian and global businesses over the coming decades.

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Peter Arthur, chairman, Aberdeen Asian Income Fund: While the past year has been a good one for Asian equities, there are now doubts about how long this momentum can last. This is already evident in the recent market volatility. Global monetary policy remains loose for now, but some central banks are starting to withdraw stimulus and we have seen previously how such concerns about rate hikes can affect confidence and result in a reversal of flows into Asian equity markets. Still, there are silver linings in such a scenario, as markets take a breather to digest their gains. The ensuing market gyrations may also result in mispricing, which presents astute investors with buying opportunities.

The current economic backdrop appears sustainable, with global growth expected to continue on its present course. Your Board has seen this come through in several of the company's underlying holdings. Companies' sales have improved alongside a recovery in domestic demand. Profits are also rising from tighter cost discipline and improving balance sheets. This gives management the ability to increase dividends.

As such, your board recognises your manager's stock-picking ability and the region's longer-term prospects. Asia is expected to remain a major driver of global growth, with China and India as the twin engines. Inflation remains subdued, and will give corporates the leeway to strengthen their fundamentals. Structural reform and demographics remain supportive of consumption, and growth is broadening which should help sustain the increase in earnings. In the longer term, the region also has large demographic dividends to be reaped, and this will prove beneficial for your company's holdings.

Aberdeen Asset Management Asia, managers, Aberdeen Asian Income Fund: Market volatility has returned at the time of writing, with major world markets roiled by the spectre of worsening inflation which could trigger a rise in interest rates by key central banks. There is a sense of foreboding that a further pullback by stock markets may be on the cards, particularly in light of the lingering risks, from rising protectionism giving way to full-blown trade wars, or an acceleration in the normalisation of monetary policy and the possibility of policy missteps by central bankers.

However, the fundamentals that have underpinned the rise in share prices over the past year have not changed. For example, we believe that China, which could see a moderation in economic growth in 2018, should continue to lift the region. Structural reform and favourable demographics also help sustain overall consumption across Asia. The broadening economic growth should fuel healthier earnings, which in turn,

should translate into companies being able to pay out better dividends. Although valuations have climbed in the past year, Asian equities remain attractive relative to their counterparts in developed markets, both in the US and Europe. In terms of strategy, we remain focused on quality and value, the hallmarks of the company's underlying portfolio.

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Nigel Cayzer, chairman, Aberdeen Asian Smaller Companies Investment Trust: Asian equities enjoyed an unexpectedly sanguine 2017 amid a synchronised global economic upswing, but signs abound of choppier waters ahead. Already, markets have suffered sharp sell-offs amid fears that the loose monetary policy which propped up asset prices may soon start to recede. But such corrections do not have to cause alarm. In fact, it may bring asset prices back to more sustainable levels, presenting astute investors, including your Manager, with new opportunities. Tighter liquidity, along with an evident rise in volatility, may also see the indiscriminate buying that characterised the past year give way to a more discerning approach, as investors begin to re-focus on fundamentals. Encouragingly, however, corporate fundamentals appear healthy. Many companies, including several of the Trust's underlying holdings, are seeing earnings forecasts upgraded and improving margins, on the back of better cost-efficiencies and capital allocation. Structural factors also seem compelling, including the increasing affluence of Asia's middle classes, which supports stocks across a wide range of sectors. As such, the Board remains assured that growth prospects for smaller companies in Asia remain compelling.

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John Russell, chairman, Henderson Far East Income: In recent months we have benefited from renewed investor interest in the Asia Pacific region primarily as a result of renewed global confidence in the outlook for Asian economies as compared to the US and the UK. The flow of funds from west to east has been significant and your Company has shared in this trend with a higher level of new share issuance at a premium to net asset value which benefits all shareholders.

Weaker and more volatile global markets are reflecting concerns about geopolitical issues that threaten global economic growth, prosperity and peace. Recent changes in the staffing of the US Administration have signalled further moves in the direction of trade restrictions and a more aggressive foreign policy. Much of the world is committed to free trade thus creating significant tensions with a protectionist US. How this will play out is not possible to predict. China's response to US imposed tariffs is probably the best indicator of the likely outcome. The EU and China will respond with their own tariffs on US imports and the negative effects on the US will be forthcoming. This will be a difficult call for China and their political and diplomatic skills will largely drive the outcome. If the response is too soft there will be negative reactions in China, if too strong it may prompt an even more aggressive US response. Overall it still seems likely that a level of compromise will be reached. Failure to do so will have negative repercussions everywhere. So far US tariff increases appear to have had a minimal impact on global growth but the company's portfolio has maintained a high domestic focus as a cushion in the event that further measures are implemented. Despite these uncertainties Asian earnings have shown continual upgrades over the past year and the underlying fundamentals of the region continue to improve providing attractive opportunities for investors.

Mike Kerley, manager, Henderson Far East Income: The weighting in China has increased ten percentage points from the same period last year and remains the best combination of value, income and income growth in the region. Banks, with the exception of those in Australia, are also an increasingly important part of the portfolio.

They are cheap relative to history, with good dividends and, importantly for an income focused portfolio, have a positive correlation to rising interest rates. This provides a natural hedge to the higher yield part of the portfolio which is adversely impacted by such a move. Our bank exposure is focused on China, Hong Kong, Korea, Singapore and Malaysia. Other notable exposure is the energy sector where we retain our positive view on refining margins in the face of strong demand and a lack of new supply while consumer stocks across the region retain appeal as disposable incomes continue to rise.

We are cautiously optimistic on the region. The element of caution comes mainly from outside the region with geopolitical and political tensions running high across the world, while sky high valuations in many asset classes call for a degree of caution. The rise in US interest rates and the potential for removal of quantitative easing from the central banks of Japan and the EU at some point this year could also provide headwinds for equity market performance. For this reason gearing will be used for the facilitation of new ideas rather than being directional.

Asia Pacific markets have risen in the last eighteen months but kept broadly in line with earnings growth, thereby keeping the price to earnings (PE) valuation at an attractive level versus its own history and its developed market peers. Corporate earnings growth is expected to be robust and the potential for sustainable and growing dividends is extremely attractive as companies continue to generate cash flow and slowly adopt a more shareholder friendly dividend culture over time.

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First State Stewart Asia team, manager, The Scottish Oriental Smaller Companies Trust: 2017 saw a strong recovery in global growth and this has been reflected through strong share price performance by Asia's companies - particularly those in more cyclical sectors. Our concern remains that this improvement in growth has happened against a backdrop of rising debt levels at a time when interest rates are near all-time low levels. Although interest rates have started to rise, the pace of these increases has been modest. Inflation has remained benign and this, combined with a weakening US dollar, has given Asia's central bankers the luxury of not needing to follow the US Federal Reserve in raising policy rates. This has resulted in accommodative monetary conditions in most of Asia which has allowed Asia's stock markets to continue to perform well. Debt levels cannot continue to rise forever but this will perhaps not become obvious until interest rates normalise and the cost of servicing debt becomes more significant.

Until such normalisation occurs, we will continue to be cautious. We remain wary of highly leveraged companies and also countries where we believe recent growth has been borrowed from the future by increased borrowing by the government, corporations and consumers. A large portion of Scottish Oriental's funds are invested in India, Indonesia and the Philippines - countries where we have found the most companies recently that we believe have strong long-term growth ahead of them. These three countries have relatively low levels of debt when compared to GDP with recent growth being fuelled by structural domestic factors rather than cheap, borrowed money. Our caution also means that the Trust still has relatively high levels of cash.

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Nitin Bajaj, manager, Fidelity Asian Values: Over the long term, I continue to be optimistic on Asia as the economic composition of the region continues to evolve with a more educated work force, more investment in science and productivity, and continued improvement in standards of living. This will continue to generate opportunities for us and I can promise you that the research team at Fidelity, who are

amongst the best in the industry, will continue to work hard to take advantage of opportunities as they arise.

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Susan Platts-Martin, chair, Witan Pacific Investment Trust: Corporate earnings growth remains a strong support for markets and the regional earnings outlook appears healthy. Inflation fears have started to rise, marking a possible turning point in global interest rates. Following the strong performance of recent years, we can expect returns to be more muted and markets to be more volatile. Although periodic setbacks are a normal feature of financial markets, as seen during early February they can surprise markets when sentiment has become too complacent.

Managers of Witan Pacific Investment Trust: Asian markets have enjoyed a fruitful period which has gone some way to closing the valuation gap between them and the rest of the world. Despite this, most regional markets continue to demonstrate attractive fundamentals. The improvement in economic growth experienced throughout the globe should allow for continued growth in corporate profits, which should help support current equity valuations. Equity market volatility in early February 2018 (following the Company's year end) reminded investors that a long period of low inflation does not mean it is banished forever. Bond investors' sensitivity to inflation, together with the opposite concern that policy makers may stall the widespread economic recovery by acting too aggressively, will leave investors prone to bouts of nervousness. It is into this less certain environment that Donald Trump recently launched his protectionist agenda by imposing tariffs on steel, aluminium and on a number of Chinese products, thereby risking a damaging trade war which, if allowed to escalate beyond these initial skirmishes, would be counter-productive for the global economy. Despite the rhetoric, trade wars are rarely easy to win and there would be significant collateral damage in the region and, more pertinently, in the US. It is unlikely, therefore, that rational politicians would embark on such an agenda without considering the wider consequences and resort, in the end, to more measured negotiations.

Whatever the outcome, it appears that the years of extremely low volatility are behind us and that the stock picking skills of our managers may become more highly prized. Nonetheless, equity ratings will continue to have attractions unless bond yields rise precipitously and should therefore offer competitive returns relative to other asset classes.

It is difficult to close without reference to the ongoing Brexit negotiations which, although they will have little impact on the Company's portfolio, will be likely to affect the value of Sterling for as long as the political wrangling continues. This will continue to impact (positively or negatively) the returns that we, as UK-based investors into Asian equities, will experience. It is still too early to reach any conclusion on the likely outcome of any deal with the EU so, as ever, the board will focus on ensuring it has the right team in place to deliver the best possible returns from this diverse and exciting region.

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Europe

(compare European funds **here**)

Eric Sanderson, chairman, BlackRock Greater Europe Investment Trust: Since the period end, equity markets have sold off as President Trump has imposed tariffs on imports of steel and aluminium to the U.S., as well as on a number of targeted Chinese

imports, raising fears of a wider trade war that could in due course impact on the global economy. A number of key personnel changes in the administration have also unsettled some investors and overshadowed the positive reception to the previous tax reforms.

In Europe, following a strong start to the year, markets suffered a slow down and the Eurozone composite Purchasing Manager's Index (PMI) slipped to a three month low, adding to concerns over the growth outlook. Nonetheless, the PMI still indicates healthy economic growth within the region and manufacturing is enjoying one of its strongest periods in recent history. Although political risk remains, as evidenced by the Catalan independence referendum, a minority government in Germany, and a hung parliament in Italy, market reaction to these events has been muted.

Although we are cognisant of the risks, we continue to see good prospects for European equities. With a wide disparity in stock and sector valuations, we also believe there is plenty of scope for active portfolio management to add value.

Stefan Gries and Sam Vecht, managers, BlackRock Greater Europe Investment Trust: Recovery within the euro area remains broad based, with the outlook for expansion in both manufacturing and services robust. Indeed, Europe also sees buoyant demand regionally, despite some more testing political situations. Whilst the election outcome in Italy will increase uncertainty in the near-term, we do not believe it derails the European recovery story. It may, however, have implications for EU reform, but broadly we believe the outlook for the European project remains favourable, with a German coalition led by Angela Merkel and pro-reform government in France spearheading the agenda.

With Europe as a region being very much geared into the global economy, the positive backdrop continues to support European earnings and revenues. The Q4 earnings season saw improved revenue trends versus the previous quarter, despite the stronger euro. Whilst the strength of the euro may be a headwind for some companies' earnings, we believe it is broadly a reflection of the greater economic expansion and current account surplus for the euro area. Valuations in Europe remain undemanding, particularly relative to other developed equity markets and fixed income markets, despite recent slight increases in government bond yields.

Regarding monetary policy, we believe the ECB will remain cautious as inflation continues to undershoot their targets, despite the constructive economic backdrop. As active managers, we believe the higher volatility which has been present in the market due to indicators surprising or rolling over from elevated levels, provides opportunities for the selective investor who can look through short-term noise.

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North America

(compare North American funds here)

Nicholas Villiers, chairman Middlefield Canadian Income: Looking forward, we are positive on Canadian equities due to the broad selection of quality companies paying high and growing dividends. We believe the Canadian economy will benefit from strengthening labour markets, a stable political environment and a recovering energy sector. In the near term, the primary risk to economic growth is the uncertainty surrounding the ongoing renegotiation of the North American Free Trade Agreement ("NAFTA") between Canada, the U.S. and Mexico. While the Trump Administration is taking a hard line on trade related issues on several fronts, we remain confident in a

favourable outcome due to the strong political and commercial relationship between Canada and the U.S. For U.S. equities, the positive outlook is supported by corporate earnings that have exceeded expectations and the highly anticipated boost from tax reforms.

Middlefield Limited, managers of Middlefield Canadian Income: Looking forward, we are positive on equities in light of strong underlying corporate fundamentals and synchronized global economic activity. Although the Canadian economy is not likely to match the 3% growth registered in 2017, we still expect GDP to post a healthy 2% increase in 2018, causing the Bank of Canada to remain relatively dovish with only one or two potential rate hikes this year. In the U.S., while the corporate sector remains attractive due to deregulation, tax reform and the highest level of consumer confidence in over a decade, headwinds such as the outcome of NAFTA negotiations and the impact of import tariffs could impact market sentiment.

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Japan

(compare Japan funds **here**)

David Robins, chairman, Fidelity Japanese Values: The upbeat global economic outlook, along with the supportive domestic policy environment, should help Japanese companies to post another year of robust profits. The US tax reform legislation enacted in late 2017 could also provide a boost to Japanese companies that are heavily geared to the US market.

However, at this mature stage of the cycle, increases in interest rates may lead to periods of heightened market volatility and share price reversals, as we saw in early 2018. In addition, the market may suffer further setbacks as a result of rising tension on the Korean peninsula, uncertainty over the future of Prime Minister Abe, increasing protectionism instigated by the US and bouts of yen strength.

Nevertheless, such corrections are expected to be short term, assuming that there is no change in the underlying trend of economic and earnings growth.

Nicholas Price, manager, Fidelity Japanese Values: Labour markets are at the tightest level in several decades and participation rates among women and also seniors over 65 have risen sharply. The number of people in employment is now close to the record high of 65.8 million set in 1997, which is helping to mitigate the impact of changing demographics. Meanwhile, foreign visitors are coming to Japan in record numbers (28.7 million in 2017 versus 8.4 million in 2012 prior to the advent of Abenomics) and are on course to reach the government's target of 40 million by 2020, the year of the Tokyo Olympics. All of these factors have positive implications for the domestic economy, through higher total employment income, stronger consumer confidence and ultimately consumption.

In terms of corporate fundamentals and valuations, Japanese stocks are relatively cheap globally and the earnings environment is positive. This suggests a reasonable level of upside for the market in 2018. Although Japanese stocks have performed strongly in recent years, the market has been driven predominantly by growth in corporate earnings rather than by an expansion in valuation multiples, as has been the case in other developed markets such as the US. As corporate Japan continues to make progress with governance reforms and enhancing shareholder value, returns on equity could approach similar levels to those seen in Europe.

The key risks are policy missteps by major central banks; the re-emergence of trade protectionism, particularly in the US; a faster than expected slowdown in China; and geopolitical tensions. While inflation remains subdued in Japan, speculation that the BoJ may change its policy could lead to periods of yen appreciation, which would negatively impact the performance of Japanese stocks. However, the Japanese economy is experiencing its longest period of growth in more than a decade and the policy mix remains accommodative. Corporate profits are at record highs and companies are increasing their capital spending. Given this environment and the relatively undemanding valuations in Japan, we believe there are still attractive investment opportunities in the equity market.

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Jonathan Taylor, chairman, Schroder Japan Growth: What has changed in Japan since I joined the Board in 1999? The good news is that I feel most of the changes have been positive for shareholders. Japan now has a government committed to structural reform; large parts of the corporate sector are more shareholder-friendly; and most Japanese equities are not just on lower valuations than then, but also more are reporting on internationally-accepted accounting standards. Japan today needs to offer a better outlook than - with hindsight - it did in 1999 (the market now is almost at the same level in local currency terms as it was then) and I believe it does.

Schroder Investment Management Limited, managers of Schroder Japan Growth: Our view on balance remains positive, although we recognise more headwinds than at the time of our review in September. Positive drivers include supportive monetary policy, relatively low valuations, corporate governance improvements and positive funds flow. Although global economic momentum may be peaking, it remains supportive and, domestically, the tight labour market should eventually be a source of inflation.

Contrary to expectations, the yen has traded firmly, especially relative to the dollar. Over the last year there have been signs of a weakening relationship between the currency and the market but at the same time, the stronger currency may prompt companies to issue conservative guidance for next fiscal year, ending March 2019. Politics also hold some risks, internationally due to increased protectionism and domestically because the scandal in which Prime Minister Abe and his party were embroiled last summer has resurfaced. The twice postponed increase in VAT from 8% to 10% now seems likely to get the green light effective from October 2019. This would represent fiscal tightening, although the impact will probably be mitigated by announcement of an offsetting package of fiscal stimulus measures.

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Neil Donaldson, chairman, Baillie Gifford Shin Nippon: Concerns about global growth remain. Following last year's anxieties over Brexit and the election of President Trump, there is now a realisation that interest rates in the US and to a lesser extent in the UK are on the rise. Whilst these uncertainties remain, the argument in favour of selective stock picking is robust and over the years the management team has developed a strong reputation in this regard.

Along with the Managers, your board had the opportunity to visit Japan in November. We met presidents and CEOs of companies that we hold and companies that are on the Managers' radar screen for potential investment. It was evident to us that the entrepreneurial spirit in Japan is strong. There are still issues in the country, most notably with a tightening of the labour market and an ageing population, but the last eight consecutive quarters have all shown positive GDP growth - its longest continuous run for more than a decade. This growth has been driven by all corners of the economy

and more recently we have even seen the services sector outpace manufacturing. We are also seeing more and more companies raising prices, including a number of our portfolio holdings, and this may well lead to a welcome return to modest inflation over the months ahead.

Tourism continues to grow strongly in Japan and last year tourist numbers in Okinawa overtook those in Hawaii! I reported previously that the number of foreign workers in Japan had surpassed 1m. That figure is now nearly 1.3m.

There is much to be positive about. There is a drive to improve corporate governance. More external, independent directors are being appointed to boards and this in turn will afford greater consideration and protection for shareholders.

Baillie Gifford & Co, managers of Baillie Gifford Shin Nippon: The combination of cyclical and structural tailwinds both in Japan and overseas is providing an ideal business environment for smaller companies in Japan. For those willing to embrace these opportunities, the long-term growth potential should be exciting. Our endeavour remains to seek out and invest in rapid growth businesses with dynamic management teams and we remain encouraged by the quality and breadth of investment opportunities.

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Global emerging markets

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

Andrew Hutton, chairman, JPMorgan Global Emerging Markets Income Trust: The Manager's report is upbeat in relation to the underlying earnings prospects for the company's investments, but also points out that valuation levels have risen. The board is mindful of the economic, market and political risks that could yet erode what is otherwise a reasonably constructive outlook. Among the more obvious of these is the possibility that rising US bond yields could put pressure on all equity markets, not just in the emerging world.

Omar Negyal, Jeffrey Roskell, Amit Mehta, managers of JPMorgan Global Emerging Markets Income Trust: Valuations in Emerging Markets are at a more neutral level when compared to history, having been more clearly cheap in 2016 and 2017. This partly reflects the improvement in fundamentals after what had been a difficult few years for Emerging Markets economies and companies. We continue to think there is room for Emerging Markets companies to demonstrate improving results going forward. On a multi-year view we think profitability (return on capital) for the asset class should rise further from current levels, which should ultimately drive dividends and share prices. There are of course risks to this positive trajectory, including the impact from rising bond yields globally and the risk of 'trade wars' affecting corporate sales and profits. On a nearer term view, we are beginning to see slow improvement in the earnings of the companies although we would note that there is generally a lag in terms of this improvement flowing through to dividends (for example in terms of earnings reporting, dividend announcements and then actual receipt of dividends).

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Latin America

(compare Latin America funds **here**)

Richard Prosser, chairman, Aberdeen Latin American Income Fund: The outlook for Latin American markets remains positive. Supported by the broadening global growth and stabilised commodity prices, as well as improving fundamentals and benign inflation, the region seems to be in good shape to deal with domestic and external challenges. Its long-term potential lies in the rising wealth of its middle class, relatively low labour costs and an abundance of natural resources.

Also key to Latin America's narrative is its dynamic political landscape. In Chile and Argentina, leadership changes are expected to drive market-friendly reform that imposes fiscal restraint and induces a pickup in investment activity, boosting confidence. In Brazil, the upcoming election is likely to heat up with twelve candidates expected to contest. Although former president Lula de Silva retains a commanding lead in the polls, his recent prison sentence will make him ineligible to run. Elsewhere in Mexico, leftist hopeful Andres Manuel Lopez Obrador stays in the lead, with the ruling PRI party facing high rejection rates. The campaign will likely focus on corruption and public security.

Other persistent risks include a hard landing in China, decline in commodities prices, faster-than-expected rate hikes in the US and tit-for-tat trade wars in developed markets which could all impact emerging markets as an asset class generally. Unfavourable weather could also be a drag on the agricultural sector, a major portion of exports in Brazil and Argentina. Meanwhile, a fallout from NAFTA re-negotiations could curb foreign direct investment in Mexico.

Aberdeen Asset Managers Limited, managers of Aberdeen Latin American Income Fund: The year ahead will see the continuation of broad-based economic recovery in Latin America. While strengthening domestic demand will be a major driver of growth, the recent rise in commodities prices bodes well for investments. At the same time inflation is expected to be well contained, allowing the central banks to maintain their current accommodative policies. Market focus will increasingly be on politics, as elections approach in Colombia, Mexico and Brazil. This could add volatility and uncertainty, but also opportunities for the Investment Manager should markets overreact.

Encouragingly, earnings expectations are being revised upwards, on the back of company-level efforts to improve margins and allocate capital more efficiently. Meanwhile, valuations are still attractive vis-à-vis global peers. The strengthening fundamentals reinforce the continent's growth potential, underpinned by several long-term positives. An expanding middle class bodes well for consumer holdings; lenders such as Bradesco and Banorte are benefiting from widening access to financial

services; while construction, transportation or real estate companies will gain from growing infrastructural demand.

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Commodities and natural resources

(compare commodities and natural resources funds here)

Malcolm Burne, chairman, Golden Prospect Precious Metals: In my June 2017 report I set out my views on the global impacts influencing precious metals and in the interest of brevity I would encourage shareholders to revisit these comments as the situation is little changed (the report remains available on our web-site). I believe precious metals currently sit as an attractive investment asset class in relation to today's geo-political and macro-economic climate. The salient factors currently in play include peak gold, inflation, China and Russia Central Bank buying, Fed policies on interest rates, mounting debt issues, equity bubbles, global conflicts and more recently the emergence of super power trade wars.

With gold performing well the immediate focus has switched to the micro situations which offers a very compelling case for significantly adding to the undervalued gold and silver equities sector.

There is some extremely interesting punditry by international specialist newsletters and commentators which point to the deep value opportunities that many well-known mining companies currently offer in the Australian, USA and Canadian markets which have rarely been in better shape in terms of cash flows and profit margins. I do not wish to duplicate, repeat or compete with our own investment managers very professional and informed views of the present attractions that exist and on which they are currently taking full advantage. Our message is to continually increase investor weightings to both gold and silver stocks while both the fundamental and technical picture remains so strong.

New City Investment Managers, managers of Golden Prospect Precious Metals: Mining shares are truly languishing, trading at prices only seen when gold was half or even a quarter of current levels.

Despite investors' preference for risk we believe some macro aspects remain supportive to gold. While US inflation has remained relatively manageable we note that hourly wages increased by 2.6% at the end of 2017 and have continued to rise at a more appreciable rate than the 2.2% rise of broader consumer prices. With little slack in the US labour market we believe inflationary pressures are currently building. This should provide a more supportive backdrop for gold prices. Importantly, the latest extension to the US debt ceiling, in February, acts as a useful reminder of a potential limitation to FED interest rate policy and the extent to which interest rates can be increased.

Elsewhere, the improving economic outlook in Europe has allowed perceptions of risks to become more sanguine though regional inequalities and increasing nationalism within the Eurozone remain a threat which could undermine this stance. The success of the Five Star Movement in the recent Italian election highlights this as Italy still looks to create a coalition government.

Current demand-pull inflation has heralded an interest rate tightening cycle and following an initial 25bp rise by the US Federal Reserve Bank in December 2017 and another in March 2018, consensus expectations are for at least another two 25bp

interest rate increases in the US over the remainder of the year. However, this has not been matched by US dollar strength with central bank policy elsewhere having a more meaningful effect on exchange rates. In particular, the prospect of removing ultra-loose quantitative easing in Europe and Japan has driven relative strength in those currencies versus the US dollar. Sterling has been a no exception to this trend and despite protracted Brexit negotiations it strengthened a significant 10% versus the dollar over the financial year, resulting in a more muted sterling gold price rise of around 3% during the year.

A longer-term influence on US reserve currency is an underlying trend of "de-dollarisation" as evidenced by China's recent development of a domestic oil futures market, as it seeks to trade oil for Yuan with the likes of Russia, diluting the need for it and some other trading partners such as Russia, to hold dollars as a trading currency. The pull-back of crypto currencies, following the ground swell of 2017, may also free up funds for investment in more traditional precious metals providing some short-term relief to the sector.

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Howard Myles, chairman, Baker Steel Resources Trust: Generally, the current global recovery has been supportive of sentiment towards the mining sector. The sub-sector of the market enjoying the most investor interest is that associated with electrification of motor vehicles and battery technology. Although the Company is not interested in jumping on the latest bandwagon especially in commodities with volatile and unclear supply and demand, copper is likely to be one of the key beneficiaries of electric cars and the company already has significant exposure to copper through its investments in Ivanhoe and Nussir. On the "battery metal" front the company has exposure to lithium and vanadium through PRISM Diversified Limited (formerly Ironstone Resources Ltd). In addition, the increasing use of silver for photovoltaic reinforces silver as a "green" metal and should drive demand.

Country Specialists: Asia Pacific

(compare Country Specialists: Asia Pacific here)

Wolfgang Bertelsmeier, chairman, Vietnam Enterprise Investments: 2017 was a record-breaking year for Vietnam's economy. The Government achieved all of its economic growth and stability targets for the year. GDP growth reached 6.8%, its highest rate in 10 years, and surpassed the Government's target of 6.7%. Consumer consumption continued its upward trajectory supported by higher GDP per capita growth from US$2,215 to US$2,400. Rising incomes and a growing middle-income group will be the main driver for rising consumption in the coming years. Inflation was stable at 2.6%, well below the 4.0% target. Vietnam posted a trade surplus of US$2.9 billion due to strong export growth, the fastest growth in five years, of 21.2% to US$214 billion. The budget deficit improved significantly from 5.1% in 2016 to 3.5% of GDP supported by a strong economy and controlled government spending. Foreign reserves reached an all-time high due to large US$ inflows into State Owned Enterprise ("SOE") divestments, strong foreign direct investment ("FDI") and a trade surplus.

The stock market performed robustly in 2017 with the Vietnam Index ("VN Index") increasing by 52.8% and closing at its highest for the last 10 years at 984.24. The liquidity also improved significantly with average trading value per day around US$225 million. Foreign investors remain positive on Vietnam, demonstrated by their net buying for the whole year of US$1,154 million, the highest level since 2007. IPOs and privatisation of SOEs accelerated including companies such as Vietjet Air, VPBank,

HDBank, Idico, Becamex, Vincom Retail and Petrolimex. These new listings led to the market value of the three exchanges, Ho Chi Minh City Stock Exchange ("HSX"), Hanoi Stock Exchange ("HNX") and Unlisted Public Companies Market ("UPCoM") more than doubling to US$155 billion at the end of 2017 from US$86 billion at the end of 2016. The derivatives market opened for trade in July 2017 with the introduction of the VN30 Index futures with covered warrants being introduced in the first half of 2018.

With a stable currency, healthy IPO pipeline, continued GDP growth and low levels of inflation predicted for 2018, we remain positive on the outlook for Vietnam. Market prospects remain bright going into 2018 thanks to the stable growth of the economy with expected GDP growth of 6.7% and inflation remaining at around 3%. Meanwhile currency remains stable thanks to strong trade surplus and high foreign reserves. Whilst a strong rally in 2017 might cause concerns over potential upside, however, as the market's valuation is still reasonable compared to regional peers with forecasted 2018's PE of 14.7x for the top 50 companies, and earnings growth of 19% in key sectors such as banking and property performing well in 2018. In addition, new listings from incoming IPOs, the possibility of opening foreign ownership limits and our potential inclusion in MSCI Emerging Market's Index Watch List are key catalysts for Vietnam to attract strong foreign inflows into the market. Our extensive experience in the market and deep local knowledge leaves us well-positioned to benefit from Vietnam's long-term growth outlook and stock market developments.

Vu Huu Dien, manager, Vietnam Enterprise Investments: We remain bullish on the market outlook for 2018 as we believe that the ongoing development of the market remains a key priority for the Government. Our view is further compounded by the expectation of an accelerated number of privatisation and IPOs, the growth of the futures market following its successful launch in 2017, as well as new product offerings with covered warrants being launched in the first half of 2018 together with market friendly policies.

Vietnam Enterprise Investments will continue to focus on privatisations and IPOs in 2018. In the near-term, three companies in the energy sector, namely Binh Son Refinery (US$3.2 billion market capitalisation), Petro Vietnam Power (US$1.5 billion market capitalisation) and Petro Vietnam Oil (US$0.9 billion market capitalistion) are of particular focus to VEIL.

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Managers, Weiss Korea Opportunities: The South Korean stock market overcame numerous negatives to achieve exceptionally high returns in 2017. The U.S. threatened to terminate the U.S. free trade agreement with South Korea, and in early October, South Korea agreed to initiate negotiations to amend the trade agreement. After the U.S. deployed the THAAD missile system in South Korea, the Chinese imposed an unofficial boycott. Sales of Hyundai and Kia in China plummeted, causing their shares to underperform the broader market. The decrease in Chinese tourists caused revenue at AmorePacific, the South Korean cosmetics giant, to fall around 10%, causing a 32% fall in operating income.

In last year's letter, we wrote that 'Unexpected' events occur much more frequently than people estimate. In 2017, North Korea exploded a hydrogen bomb, and had several successful launches of long-range ballistic missiles. The U.S. has responded with

threats to attack North Korea. There is a non-trivial probability that the U.S. may initiate military action against North Korea. According to media reports, the Trump administration withdrew its nominee as ambassador to South Korea because he voiced scepticism about the wisdom of giving North Korea a “bloody nose”. On the other hand, President Trump has just announced a willingness to talk with Kim Jong-Un, the leader of North Korea.

It is hard to predict how North Korea would respond to a U.S. military strike, but there is certainly the risk that a sequence of responses and counter- responses could have devastating effects on South Korea. We hate to be expressing concerns about the market impact of a sequence of events that could potentially result in millions of casualties, but as fiduciaries we can’t ignore the risks associated with military conflict when discussing the risks of investing in South Korea.

The South Korean stock market and the South Korean economy shrugged off all of this troubling news to achieve the best performance of any major market in 2017. (GDP grew 3.1% in 2017, which may have contributed to equity returns.) Despite the risks described above, credit default swaps on South Korean sovereign debt are cheap.

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Debt

(compare Debt funds **here**)

Stuart Cruickshank, chairman, P2P Global: The board continue to closely monitor the political and economic uncertainty created by Brexit. Although current market conditions remain benign, the longer-term economic outlook and impact of Brexit on our customers and wider markets remain uncertain.

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William Frewen, chairman, NB Global Floating Rate Income Fund: your board believes that the outlook for 2018 is favourable for short duration asset classes such as senior secured floating rate loans. We expect to see further rate rises in 2018 in the US and probably in the UK. The manager believes that default rates will stay below historical levels and credit quality is expected to remain favourable with the exception of some identifiable areas, such as within the retail and commodity sectors. Furthermore, the restraints put on lending banks by regulators through the Interagency Guidance on Leveraged Lending should continue to limit excess leverage in new issuance. However, all of these positive tailwinds come with the caveat of significant political uncertainty, such as Brexit negotiations and trade relations, which have the potential to derail any positive momentum and could lead to increased volatility across global markets.

Neuberger Berman Investment Advisers LLC, managers of NB Global Floating Rate Income Fund: Our outlook for the loan market remains positive. At the start of

2018 the U.S. and European economies, revenue, earnings and cash flow metrics have continued to demonstrate improvement across the board.

Furthermore, recent U.S. corporate tax reform should provide a modest benefit to most companies that we are focused on. The market today is pricing in approximately a 1.61% imputed default rate, which is in line with our 2018 expectations of 1.5 - 2.5%.

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Jack Perry, chairman, ICG-Longbow Senior Secured UK Property Debt Investments: The board continues to believe that attractive market conditions remain for UK real estate debt investments.

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Andrew Adcock, chairman, VPC Specialty Lending Investments: As 2017 ended, investor sentiment towards online lending was improving, evidenced by over $7.8 billion in consumer loan marketplace lending asset backed securities issuance, a 71% increase over 20168. After 2016 saw a significant drop in U.S. online consumer loan origination, sparked by the data quality and corporate governance issues at Lending Club, 2017 saw a significant recovery in volume as most of the major issuers saw a consistent uptick in originations throughout the year.

In the U.K., 2017 saw over £2.9 billion in peer-to-peer loans facilitated, relatively flat from 2016. As with last year, this volume was heavily weighted towards the second half of the year after lending volumes initially dipped in the second quarter. Accordingly, in the fourth quarter of 2017, origination volumes were growing sequentially in both the U.S. and U.K.

The political and macroeconomic outlook continues to appear generally positive for lenders under the new administration in the U.S. The tax cut signed at the end of 2017 should give a significant boost to both business and consumers. The regulatory environment is expected to improve for marketplace lending as the Consumer Financial Protection Bureau ("CFPB") rolls back plans for increased oversight, and the current administration focuses on reducing regulations applicable to lenders. On the other hand, individual states may become more proactive at protecting consumers, which can lead to a complicated environment for lenders. In the U.K., banks reduced the availability of unsecured consumer credit in each quarter of 2017 and intend to continue tightening standards into 20188. The FCA has yet to publish its post-implementation review of peer-to-peer lending, which was expected in 2017 as the snap election, Brexit and other issues took priority during the year.

The long term structural growth drivers for online lending remain intact. Loan volumes should continue to increase as banks continue to scale back the availability of consumer credit, while established online lenders continue to grow, build scale and newer companies establish a presence. The availability of credit information outside banks continues to improve and, through continued technological innovation, online lenders can profitably lend to these under-served SMEs and consumers. Online lenders continue to innovate and provide a better user experience to borrowers. Anticipated regulatory crackdowns in both the U.S. and the U.K. have not materialised. These growth drivers are likely to sustain the continued progress and development of the online lending sector for many years to come.

Victory Park Capital Advisors, manager, VPC Specialty Lending Investments: Heading into 2018, VPC is taking a very cautious approach to credit given the long economic expansion in the U.S. and a loosening corporate credit environment. While we have seen no immediate signs of credit stress across our

portfolio, there are pockets of credit weakness in the broader economy. Both prime credit cards and non-prime auto loans have recently displayed stress with rising delinquency rates and increased charge-offs. However, the recent tax overhaul in the U.S. should provide some relief to the consumer and wage growth. Last year represented the strongest economic growth in the U.S. since before the financial crisis. In particular, wage growth seems to be the focus of the Federal Reserve, which led them to raise short-term interest rates three times during 2017. Given our balance sheet facilities are floating rate, the investments are not directly affected, but instead benefit from rising rates. However, the rate differential with the U.K. has widened, and in return this has subsequently increased our hedging costs throughout 2017 causing a 0.54% NAV loss on foreign exchange. The overall effect is largely neutral for the company, since hedging costs are offset by more interest income earned in U.S. dollars.

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Blackstone / GSO Debt Funds Management Europe Limited, managers, Blackstone / GSO Loan Financing - In Europe, we believe that the supply and demand imbalance will continue to drive technical performance factors in the European loan market. Additionally, with the ECB tapering its quantitative easing programme in 2018, an uptick in rates in Europe looks increasingly likely and the strong fundamental macroeconomic environment is expected to continue into 2018. We believe that floating rate assets, including higher quality European loans and floating rate notes, are attractive relative to other longer-duration fixed income assets given the potential rising rate environment and subdued default forecasts.

In the U.S., we believe that a great deal of value will be predicated on inflation trends, term premiums and the continuation of a low default environment during the coming year. We remain encouraged by the benefits of recent U.S. tax reform as it is expected that for 75% of high yield issuers the lower corporate tax rate and the ability to depreciate additional capital expenditure will outweigh companies' inability to fully deduct interest expense. Accordingly, we expect that the fundamentals of the majority of double-B and single-B rated U.S. issuers could improve, while highly levered CCC-rated issuers may face headwinds given the reduction in interest deductibility. The confluence of these events is likely to create greater performance and pricing dispersion resulting in opportunities to outperform through careful credit selection.

Financials

(compare specialist financials funds **here**)

Joanna Dentskevich, chair, EJF Investments: Given that current and prospective changes in financial regulations are anticipated to favour smaller US financial institutions in particular, I believe the Company is well positioned to invest in attractive opportunities in core areas identified by the Manager. Furthermore, other factors such as reduced corporate taxes, higher interest rates and continued consolidation of smaller US banks are also expected to continue to benefit the Company's portfolio.

Of central importance for the Company is the current lack of material competition in the niche area of US bank and insurance securitisation and related investments. As such, I remain confident that the Manager's strong and demonstrable securitisation capabilities mean the Company is well placed to grow and continue to deliver attractive returns to shareholders.

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Property: Direct

(compare Property: Direct – UK funds **here**)

Robert Peto, chairman, Standard Life Investments Property Income Trust: The expectation for the next year is for more moderate economic growth. However, the extent of this moderation will be largely dependent on the perceived success or otherwise of the Brexit negotiations which, in turn, will impact on the level of business investment. In addition, the extent of any rise in interest rates, which the Bank of England has indicated may rise more rapidly than forecast, will also influence the performance of the economy and the property market in the upcoming year.

In terms of the UK real estate market, values are now in excess of the level before the Brexit vote in 2016 with strong fundamentals in place. The yields generated by UK real estate are still significantly higher than the other mainstream asset classes. In addition, unlike in previous cycles, the leverage in the sector is prudent and the market is still fairly liquid. Finally, by historical standards, limited development and lower than average vacancy rates should all provide a solid foundation for future positive returns, albeit more geared towards income in the immediate future.

Jason Baggaley, fund manager, Standard Life Investments Property Income Trust: UK real estate continues to provide an elevated yield compared to other assets and market values are now ahead of the level they attained before the Brexit upheaval in 2016. Lending to the sector remains prudent and liquidity remains reasonable. Additionally, development continues to be relatively constrained by historic standards, and existing vacancy rates are below average levels in most markets, although there are pockets of oversupply in some markets such as Central London offices. The robust fundamentals should help to maintain the positive returns the sector is currently recording. In this environment, the steady secure income component generated by the asset class is likely to be the key driver of returns over the next few years. The market is expected to continue to be sentiment driven in the short term as the politics and economic impact associated with the UK's withdrawal from the European Union continues to evolve.

The retail sector continues to face a series of headwinds that may hold back recovery in less strong locations due to oversupply and structural issues but the prospects for retail in the South East and Central London are expected to remain more robust. Given the backdrop of continuing heightened macro uncertainty, investors are becoming more risk averse and better-quality assets are once again broadly outperforming poorer quality. Occupier demand, particularly in offices, has continued to focus on good quality real estate that offer an elevated level of amenity to employees, as low levels of unemployment mean the work environment is part of the offering to recruit and retain the best people.

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Chris Russell, chairman, F&C Commercial Property Trust: The property market out-performed initial expectations for 2017 but an environment of higher interest rates and inflation, subdued economic growth, political uncertainty and some keen pricing may begin to weigh more heavily on investor sentiment this year. Performance is expected to be driven by income return in the next few years and property as an asset class to remain attractive to those seeking a secure income return and access to a large, mature and relatively liquid property investment market. Investment opportunity is likely to be seen as a result of the impact of technology, infrastructure and demographic change on commercial property.

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Andrew Wilson, chairman, UK Commercial Property Trust: The UK's economic position continues to be dominated by the ongoing Brexit negotiations. The UK is forecast to be one of the slowest growing of the developed economies in 2018 as business investment continues to be muted due to the ongoing uncertainty. The perceived success, or otherwise, of the outcome of the Brexit negotiations will be pivotal in determining the performance of the UK economy in the short to medium term.

Real estate as an asset class has thus far proved resilient to the slowdown in the economy experienced in 2017. Returns were considerably higher than the IPF consensus expectations for the year of 3.2%. While foreign investment into the UK market has helped, the underlying property fundamentals, unlike in previous cycles, are sound and should support property continuing to deliver attractive relative returns. The yields generated by UK real estate remain significantly higher than those from other mainstream asset classes. This should continue even if interest rates edge up more quickly. Leverage in the real estate sector is prudent and overall the market is reasonably liquid.

By historical standards, limited development and lower than average vacancy rates should also assist in a solid foundation for future positive returns, albeit more geared towards income rather than capital growth in the immediate future.

Will Fulton, Standard Life Investments, manager of UK Commercial Property Trust: UK real estate continues to provide an elevated yield compared to other assets and market values are now ahead of the level they attained before the Brexit upheaval in 2016. Lending to the sector remains prudent, liquidity remains reasonable and development remains relatively constrained by historic standards. With existing vacancy rates below average levels in most markets, aside from pockets of oversupply in some markets such as Central London, and concern over poorer retail activity, these favourable fundamentals and the steady secure income component generated by the asset class are likely to drive an income-led return over the next few years.

The retail sector in particular continues to face a series of headwinds likely to hold back recovery in less strong locations and the City of London office market faces most uncertainty driven by politics. The market is likely to be sentiment driven in the short term as politics and the real and perceived economic impact associated with the UK's withdrawal from the European Union continue to evolve. Given the backdrop of ongoing heightened macro uncertainty, investors are becoming more risk averse and better-quality assets are once again broadly outperforming poorer quality. Prime, good quality assets, with stronger tenants on longer leases, are likely to provide the best opportunities in the weaker economic environment we anticipate further into 2018.

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Robert Hingley, chairman, Phoenix Spree Deutschland: Berlin residential demographics remain favourable, driven by strong population growth, job creation and the ongoing process of urbanisation.

Berlin residential property prices should continue to benefit from a lack of supply and growing demand from both owner-occupiers and investors.

The German economy continues to benefit from record high employment levels and historically low interest rates. Economic growth reached a six-year high in 2017 and Government forecasts suggest this rate of growth will be sustained in 2018.

Berlin's economic growth continues to outstrip the broader economy, with strong growth in the business services, media and technology sectors likely to lead to job creation and net inward migration trends remaining strong.

Against this backdrop, the fundamentals of the Berlin residential market remain attractive: strong demand combined with limited supply, and high levels of transaction activity likely to be sustained by demand from both investors and owner-occupiers. With our business now fully focussed on Berlin and underpinned by the property advisor's active asset management strategy, the board looks forward to the year ahead with confidence.

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Listed Property & REITs

(compare Listed Property & REITs **here**)

Mike Watters, chief executive officer, RDI REIT: Occupational and investment demand across the majority of the sectors has remained robust, despite the heightened economic and political risks. We expect to see continued divergence in asset performance, with those assets benefiting from positive structural change, sustainable occupier demand and strong demographics likely to outperform. We are also seeing a requirement for real estate and real estate owners to be providers of high quality services. We expect continued rationalisation of certain retailers' physical store requirements.

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Infrastructure

(compare infrastructure funds **here**)

Alex Ohlsson, chairman, GCP Asset Backed Income Fund: Market conditions remain supportive with the company continuing to see strong demand for bespoke lending solutions tailored to individual borrowers' needs. Mainstream lenders continue to focus on core, established asset classes above a minimum scale, constrained by regulatory capital requirements. Constraints create a gap in the supply of lending which the company is well placed to address.

However, new entrants are increasingly targeting more mature asset classes in which the company has invested, as these asset classes become more developed and widely understood. This capital is typically offered at a lower rate, making it hard for the company to continue to invest in these sectors.

Key areas where the Investment Manager has seen significant yield compression during the course of the year include the supported living and property bridging markets. These sectors have seen a fall in yield which indicates that the company has been able to identify asset classes earlier than the wider lending market and as a result has capitalised on higher risk adjusted returns as those classes have developed. The value of this yield compression has been shown by an upward re-valuation of two investments in the year due to a combination of strong performance of the underlying assets and market factors.

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Private Equity

(compare private equity funds **here**)

Neuberger Berman, NB Private Equity Partners: (the company) continues to benefit from the full resources of the Manager's integrated private equity platform for superior deal flow, due diligence and execution capabilities. The Manager believes that while many segments of the market remain competitive, there are a number of near-term opportunities that may be attractive investments for the portfolio and that the current investment pipeline remains strong

Others

John Weale, chairman, Blue Capital Alternative Income Fund: Following the significant industry losses experienced in 2017, the Investment Manager reported improved market conditions during the January 2018 renewal period. On average, loss affected business benefited from renewing premium rate increases of 15%-20%, while non-loss affected agreements benefited from rate increases of 3-5% (in each case compared to 2017 and net of expenses). With the June 2018 renewal period approaching, the Investment Manager expects continued rate improvement with the majority of contracts renewing being loss affected.

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Jon Bridel, chairman, DP Aircraft 1: The outlook for the airline industry for 2018 is positive and the International Air Transport Association expects 2018 to be the fourth year in a row of sustainable global airline profits. During 2017, travel demand grew, catalysed by economic recovery in emerging markets, increased demand for imports and exports in developing markets as well as lower airfares resulting from low fuel prices during 2017. It is expected that costs will challenge profitability in 2018, although global revenues are set to increase compared to 2017. The Asset Manager's report that follows provides a detailed overview of 2017 and the expectations for 2018.

Directors of DP Aircraft 1: The outlook for 2018 is positive and the International Air Transport Association (IATA) expects 2018 to be the fourth year in a row of sustainable global airline profits. Performance drivers include passenger and cargo development as well as changes in costs and debt structure. The positive outlook is based on an anticipated growth of 3.1 per cent in global GDP. Global passenger demand is expected to increase by 6 per cent in 2018. Although this is a slower growth rate than in 2017, it is still above the global average of the previous 10 to 20 years (5.5 per cent) and is assumed to exceed the increase of capacity of 5.7 per cent. IATA anticipates that load factors and yields are increasing, and the number of total passengers is expected to amount to 4.3 billion in 2018. This year's cargo demand is expected to increase more slowly than in 2017 with some recovery in yields.

According to the International Civil Aviation Organization (ICAO) growth in travel demand in 2017 was mainly as a result of an economic recovery in emerging markets, increased demand for imports and exports in developing markets, growing investments in advanced economies as well as lower air fares resulting from low fuel prices. Last year, 4.1 billion passengers were transported, an increase of 7.1 per cent compared to the previous year. More than 50 per cent of 1.2 billion international tourists travelled by air. IATA expects these international tourists to spend around USD 750 billion in 2018, an increase of 15 per cent over two years. According to ICAO, although jet fuel prices increased by around 25 per cent in 2017 compared to the previous year, prices

remained significantly lower than during the 10 years prior to 2016. Low-cost carriers continuously increased their market share and carried 1.2 billion passengers in 2017. Furthermore, they transported 33 per cent of all passengers in Europe and 31 per cent of all passengers in the Asia-Pacific region . The global average load factor of all carriers grew by 0.9 percentage points and reached a record high of 81.2 per cent.

According to IATA, although costs will challenge profitability in 2018, global revenues are anticipated to increase by 9.4 per cent compared to 2017 and global net profit to amount to USD 38.4 billion benefitting from strong demand, improved efficiency and reduced interest payments. Cargo demand is expected to increase by 4.5 per cent, partly profiting from the growing e-commerce business. Costs will remain a challenge in the competitive air transportation market. Average unit costs are anticipated to increase by 4.3 per cent and average unit revenue by 3.5 per cent respectively compared to 2017. It is expected that on average fuel expenses will amount to 20.5 per cent and labour costs to 30.9 per cent of total costs. The former can be minimised by fuel efficient aircraft of new technology and the latter by higher productivity; both cost positions can be lowered by higher load factors in terms of unit costs.

IATA anticipates that profitability will improve for all regions in 2018. Net profits for the Asia-Pacific region are expected to amount to USD 9.0 billion and to USD 11.5 billion for Europe. The ASEAN countries (Association of Southeast Asian Nations) are anticipated to face new low-cost market entrants resulting in stronger competition. However, overall passenger demand in the Asia Pacific region is expected to rise by 7.0 per cent and to outperform the anticipated growth in capacity of 6.8 per cent. The increase in cargo performance is projected to be offset by increasing fuel prices. Europe's passenger demand is anticipated to grow by 6.0 per cent and to outperform a rise in capacity of 5.5 per cent. Europe's break-even load factors are the highest amongst all regions due to high competition and regulatory costs.

The latest Boeing Outlook (Current Market Outlook 2017 - 2036) anticipates deliveries of 41,030 aircraft with a total market value of USD 6.1 trillion within the next 20 years. Both Boeing and Airbus (Global Market Forecast 2017 - 2036) continue to forecast that the global passenger and freighter fleet will at least double by 2036. According to Boeing, airline fleets will grow by 3.5 per cent per annum, within the next 20 years. Boeing and Airbus forecast that, 57 per cent and 60 per cent respectively of new deliveries will be used for fleet growth. According to Airbus, world annual traffic more than doubled since 11 September 2001. Boeing forecasts that the current share of the global airlines' fleet from the Asia-Pacific region will increase from 29 per cent to 37 per cent. European airline fleet growth is anticipated to be lower than the global average, with an average annual growth rate of 2.7 per cent.

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Carl Harald Janson, manager, International Biotechnology Trust: Fundamentally, the biotechnology sector remains a fruitful and exciting area with new, innovative drugs being launched each year. However, challenges have emerged for large, successful companies within the sector. Their size will mathematically slow down the growth rate, and we have recently witnessed slower growth rates among these larger companies, reflected in a shrinking of price/earnings ratios. Further down the market cap spectrum, companies continue to offer attractive growth potential.

On the US political front, we have seen the Republican Party increasing its power in the last elections. Historically, the Republican Party is "industry friendly", and we continue to believe that this is the case, even if the rhetoric from the US President may indicate differently. Recent appointments have also been positive for the biotechnology industry. The new Commissioner of the FDA, Scott Gottlieb is clearly pro-innovation

and the newly appointed Secretary of State for Health and Human Services, Alex Azar, is a former pharmaceutical company (Lilly) executive.

The large biotechnology and pharmaceutical companies constantly need to replenish their product portfolio and consequently the M&A theme will prevail as a hallmark for the sector. Three portfolio companies were subject to M&A activity in the six months under review, demonstrating that M&A is alive and well in 2018. Moreover, the US Tax Reform Bill passed in 2017 allows companies to repatriate cash on a tax-free basis, which brings the promise of more M&A activity as the year progresses. Indeed, in the eight weeks since the period under review ended and the date of this Report, M&A activity has continued, with portfolio companies seeing their share price increase following takeover speculation and announced deals.

A rapid increase of knowledge in all areas of science and technology is a hallmark of our age, whether that is in cell phone technology, artificial intelligence, or the development of medicines for diseases we cannot yet cure. A cell phone is tangible and understood by everyone. The advances in science and medicine are more difficult to appreciate, even as the pace of innovation accelerates. We continue to witness the year-on-year increase in the number of medicines in development and this will ultimately translate into sales of new and highly profitable products. It is my belief that the innovative cycle that we are in will last for many years to come and that investors in the biotechnology sector will continue to benefit.

QuotedData

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