

Economic & Political Roundup

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

Roundup

September was notable for a continued upward move in the oil price, which was positive for producing countries such as Russia, but had a negative effect on oil importers such as India. Generally, markets moved sideways but we saw some signs of weakness in Asia, emerging markets and the technology sector.

Global

The list of things to be concerned about, ranging between trade wars, Brexit, the Turkish economy, US rate rises, inflation/deflation, quantitative tightening and teetering markets, seems to be growing.

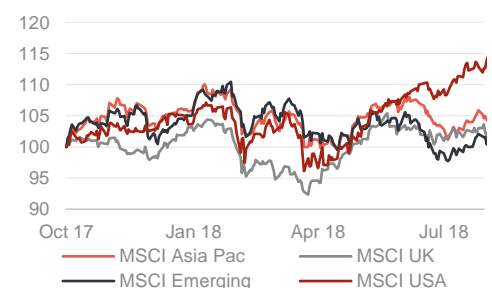
Malcolm Scott, chairman of Mid Wynd, makes the point that many commentators are expecting a global recession in 2020. The managers of that fund suggest that Trump reads up on the effects of the effect of protectionist measures introduced in 1930 and the economic slump that followed. Nigel Wightman, chairman of JPMorgan Global Growth & Income, thinks the outlook would be relatively benign were it not for the threat of trade wars. The managers of that fund are more concerned about the interplay between inflation, bond yields and the withdrawal of monetary stimulus. Geoffrey Howard-Spink, chairman of New Star Investment Trust, suggests that investments in dollars, gold equities and lower risk multi-asset funds should prove defensive. The managers of Martin Currie Global Portfolio are in the lower interest rate for longer camp. The managers of Ruffer sound the strongest warning, saying high valuations are justified only by the cheap cost of money and investors should be more concerned about volatility than they are.

Exchange Rate	28/09/18	Change on month %
GBP / USD	1.3031	+0.5
USD / EUR	0.8617	(0.0)
USD / JPY	113.7	+2.4
USD / CHF	0.9817	+1.3
USD / CNY	6.8688	+0.5

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 30/09/2017 to 28/09/2018



Source: Bloomberg, Marten & Co

	28/09/18	Change on month %
Oil (Brent)	82.72	+6.8
Gold	1190.88	(0.9)
US Tsy 10 yr yield	3.0612	+7.0
UK Gilt 10 yr yield	1.573	+10.2
Bund 10 yr yield	0.469	+44.3

Source: Bloomberg, Marten & Co

Brexit negotiations are less antagonistic but concerns remain

United Kingdom

Whilst Brexit and the US trade wars feature in most of the commentaries of UK investment companies, many, such as Robert Lister, chairman of Aberdeen Smaller Companies Income along with the manager of Murray Income Trust see them as hiding issues such as inflation and interest rates but also hiding economic growth. Neil Rogan of Murray Income Trust points out that, whilst the frustration of a lack of clarity persist, making forecasts is nigh on impossible. Philip Remnant, chairman of City of London, states that global economic growth remains robust and this is a supportive backdrop for equity market performance. However, he goes on to write that, if the trade war provoked by the US administration continues to escalate, global GDP cannot but be adversely impacted and the UK will not be immune. Simon Gergel, investment manager of Merchants Trust, reminds us that the UK has had interest rate rises. Further rate rises may put company earnings under pressure. He points out that they are low by historic standards. He also adds, as do many, that there are several positive factors to consider as well. The UK economy is growing at a reasonable pace, unemployment is low and, apart from retail, there are few signs of systemic stress.



Trade war threats and the need to address China's shadow banking system are weighing on markets but there is underlying optimism

Asia

David Brief, chairman of Schroder Asian Total Return, highlights the effects of the US trade rhetoric on Asian markets but points out that valuations are looking more attractive. The managers of that fund echo his views on valuations. They expect more volatility as China addresses the excesses within its shadow banking system. Jean Matterson, chairman of Pacific Horizon, acknowledges concerns about trade and regional politics but points out that many companies still appear to have strong earnings potential. The manager of that fund sounds an upbeat note, saying they see very healthy, growing economies, with cheap companies and undervalued currencies.



Emerging Markets

The managers of Aberdeen Frontier Markets are positive about the outlook for many of their markets, citing a cyclical earnings recovery in Africa and value opportunities in markets as diverse as Pakistan and Argentina. Elisabeth Scott, chairman of India Capital Growth, highlights potential market volatility in the run up to Indian elections next year but points out that corporate earnings are, for the most part, on an upward trajectory. The managers of Gulf Investment Fund present a detailed analysis of their markets and the managers of Vietnam Enterprise offer a similarly thorough look at Vietnam. The chairman of Weiss Korea sees some comfort in the yields offered by South Korean companies.



While just about everyone mentions Brexit, the comments seem cautiously optimistic

Property

Robert Peto, talking in his capacity as chairman of GCP Student Living, notes the attractions of London to international students. In his comment for Standard Life Property Income, he mentions the weak GDP growth forecasts for the UK but says the fundamentals for the UK property sector are in good shape. Jason Baggaley, manager of the Standard Life fund, says investors are becoming more comfortable with the 'alternative' parts of the UK property market. Martin Moore, chairman of Secure Income

REIT, makes an interesting point that the logistics sector cannot entirely side-step the risks facing investors in retail property, given the high concentration of retail tenants occupying distribution space either directly or via their distribution partners. Chris Russell, chairman of F&C Commercial Property, advocates a focus on well-specified and well-let assets in established and emerging locations. The managers of that fund look at the adverse conditions affecting the retail sector. They also say that there is growing concern over the price of industrial property. The chairman of Triple Point Social Housing thinks the outlook for his sector is underpinned by a stark undersupply of property.



European Property

Robert Hingley, chairman of Phoenix Spree Deutschland, talks us through the attractions of the Berlin property market but we cannot escape Berlin's regional government authority continuing to explore ways of controlling market rental growth. Pascal Duval, chairman of Aberdeen Standard European Logistics, notes the constraints to supply of new logistics space. The manager of that fund says that many logistics companies are operating with very low levels of idle warehouse space. He suggests that more focus will be placed on 'last mile' urban warehouses.



Debt

The sands are still shifting in the debt market as the early disrupters start to mature and the end of easy money draws near

Robert Sharpe, chairman of Honeycomb, says that mainstream lenders are leaving them with attractive opportunities. The manager of that trust says they will proceed with caution given Brexit, high levels of household borrowing and increased competition in unsecured lending. The managers of P2P Global echo this and Alex Ohlsson, chairman of GCP Asset Backed Income, makes many of the same points with relation to that sub-sector of the debt market. The managers of Starwood European Real Estate give a detailed look at the factors affecting their part of the market, including the outlook for the CMBS (Commercial Mortgage Backed Security) market. Dawn Kendall, manager of SQN Secured Finance, says the peer to peer platform market is maturing. She has been offered mature loan books at significant discounts as ill-disciplined players struggle to secure refinancings. The managers of Blackstone/GSO Loan Financing think that the senior secured loan market is well positioned, even as the era of cheap money draws to a close.



Other

We also have comments from North American Income, where the chairman says there are some signs of weakness in a generally robust US economy; commentary on the Irish wind energy market provided by Greencoat Renewables; a brief comment on infrastructure from International Public Partnerships; and, in the hedge fund sector, some commentary from Vic Holmes, the chairman of Highbridge Multi Strategy Fund.



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Global

(compare Global funds [here](#))

Malcolm Scott, chairman, Mid Wynd International Investment Trust: Much on a geo-political level is unclear. The Turkish financial crisis, the eventual outcome of Brexit, the extent of future interest rate increases in the United States and whether President Trump's tariff policy will lead to a full-blown global trade war are all matters which may concern markets in the coming year.

Of course the bull market that began in March 2009 will not go on forever. Ultimately recessions cause bear markets. Many commentators are predicting a US, and indeed a global, recession in 2020. The catalyst for that will be apparent only in hindsight.

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Managers, Mid Wynd International Investment Trust: The last year has been the first full year of Trump's presidency and this has introduced a number of new threats, principally - for international investors - to global trade. In 1930, the US introduced a range of protectionist measures known as the Smoot-Hawley Tariff Act. The economic slump which followed is a core part of US economic history and well understood by members of the Federal Reserve, if less well read in the White House.

At the same time, however, damage to business confidence can come from brinkmanship alone and we retain our cautious stance. We suspect that current disputes over trade may prove beneficial to [an] automation theme over the longer term.

The cashflows of most of our core holdings seem to be growing very well this year, bolstered by low corporate tax rates in the US. It seems likely that this rate of growth will moderate and perhaps inflationary pressures will increase. Our concerns focus more on the effect of US trade policy on Emerging Markets. We remain wary of economic and political pressures in countries as diverse as Turkey, Mexico, Russia and South Africa. Although increasing numbers of economists seem to be predicting a US recession next year, evidence of anything more than a slowdown seems scarce: consumer debt levels are modest; corporate investment in capital has only recently increased; and the US consumer is still quiet. Similarly in Europe, consumers are still guarded despite better job security and improved wages in some areas.

As long as valuations remain reasonable and inflation under control, we do not believe equity markets are expensive. We remain vigilant towards political developments, especially on trade.

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Nigel Wightman, chairman, JPMorgan Global Growth & Income: Since the year end the US equity market has remained firm, buoyed by very strong corporate earnings. Elsewhere the picture is very mixed, with markets and currencies in emerging countries falling as a result both of rising US interest rates and the possibility of highly disruptive trade wars between the US and its trading partners. This latter development adds a major element of uncertainty to an outlook that should otherwise be quite benign, with steady to strong economic expansion in most developed and developing countries.

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Jeroen Huysinga and Tim Woodhouse, managers of JPMorgan Global Growth & Income: The key question for the rest of this economic cycle remains the interplay between inflation, bond yields and the gradual reduction in monetary stimulus and how

this will impact the economy, the shape of the yield curve and equity market. Currently a healthy environment for the global economy and corporate profits remains a favourable backdrop for equity markets.

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Geoffrey Howard-Spink, chairman, New Star Investment Trust: Uncertainty over the outcome of trade skirmishes between the US and China may play a significant role in determining investor sentiment over the coming months, with markets remaining volatile and capital flight from emerging markets into the dollar continuing. A swift resolution of the dispute, however, most likely by Beijing agreeing to reduce its trade surplus and ease restrictions on US companies operating in China, could be a buying opportunity for some riskier asset classes.

Strong consumer and business confidence, relatively low interest rates, Trump's fiscal stimulus and technology leadership may continue to underpin US equities. The longevity of the rise in share prices since the nadir of 2008 has, however, led some investors to suggest a correction is likely. In Europe, monetary policy is likely to remain relatively loose for longer than in the US. If, however, inflation and interest rates rise more rapidly than anticipated, generating falls for equities and bonds, investments in dollars, gold equities and lower-risk multi-asset funds should prove defensive.

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Managers, New Star Investment Trust: Since Adam Smith wrote "An Inquiry into the Nature and Causes of the Wealth of Nations", most economists have supported free trade. Milton Friedman said import tariffs and export subsidies were "an indirect and concealed form of devaluation", a form of protectionism that served to "protect" consumers from low prices. It is, therefore, unsurprising that the Chinese responded to US tariffs with retaliatory tariffs and devaluation. Trump's protectionist rhetoric may in reality be an attempt to push China into buying more US goods and easing restrictions on US companies seeking to expand there, not a rejection of free trade principles. In the meantime, markets may remain volatile and capital flight from emerging markets into the dollar may continue. A swift resolution to the US-China trade dispute may in time confirm the recent sell-off in some markets as a buying opportunity. Over the longer term, a Chinese economic slowdown may be more concerning than the trade spat as Chinese policy makers seek to reduce public and private indebtedness.

Despite high valuations, US equities may be supported by strong consumer and business confidence, supportive monetary policy and Trump's fiscal stimulus. US superiority in sectors such as technology has also driven some stocks higher. The rise in US equities after the 2008 credit crisis has been one of the longest bull markets in history, causing investors to question how long the gains can continue. More lowly-valued markets where monetary policy is likely to remain accommodative for longer [*include*] Europe excluding the UK and, potentially, the UK, where sentiment may have become overly negative because of Brexit.

In July 2018, inflation was above central bank targets in the US, UK and the Eurozone, and central banks were reversing, or on course to reverse, the exceptionally loose conditions of recent years. This may generate falls for global bonds. Monetary policy has not, however, been restrictive and this may support global equities. If inflation and interest rates rise more rapidly than anticipated, generating falls for equities and bonds, investments in dollars, gold equities and lower-risk multi-asset funds should prove defensive.

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Neil Gaskell, chairman, Martin Currie Global Portfolio Trust: It is likely that markets will see further volatility this year as political and economic uncertainties such as Brexit persist. There has already been one market correction this year and it is possible that others could occur.

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Tom Walker and Zehrid Osmani, managers of Martin Currie Global Portfolio Trust: The ebb and flow of the economic cycle, which has been such a driver of bull and bear markets through history, has been damped down by central banks' use of quantitative easing. In our view, recent moves in the US and UK to raise short-term interest rates are motivated more by the desire of these central banks to achieve 'normal' levels of interest rates than any fear of runaway growth or inflation. This, we believe, will temper future hikes - meaning that low interest rates remain the most likely scenario for some time to come. We need to monitor the rising tension between large trading blocks as fully-fledged trade wars would undoubtedly detract from global growth. However, we hope and expect pragmatism will prevail, and that the worst threats of tariffs will be avoided or at least short-lived.

With those thoughts as a backdrop, we still see potential for global equities to deliver positive returns, albeit more modest growth than that enjoyed in recent years. Near-term Brexit uncertainty makes it harder than ever to forecast the prospects for sterling and the UK economy, and Europe is not immune to any Brexit-related downturn. However, the portfolio, with its spread of investments across global currencies, regions and industries, is managed to reduce specific risk. And, critically, we continue to find companies with strong business models that can deliver good returns, even in what is likely to remain a low-growth environment.

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Managers, Ruffer Investment Company: It is safe to say that we are worried about the outlook for markets. The 10% fall in global equities at the start of February gave investors a peek under the curtain at some of the worrying technical dynamics in global markets. High valuations in many areas are justified only by the cheap cost of money and so any news which will lead to bond yields rising faster than expected (for example wage growth, inflation or widening credit spreads) undermines this position. At the same time liquidity in financial markets has been greatly reduced by structural changes brought about by regulation since the financial crisis. This need not be the catalyst for a crisis, but it means that markets are more crash prone - limited liquidity will amplify market moves. This is not helped by the exponential growth of unthinking passive vehicles (aka Exchange Traded Funds), which create virtuous circles on the way up, but vicious ones on the way down. Huge debt issuance by low grade corporates and sovereigns and a general hunger for yield at any price has created products where there is a mismatch between the liquidity of the vehicles in which the credit instruments are held (they typically promise daily or weekly dealing opportunities) and the underlying assets, which may not trade at all on a weekly basis. Finally, there are perversities in the trading of volatility. For the last 10 years investors have been encouraged to sell volatility because at the first sign of trouble the world's central banks have moved swiftly to calm investors' nerves. On top of this volatility has become both an output and an input of the investment process. Most risk models have volatility at their core and so low volatility acts as a signal to leverage up and buy. February briefly showed how this can create distortions, which unwind very quickly when the wind changes. We took some profits in our volatility call options in early February, but we maintain the view that these events were likely a tremor before the earthquake.

This all makes for chastening reading, but we feel that these risks are immediate enough to warrant taking positive action now and we would be doing our investors a

disservice to ignore them in the hope of capturing the final hoorah in a long-in-the-tooth bull market.

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United Kingdom

(compare UK funds [here](#))

Robert Lister, chairman, Aberdeen Smaller Companies Income: At a global level, trade war fears have arguably overtaken concerns over the interest rate cycle as the main talking point for markets and will continue to dominate economic headlines for the foreseeable future. Narrowing the lens on the UK domestic picture, the future shape of Brexit remains frustratingly unclear and one suspects this will continue to act as a dampener on UK growth and general investor sentiment for some time yet.

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Manager, Aberdeen Smaller Companies Income: Domestically exposed UK businesses face additional pressures from Brexit unpredictability, which has led to a drop in consumer confidence and expectations of more lacklustre growth ahead. However, this increased market volatility can also create interesting valuation opportunities for patient bottom up investors. UK stocks now look relatively good value and we anticipate some interesting investment opportunities to arise as a result.

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Neil Rogan, chairman, Murray Income Trust: I wrote in January that equity markets were likely to be dominated by the political news from Brexit, President Trump and the fortunes of the UK Government. There is no sign of these forces diminishing, so uncertainty and market volatility are likely to continue. Economic numbers remain especially difficult to forecast while there is so much disagreement about the effect of these political outcomes, even whether a particular outcome is good or bad. Despite everything, the UK economy is growing at 1.2% year-on-year in real terms. The global economy is growing faster, projected to grow at 3.9% in real terms by the IMF in 2018 and 2019. Such growth presents the opportunity for UK companies to grow their top-line revenue numbers and their dividend payments.

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Charles Luke and Iain Pyle, managers of Murray Income Trust: Although the global economic environment seems relatively benign supported by a robust growth dynamic, there are indications that underlying growth momentum may be gently slowing and regional divergence increasing. Furthermore, an increase in protectionism could have a significant impact on growth with the potential to also increase inflationary pressures. Closer to home, the likely shape of Brexit remains opaque and until a clearer picture emerges, this uncertainty is likely to act as a brake on growth. We are concerned that valuations are now beginning to look expensive again.

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Philip Remnant CBE, chairman, City of London: Global economic growth remains robust. That is a supportive backdrop for equity market performance. However, if the trade war provoked by the US administration continues to escalate, global GDP cannot but be adversely impacted and the UK will not be immune.

The outcome of the UK's negotiations to exit the European Union is still uncertain. In conjunction with our managers, we have considered the direct practical consequences of Brexit on the operations of City of London and do not consider them to be material.

In the event of a disorderly exit, there would likely be more pressure on sterling, as there was in the immediate aftermath of the referendum in 2016.

If the exit negotiations are concluded successfully and the UK economy continues to grow, it is likely that the Bank of England will gradually increase the bank rate. In the US and Europe, there are also likely to be further moves away from the stimulative monetary conditions that have prevailed since the global financial crisis. Increases in interest rates and reductions in quantitative easing will pose a challenge for all asset classes.

Reflecting some of these economic and political uncertainties, the valuation of UK equities is reasonable by historical standards and attractive relative to the main investment alternatives. The dividend yield of UK equities remains significantly above bank deposit rates and UK gilt yields, and yet dividends are growing well ahead of inflation.

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Simon Gergel, manager of The Merchants Trust: There are a number of risks to the outlook for economies and markets. On the political front there is continuing uncertainty over the Brexit negotiations with a wide range of potential outcomes. There is a weak and divided Conservative government, with a socialist opposition with sharply different views on economic policy and the role of the state, especially concerning privatised businesses like rail and utilities. Trade tensions are increasing around the world, with the US raising tariffs, and provoking a response in China, the EU, Turkey and elsewhere.

On the domestic scene, the Bank of England has recently raised interest rates for the second time this cycle, after the emergency cut following the Brexit referendum. Higher interest rates increase borrowing costs and can lead to slower economic growth in the future, as well as potentially affecting stock price valuations due to a higher discount rate.

All of these factors may put pressure on share prices. At the very least, this is a particularly difficult environment in which to have a high degree of confidence in any one specific course of future events.

However, there are several positive factors to consider as well. The UK economy is growing at a reasonable pace, albeit after slow first quarter. Unemployment is at extremely low levels and there are few signs of systemic stress, apart from in particular industries such as retail, which face specific structural pressures. Interest rates are rising but remain extremely low by historic standards. In any case, the majority of UK listed companies' sales and profits comes from overseas, mostly outside of the EU. This provides investors with a considerable level of protection from the worst case Brexit scenarios, especially as any weakness of sterling would result in an appreciation of the value of these overseas earnings.

Another supporting factor is that equity valuations in the UK are close to long term averages, and are lower than for many other leading stock markets. So some element of downside is already priced into shares. Indeed, many domestically oriented shares are at significant discounts to their long term average valuations.

Steve Davies, manager of Jupiter UK Growth: The UK is still deeply unloved by global investors. Sentiment, as measured by BAML's Global Fund Manager Survey, is

the worst it has been since 2008, when the UK's banking system was on the verge of collapsing. In one sense, that attitude is perfectly understandable given the political and economic uncertainty affecting the UK, but it also means that there are some very lowly-valued stocks on the market.

On top of this, I believe the UK stock market has become very myopic, focusing on current-year earnings and heavily punishing those companies that are investing now to drive growth and profits over the medium term. I see plenty of valuation anomalies at present. Other investors, such as private equity or corporates will also tend to operate on longer timelines and this is why they are willing to pay higher prices than the market in M&A deals.

If, as seems likely, the UK remains out of favour among global investors for some time to come, then the UK market may see plenty more M&A activity in the second half of the year.

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Steve Tatters, manager of Aurora Investment Trust: In the UK at the moment, we assume a recession starting next year. This is not a forecast, just the most likely outcome based upon the data, and it affects some businesses more than others. Since 1945, we have had 6 completed business cycles in which the upswing lasted for an average of just over 9 years. The current upswing is just passing that point now. If we'd asked ourselves in 2009 what was the probability of a recession by 2019, then we would have put it at greater than 50%, based upon the historical data.

Another way to consider this is to study those past cycles where the upswing had lasted this long. There have been 4 since 1945, and they ended after 0, 1, 3 and 6 years. Again, suggesting a high probability of a downturn in the next few years.

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Asia

(compare Asian funds [here](#))

David Brief, chairman, Schroder Asian Total Return: The outlook for the second half of the year is clouded. Clearly, US trade policy and a soaring dollar has soured sentiment towards emerging economies as a whole and Asia is not immune. Given the volatility of US decision making, it is unclear whether the trade war will end soon or be an ongoing backdrop for investors. This gives grounds for some short-term caution. However, valuations are now more attractive generally given the market weakness.

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Robin Parbrook, King Fuei Lee, managers of Schroder Asian Total Return: Valuations in Asia, after looking a little frothy at the end of 2017, appear more reasonable after recent market falls, and are now back in line with the long-term average. The end of quantitative easing (by the US Federal Reserve at least) and a genuine effort in China to rein in unregulated financing activities look to have heralded a change in market sentiment in Asia. With rising US interest rates and the US dollar appreciating, we now have a markedly different investment environment compared to the last 18 months, putting us in a clearly different stage of the market cycle.

In the short-term there are risks due to slowing economic momentum and elevated measures of financial distress. Looking longer-term, many individual markets, with the

exception of Taiwan, may offer opportunities as their valuations are below their historic averages.

In China, while we are likely to see more volatility as the government continues to tackle the excesses in the shadow banking system, we view this policy as good news long-term assuming the government can continue on the current path without creating mass panic and deposit flight. Near-term we see further pain to come and inevitably the economy will slow as credit creation slows. But given the closed capital account, the current account surplus, and the fact the government controls most of the major lenders and borrowers, we are optimistic the mess can be dealt with over time and, whilst painful for many, without a significant financial crisis.

Therefore, if the slowing economy and the inevitable jump in bad debts causes further sharp falls in Chinese stock markets, we would be looking at this as a trigger to add to our favoured stocks with strong exposure to structural trends in China. First among these is Chinese rebalancing - or the rise of the Chinese consumer. Finally, after 25 years of waiting, we are seeing Chinese consumer spending becoming the key driver of GDP growth. There is plenty of scope for this to rise, particularly when compared with the US consumer. With the investment and export sectors slowing we expect consumer spending as a percentage of GDP to rise quite quickly from here.

Overall, after recent falls, we feel Asian share prices are valued and offer reasonable upside potential, assuming we avoid a full-blown trade war or emerging market debt crisis. However, in the very near-term financial risks are likely to remain elevated as US rates rise and Chinese liquidity tightening continues.

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Jean Matterson, chairman, Pacific Horizon Investment Trust: We started 2018 in a positive fashion for equities across the Asia-Pacific region and Indian Sub-continent following a combination of a pickup in global growth and China's resurgence, allied with a weak US dollar, which all pointed to a potential uptick in earnings and share prices. More recently, concerns over a possible global trade war have increased, initiated by the policies of the Trump administration, which could result in reduced growth of company earnings across the region, in part due to a strengthening US dollar. Whilst always cognisant of macro developments, including the uncertain outcome of the North Korea situation, the portfolio managers continue to see strong earnings growth from portfolio holdings, allied to significant earnings potential from businesses in a broad range of countries and sectors. The potential opportunities for investment have started to broaden and the Board remains confident that the region offers attractive investments for generating capital growth for the patient investor.

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Manager, Pacific Horizon Investment Trust: It is our view that there is significant potential for positive returns from the region over the coming years.... In the near term, recent market noise over trade wars, slowing global growth and a rising US dollar are eclipsing the underlying reality. When the market returns to looking at fundamentals in Asia, it is our expectation that other investors will see what we already see: very healthy, growing economies, with cheap companies and undervalued currencies, creating significant opportunities for long term financial benefit.

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North America

(compare North American funds [here](#))

James Ferguson, chairman, North American Income: The manager believes that empirical evidence continues to indicate a robust U.S. economy, which thus far has translated into a healthy start to the third-quarter 2018 earnings season. However, there has been a growing variability of results across the economy and there have been examples of margin pressure driven by higher input costs from rising raw materials prices as well as labour costs. These pressures may largely abate given the ability to push through prices despite near-term lags in passing through such costs. In addition, demand in the housing and automotive markets has become more erratic as high housing prices have yet to generate a strong supply response, and vehicle sales appear to be flattening.

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Emerging Markets

(compare Emerging Markets funds [here](#))

Managers, Aberdeen Frontier Markets: We believe corporate earnings in Frontier Africa are enjoying a cyclical recovery. In Frontier Asia, we expect another excellent year for corporate earnings in Vietnam, and continued solid results from companies in Bangladesh, Pakistan and Sri Lanka. Pakistan and Sri Lanka have entered deep value territory and represent an opportunity, albeit macroeconomic challenges may linger some while longer. Turning to Argentina, the IMF package and reform programme agreed in June underpins an optimistic stance for the country in 2019 and we may look to raise exposure to the country on what are now, we believe, more palatable valuations.

For us, the outlook for frontier markets provides plenty of cause for optimism. Operational results from our investee companies, together with conversations on the ground, indicate that the corporate earnings recovery is set to continue. While volatility across various markets and some currencies have undermined the positives we are seeing in the short term, we expect these positive fundamentals to reflect in performance in the not too distant future.

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Elisabeth Scott, chairman, India Capital Growth Fund: The second half of the year may yet prove to be as equally challenging as the first. India's ruling political party, the Narendra Modi led BJP, will fight a re-election battle in the early part of 2019. It is probable that the market will take its lead - at least in the months leading up to that vote - from the perceived outcome, and India's elections are notoriously hard to predict. In this election 123m voters are expected to poll for the first time, making their support hard to call and critical to the outcome. In addition, the extent and timing of further interest rate tightening across the world (including India) will continue to dictate the sentiment for equities, particularly in Emerging Markets.

Despite these near-term worries, I remain confident that the opportunity to make compelling investment returns over the long term is very much intact. As highlighted in the Investment Manager's report, underlying corporate earnings are recovering from a prolonged period of sub-par growth. This slowdown was largely caused by the reform-

based initiatives which have been introduced by the BJP since 2014. Regulation such as the introduction of the Goods and Services Tax (GST), the Banking and Insolvency Act, and the Real Estate Regulation Act amongst others, have had a dampening effect on growth initially, but as they "bed in", this stronger, more effective legislation is paving the way for a renewed investment cycle and a period of high and sustainable growth. The Board is reassured by the Investment Manager's confidence that investment in India's mid and small cap stocks, supported by the closed ended structure that the Company offers, is the right way to manage both the risks and the rewards.

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Nicholas Wilson, chairman, Gulf Investment Fund: Fluctuations in oil and gas prices will continue to impact GCC economies, as countries deal with budget challenges. The geopolitics of the region and, in particular, the dispute between Qatar and other members of the GCC brings continuing economic uncertainty.

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Manager, Gulf Investment Fund:

GCC diversification and recovering oil prices

GCC nations are encouraging private sector participation and improving the efficiency and transparency of the public sector.

Investor friendly regulations are being adopted, such as allowing 100 per cent foreign ownership of businesses, and 10-year residency visas in the UAE.

Social reforms such as Saudi women being permitted to drive and set up their own businesses will stimulate female participation in the economy. This should boost job creation and consumer spending, potentially benefitting sectors such as Services, Automobile and Insurance.

Stronger oil prices this year have bolstered the reserves of GCC nations, facilitating fiscal reforms and helping their spending programs. The IMF reduced its estimate for this year's GCC fiscal deficit to 3.6 per cent of GDP (October 2017: 5.0 per cent of GDP), and expects a 2019 deficit of 2.2 per cent.

Economic growth in the region is expected to accelerate in 2018-19, largely reflecting the continued recovery in oil prices and slowing pace of fiscal consolidation. The IMF has estimated aggregate growth for the region at 1.9 per cent and 2.6 per cent for 2018 and 2019, respectively. In June, major global oil producers agreed to increase crude output from July, this should support GDP growth.

Saudi Arabia's production increase should boost growth in its oil sector, adding nearly 2 per cent to GDP growth. Non-oil growth is expected to pick up as reforms take a back seat and focus shifts towards implementation of megaprojects. Current mega projects include the Grand Mosque redevelopment (US\$26.6 billion), development of the Riyadh and Jeddah Metro transit system (US\$34.5 billion) and Expansion of King Abdulaziz Int'l Airport (US\$7.2 billion). Upcoming mega projects include the US\$500 billion NEOM Mega City, King Abdullah Economic City (US\$100 billion) and commissioning of the world's largest solar project (US\$200 billion).

In June 2018, Fitch Ratings revised Qatar's Outlook to "Stable" from "Negative" stating that Qatar has successfully managed the effect from last year's blockade by reconfiguring supply chains and injecting public sector liquidity. The IMF expects Qatar's real GDP growth to quicken to 2.6 per cent in 2018 from 2.1 per cent in 2017, with the economy benefitting from continued infrastructure investment, a slower pace of fiscal consolidation and the scaling up of LNG production.

To benefit from the higher oil price environment and encourage economic growth, the Abu Dhabi government approved a 3-year AED50 billion (US\$13.6 billion) economic stimulus program. The authorities intend to make it easier to do business, spur employment growth and increase tourism.

In April, the Central Bank of Oman eased capital and credit exposure rules in an effort to boost economic growth. The most prominent measure was the reduction in the capital adequacy ratio. This should free up close to OMR2.6 billion to stimulate credit growth.

These developments would also have a positive impact on the broader region. In addition to increased foreign inflows, the intangible benefits of attracting newer set of sophisticated investors should result in improved standards of financial disclosure and corporate governance.

UAE economy to grow at 3.9 per cent in 2018

The UAE economy is expected to grow at 3.9 per cent in 2018 as per UAE Central Bank, spurred by inflow of foreign direct investment (FDI) as well as growth in tourism and travel sectors. The country is expecting a growth of around 2 to 3 per cent in FDI in 2018. Recent rollout of VAT in UAE and growth of its construction sector, supported by demand related to the upcoming Expo 2020, are expected to drive in more government revenues for UAE.

Kuwait set to spend US\$113 billion in 5 years

Kuwait plans to invest a massive KWD34 billion (US\$113 billion) over the next five years mainly to boost oil exploration and production activity both inside and outside the country. This includes raising production of non-associated gas to nearly 500 million standard cu ft per day by the end of 2018.

Saudi Arabia economy expanded by 1.2 per cent in 1Q18

Saudi Arabia reported 1.2 per cent YoY economic growth in 1Q18 following four quarter long negative real growth. The headline rate accelerated on the back of a pick-up in oil GDP, supported by higher oil production (but within the OPEC agreement quota) and improved non-oil activity. The non-oil sector grew 1.6 per cent YoY, helped by expansion in both the private (1.1 per cent YoY) and the government (2.7 per cent YoY) sectors.

Qatar reported 1.4 per cent GDP growth in 1Q18 led by non-hydrocarbon

Qatar's economic recovery seems to be continuing at a healthy pace, with 1Q18 real GDP output expanding by 1.4 per cent YoY. The non-hydrocarbon sector reported growth of 4.9 per cent YoY, driven by gains in the construction, financial services, manufacturing and transport and storage sectors among others. Oil and gas output, however, declined by 2.3 per cent YoY, which partly reflects the country's compliance with its OPEC production cut target.

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Managers, Weiss Korea: Our outlook is cautious; the vagaries of U.S. foreign policy (assuming that the U.S. actually has a foreign policy) certainly affect the future of South Korea. We don't know whether to expect "fire and fury" next month, or a continuation of a "very good personal relationship" between Kim Jong Un and President Trump. Predicting the behaviour of a President who prides himself on being unpredictable is a mug's game.

While we don't purport to be able to predict short-term or even medium-term movements in equity indices, the high earnings yield of the South Korean market, combined with the discounts on the preference shares, would seem to more than compensate investors for geopolitical risks associated with investing in South Korea.

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Wolfgang Bertelsmeier, chairman, Vietnam Enterprise Investments: Despite uncertainties in the global economy, we remain encouraged by the outlook for Vietnam. This is supported by the knowledge that Vietnam's economic outlook remains positive with sustainable growth expected for the remainder of the year and beyond. GDP growth for the whole year is expected to be 7.2%. Inflation is still under control at around 4.0%. Trade tensions have indirectly impacted the Dong currency via a weakened Chinese Yuan and sentiment, but we expect the Dong to depreciate by a maximum of around 2.5% in 2018, which would still outperform other regional currencies.

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Manager, Vietnam Enterprise Investments:

GDP Growth Hits New High in the First Half of 2018 Despite Softening in the Second Quarter

Vietnam's GDP growth softened to 6.8% in the second quarter of 2018 from 7.5% in the first quarter, thus closing the first half with a growth rate of 7.1%, the highest first-half pace in eight years. Most major sectors continued to enjoy stronger growth with the notable exception of mining which continued to contract.

Among the three major sectors, the industrial & construction sector grew at the highest rate at 9.1%, driven by manufacturing (+13.0%). This correlates with the Purchasing Managers' Index ("PMI"), which ended June at 55.7, the highest level since March 2011, thanks to the acceleration of output and new orders. Foreign manufacturers played an essential role in bolstering manufacturing, and the outlook remains favourable given better-than-expected Foreign Direct Investment ("FDI") inflows of US\$8.4 billion (+8.4%) in the first half of 2018. Construction grew at 7.9%, slightly lower than the 8.5% delivered over the same period last year, amid slower credit growth. The only drag in this main sector was mining, which saw its output fall 1.3% in the first half of 2018 against a sharp contraction of 7.8% in the first half of 2017, weighed down by stagnant oil production (-5.7%) despite a higher global oil price.

One important indicator for continuing strong manufacturing output in the second half of 2018 is the multi-year low inventory ratio of 63.4% in June compared to 66% in the previous two years. Given the strong growth in new orders and output, the low inventory ratio implies production will have to increase soon.

The service sector kept up its high growth at 6.9%, the best result in seven years. Within this, healthy consumer demand helped wholesale and retail services to grow 8.2% year-on-year. In addition, during the period Vietnam welcomed 7.9m international visitors, an increase of 27.2% on the previous year, contributing further to the sector's growth.

Agriculture grew by 3.9% in the first half, led by fisheries (+6.4%). Despite the US setting higher anti-dumping rates on Vietnam's pangasius fish, Vietnam was able to export to other markets, including China and ASEAN countries. Better weather and higher rice prices also assisted rice production during the period.

Any concerns over the slowdown in growth during the second quarter of the year have largely been off-set by the overall economic performance which has delivered the best

numbers in many years. In addition, it is worth noting that the first quarter growth number was distorted by FDI in the manufacturing sector.

Along with GDP Growth, Other Economic Indicators Performed Well

Vietnam's PMI reached 55.7 in June, rising from 53.9 in May. Vietnam has now experienced 31 straight months with the PMI above 50. June's PMI was just below the record high recorded in March 2011 and beat that of several other ASEAN countries.

Nielson reported that Vietnam's Consumer Confidence jumped nine points to hit 124 in the first quarter, a record high. This ranks Vietnamese consumers as the fourth most optimistic globally after India, the Philippines and Indonesia.

Indeed, domestic factors continued to underpin the country's growth momentum. External risks however, are rising and threaten the growth outlook. Trade tensions between the US and China have the potential to negatively affect Vietnam's exports. Rising inflation and a weaker currency meanwhile, could dampen consumer sentiment.

Inflation Accelerated on Rising Pork and Oil Prices, But Remains Manageable

Headline inflation climbed 0.6% month-on-month to 4.7% in June. At the end of the first half of 2018, the Consumer Price Index ("CPI") had risen 2.2% year-to-date, equivalent of an average CPI increase of 3.2% year-on-year, as compared to 4.1% in the first half of 2017.

Food & foodstuffs, transportation and accommodation & construction materials registered the highest increases. Food & foodstuff prices rose 1.1% month-on-month in June driven by increases in the price of pork and rice. Meanwhile, the upward trend in the price of oil globally helped to push the transportation sub-index up 1.0% month-on-month. Higher demand for electricity and water during the hot season contributed to a rise in accommodation & construction material prices of 0.7% month-on-month.

The surge in headline inflation in June was also partially due to the low base of only 2.5% in June 2017. For that reason, we look at core inflation, which remained benign at 1.4% year-on-year. Looking ahead, we do not expect to see further sharp increases in the price of pork and oil. However, uncertainty in commodity prices and currency depreciation could cause inflation to exceed our 2018 target of 4%. In the Government's monthly cabinet meeting, the Prime Minister indicated that there would be no increase in healthcare and education costs if inflation remained above its target of 4%. This flexibility will give room to manage inflation going forward.

Less Accommodative Monetary Policy, But Lending Rates Stable

Inflation remains unconnected to capital investment or high credit growth. Banks' total credit capacity grew 6.4% year-to-date in the first half of 2018, lower than the 7.5% over the same period last year. Total deposits meanwhile, grew at a faster pace rising 7.8% in the year-to-date. As such, banks' pure loan-to-deposit ratio (LDR) fell to 93.9% in June, down from 95.2% at the end of 2017.

To absorb excess cash from banks, in June the State Bank of Vietnam ("SBV") began to issue CB-bills again, with a total gross issuance of VND150 trillion, or US\$6.5 billion. The SBV also extended the tenor of CB-bills to 28 and 91 days from only seven days previously.

After a fantastic run in the last 18 months, Government bond yields are moving upwards, as anticipated. Lending rates, however, have remained stable at an average of 9.8% over the last three years despite the downturn in bond yields. It is likely that bond yields will continue to move up from their low to more normalised levels whilst lending rates remain stable with small upward adjustments.

Political Landscape and Currency: A More Volatile Year *Trade Surplus Narrows in June, But Exports Remain Buoyant*

The first half saw Vietnam post a positive trade balance figure of US\$2.7 billion. Exports grew 16% to US\$113.9 billion, led by the local sector (+19.9%), with agricultural products such as rice up 44.3% and fruit up 20.9%. Increased commodity prices supported local exporters, helping them outpace FDI companies. Imports increased at the slightly slower rate of 10% to US\$111.2 billion, with increased demand for electronic products and machines (+14.3%), textiles (+17.1%), and petroleum products (+38.8%).

The US and the EU remained Vietnam's two largest export markets at US\$21.5 billion (+9.2%) and US\$20.5 billion (+12.3%) respectively. Exports to China continued to strengthen (US\$16.6 billion, +28.0%), driven in large part by mobile phones, electronic products, and fruits and vegetables. On the import side, China and South Korea were the two biggest markets at US\$31.1 billion and US\$22.5 billion respectively.

While relations between the US and China continue to remain strained, Vietnam and the EU have just agreed the final text of the EU-VN Free Trade Agreement ("FTA"), which is expected to be ratified by 2018. The FTA with Vietnam has been described as the most ambitious deal of its type ever concluded between the EU and a developing country. Not only will it eliminate over 99% of customs duties on goods, it will also open Vietnam's services market to EU companies and strengthen protection of EU investments in the country.

FDI: Topping Out but Still Healthy

FDI disbursement was resilient, expanding 8.4% to US\$8.4 billion in the first half of 2018. Newly registered, and additional FDI, amounted to US\$16.2 billion (-4.4%), while FDI via the purchase of stocks soared 82.4% to US\$4.1 billion. Manufacturing continued to attract foreign investors, accounting for around 39% of total registered FDI. Real estate however, accounted for 27.3% of total registered FDI, mostly due to US\$4.1 billion invested by Japanese investors in Hanoi's 'Smart City.'

US-China trade tensions may push FDI players to broaden their China-plus-one strategy further. As a recipient of significant FDI inflows already, Vietnam, remains well-placed for further investment from overseas. The combination of factors that make the labour force so competitive - demographics, social-political stability, gender equality, good primary education, the national work ethic - continues to be unmatched in the region.

Balance of Payments ("BOP") Positive, Foreign Reserves Hit Record High

The BOP recorded a positive balance of US\$9.6 billion in the first half of 2018. The current account continued to enjoy a surplus of US\$8.2 billion thanks to the trade surplus, while the capital & financial account registered a positive balance of US\$8.8 billion due to resilient FDI inflows. As such, foreign reserves hit a record high of US\$63.5 billion.

Foreign Debt Remains Minimal

A key concern for investors in emerging countries is often the level of foreign debt particularly if US rates rise and the currency depreciates. Vietnam's peers have been impacted by this in the past. Within the level of foreign debt, the percentage of local currency bonds held by foreigners has been key in managing currency volatility. Foreigners are estimated to hold less than 2% of local currency bonds. The total debt service ratio, or principal and interest payments vs. exports, was 4.2% in 2017, according to the World Bank - the lowest in the region.

Currency

Despite solid economic fundamentals, the Dong has depreciated by 2% against the US dollar. In fact, the weaker Chinese Yuan (-7.0% since the bottom in April 2018) exerted pressure on the Dong. A strong Dong can negatively impact local exports, especially in agriculture, as most of Vietnam's agricultural products are exported to China, Vietnam's largest import market. As such, a significantly weakened Yuan might widen Vietnam's trade deficit with China. The recent depreciation was driven by sentiment, and the SBV is voluntarily depreciating the Dong to remain competitive.

Conclusion

Vietnam's economy should maintain its growth momentum into the second half of 2018 against the backdrop of a stable macro-economic environment. Headwinds have increased however, with rising uncertainty surrounding certain external risk factors, threatening the growth and stability outlook. Increased inflation and a weaker Dong might encourage depositors to demand higher deposit rates, thus exerting pressure on interest rates even though liquidity remains good. Rising global trade tensions meanwhile, might have some short-term impact on the country's exports and local production given the country's increased openness.

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Infrastructure - Renewable Energy

(compare Infrastructure - Renewable Energy funds [here](#))

Rónán Murphy, chairman, Greencoat Renewables: The Irish wind market remains a very attractive jurisdiction with a stable and supportive regulatory regime. Wind remains the dominant renewable technology and electricity production from wind [*is becoming*] an increasingly important part of Ireland's generation mix.

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Manager, Greencoat Renewables: The Irish wind market remains a very attractive jurisdiction with both a stable and supportive regulatory regime.

Ireland has an EU obligation to ensure that 16 per cent. of primary energy use is derived from renewable sources, expected to be largely from onshore wind, by 2020. Since 1995, Ireland has provided owners of operating wind farms with a supportive regulatory framework. Irish wind farms benefit from a 15-year inflation-linked floor price under the REFIT regime, while allowing wind farms to capture prices above the floor.

The announcement of the new Renewable Electricity Support Scheme ("RESS"), though not unexpected, adds further certainty to our long-term pipeline. RESS will replace the REFIT scheme, marking a shift away from guaranteed fixed prices to competitive bidding. The planned announcement by the Government will see up to 13,500GWh of additional renewable capacity auctioned by 2026, representing c. 4GW of onshore wind (if all 13,500GWh would convert to onshore wind capacity). It also opens the market to new technologies such as offshore wind and solar PV that previously weren't eligible for government subsidies. The new support mechanism will be structured as a two-way feed-in premium CFD.

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Infrastructure

(compare Sector Specialists: Infrastructure [here](#))

Rupert Dorey, chairman, International Public Partnership: The market remains buoyant and governmental and regulatory environments in which we operate continue to be supportive of long-term investment into public infrastructure. In the U.K. the issues surrounding the collapse of Carillion and the Labour Party's proposed policy shift away from the use of private finance in public infrastructure generally, in particular the Private Finance Initiative, has negatively impacted sentiment towards the sector.

The Board consistently monitors developments as Brexit negotiations progress. We see obvious risks in possible market and other dislocations arising from anything other than an orderly Brexit.

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Property

(compare Property: Direct – UK funds [here](#))

Robert Peto, chairman, GCP Student Living: The attraction of London for owners of private student residential accommodation remains evident, as illustrated not only by the occupancy levels and rental growth achieved by the Company, but also by market transactional activity. Recent notable deals include two large London portfolios where reported pricing indicates that yields are continuing to tighten, driven by investor demand and restrictive planning approvals for such assets in the capital.

The risks of Brexit remain unknown and, accordingly, are difficult to quantify. Notwithstanding this, in the period since the UK referendum, the number of international students in the UK, a substantial number of whom attend HEIs in and around London, has continued to rise. Education remains one of the UK's most valuable exports and London remains a cosmopolitan, global centre of academic excellence.

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Martin Moore, chairman, Secure Income REIT: The UK commercial property market continues to be highly polarised with logistics and alternative property values rising whilst retail values decline. In our judgment this is being driven by two separate structural shifts rather than a traditional property market cycle. The diversion of retail sales online and the extent to which that benefits logistics over retail property is now well understood, but the growth in popularity in alternatives has received less publicity. Nonetheless, alternative real estate is now firmly established within the investment universe with its market share of total annual UK commercial property volumes rising from 16% a decade ago to 34% last year - greater than the combined share of retail and industrial property. One of the key drivers is the desire for property investors to maintain income security. 20 years ago, new lease terms were granted on average for over 15 years and break clauses were rare. Today just 5% of new leases granted exceed 15 years, whilst average terms span just seven and 40% of leases contain break clauses.

Income security is particularly prized at a time of political and economic uncertainty caused by the ongoing Brexit negotiations. CBRE estimate that long lease property has benefitted from a 50 basis point relative yield movement compared to mainstream

commercial property since the EU referendum, with long income yields compressing 39 basis points against an 11 basis point yield increase in the CBRE monthly index. Volatility of total returns for long income property has been less than half conventional commercial property over the last four years whilst net income growth has been higher. Liability matching provided by RPI uplifts is an attractive feature of alternatives not just to UK institutions; overseas investors made up 35% of buyers last year.

Certainly, the significant rise in retailer CVAs and administrations has put the risk of tenant default firmly back on the property market's agenda and placed owners of retail assets in the direct firing line. Even the much-favoured logistics sector cannot entirely side-step such risks given the high concentration of retail tenants occupying distribution space either directly or via their distribution partners.

Clouds also have the potential to form over Threadneedle Street as the Bank of England has finally started to raise interest rates. This has prompted a debate within the property industry as to the extent to which yields are vulnerable to future interest rate rises. History is no guide as there is little correlation between interest rates and property yields. Interest rates often rise when the economy is expanding, a time of increasing tenant demand and rental growth when property yields usually hold firm. Conversely rising interest rates at a time of economic weakness would typically be negative for property yields but the interplay between the level of interest rates and property yields is also critical. Short term rates are moving up but from all-time historic lows and are still only a fraction of property yields. Those property investors who borrow can continue to fix their debt at rates that are meaningfully yield accretive. Other investors who are more inclined to price assets against the risk free rate of long-dated gilts observe 15 year gilt yields today of 1.5%, a level that has only been lower for about one year over the last 10 and implies that the financial markets predict that future interest rate rises are likely to be extremely modest or that the impact of QE is keeping gilt yields artificially low. Either way this remains highly supportive of current valuation yields, as does the gross redemption yield on long-dated index-linked gilts of 1.6%.

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Chris Russell, chairman, F&C Commercial Property Trust: The property market has delivered a solid performance in the first six months of 2018. Future performance could be affected by the economic and political uncertainties surrounding Brexit as the March 2019 deadline approaches. Forecast modest economic growth and a gradual move to a regime of higher interest rates will also play a role.

With the scope for further yield compression being limited, total returns are now expected to be driven by income. Well-specified and well-let assets in established and emerging locations are likely to out-perform against this backdrop.

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Richard Kirby and Matthew Howard, managers of F&C Commercial Property Trust: The market is expected to deliver positive total returns but with some deceleration from the pace of the recent past. The outlook for property continues to be strongly influenced by the Brexit negotiations and we would expect investors to remain cautious, especially as the October 2018 negotiations and March 2019 Brexit deadline approach. The market is anticipating further interest rate rises, and although they are expected to be slow and gradual and the yield gap is currently favourable, this could affect property pricing over the longer-term.

The outlook for retail property has deteriorated as it faces major structural issues. Retailers are having to adjust their occupational strategies in face of changing consumer habits, which will continue to provide challenges to Landlords in the short-

term. Leasing strategies have moved from opportunistic to a more defensive income preservation focus but this will settle over time as we reach a more stable equilibrium between physical and online retail.

There are growing concerns about the level of pricing in some parts of the market such as industrial, where yields have reached historically low levels, and City offices, where the occupational market may be weaker in the medium-term. These sub-sectors may see some readjustment in pricing if there is some cooling in real estate capital markets. Despite some uncertainty, the economy is forecast to remain resilient in the near term and we expect real estate to deliver stable and positive total returns, driven by a strong income return.

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Chris Phillips, chairman, Triple Point Social Housing REIT: The outlook is positive and we expect the strong performance of the first half of 2018 to continue into the next six months of this year. The market fundamentals remain strong and are demonstrated by stark undersupply and strong central and local government support for Supported Housing.

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Robert Peto, chairman, Standard Life Investments Property Income: While there are undoubtedly other considerations, the largest element affecting the outlook for the UK economy is the Brexit “end state” and what deal, if any, the UK secures upon leaving the EU. The uncertainty surrounding the outcome has not surprisingly led to muted economic growth forecasts with our Investment Managers forecasting UK GDP growth of 1.4% for 2018 and 1.5% for 2019, significantly below the forecast for the G7 average.

While real estate is not immune to the travails of the real economy, the asset class has continued to grow, albeit slower than in recent years. Underpinning this growth is the fact that the fundamentals of the real estate market are in good shape compared with previous cycles of slowing economic growth. Gearing and vacancy levels remain low by historical standards as does large scale development. The demand for the attractive, secure income streams that real estate continues to provide, means real estate as an asset class is still a good investment proposition. Whilst noting the recent small increase in the base rate, the yield on property is still significantly above bond yields.

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Jason Baggaley, manager of Standard Life Investments Property Income: Investor sentiment and activity continues to illustrate that the hierarchy of sector preference remains largely unchanged. The industrial sector remains the favoured sector call as investors seek to take advantage of the structural shift towards online retailing. This is not expected to change over the near term.

The alternative sectors remain another sector call favoured by many investors. Typically targeting these sectors for their long, stable inflation-linked leases, alternative sectors remain highly sought-after as we move into an environment of predominantly income led returns. However, the sub-sectors are diverse and the risks associated with these sectors equally so.

Investors are broadening their investment requirements in the alternative space. Rather than purely seeking defensive long income, investors are more comfortable with operational alternative sectors and their associated diversification benefits. Residential and student accommodation are already firmly established in this regard.

Our five-year total return forecast for all property is below market consensus. We do not see yield compression contributing positively to total returns going forward. Rather, returns will be driven by income and, as such, a key focus will be appropriate management of income risk at the asset and portfolio level. The focus on income is reflected in our projected sub sector returns which have become more divergent in the short term, with industrials and income-focussed sectors, including the Private Rented Sector, expected to be the strongest performing areas of the market.

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European Property

(compare European Property [here](#))

Robert Hingley, chairman, Phoenix Spree Deutschland: Berlin demographic trends remain favourable with continuing population growth and job creation, a supply-demand imbalance of available rental stock and a high cost of new-build.

Yield compression in the Berlin market is expected to moderate, after a multi-year period of declining property yields.

The recent trend towards trade protectionism has begun to affect global growth forecasts and the German economy has not been immune. In May 2018, the European Commission had predicted that the German economy would expand by 2.3 per cent this year, but this has since been moderated to 1.9 per cent, with a similar rate of growth predicted for 2019.

However, Berlin's economic growth prospects are relatively insulated from the impact of global protectionism. The City of Berlin is less reliant on the manufacturing sector, which is likely to bear the brunt of any escalation in trade protectionism. The Berlin economy is largely dominated by the service sector, representing over 80% of all employment, with a strong emphasis on education, research, business services, telecommunications, cultural and creative industries and health services. Although downsized since reunification, the public sector still accounts for the majority of jobs.

Whilst the wider economic outlook has become less certain, demographic trends within Berlin remain supportive. The population continues to grow, although net immigration has fallen below the peak levels seen in the years since 2011, which averaged c 47,000 new arrivals each year, compared to an estimated 40,000 in 2017. This growth continues to increase demand for rental apartments, whilst supply is set to remain constrained by lack of available land, a shortage of new build permits and high new-build construction costs.

With 84% of all Berlin residents renting, tenants have always enjoyed a high level of protection. Berlin's regional government authority is continuing to explore ways of controlling market rental growth. More recently, this has included additional measures to restrict the partitioning and resale of rental blocks as condominiums and a small number of instances where Berlin districts have implemented a first right of refusal to purchase rental blocks when they become available for sale on the open market.

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Pascal Duval, chairman, Aberdeen Standard European Logistics Income: The Board and the Investment Manager believe the medium to long term outlook for the logistics sector remains very favourable. Given the strong tailwinds from healthy economic output and structural shifts in consumption patterns, demand drivers are

likely to remain supportive, while construction levels remain relatively low. Development finance is still a barrier to a substantial increase in construction, while investors are more cautious of large scale speculative development projects.

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Evert Castelein, manager, Aberdeen Standard European Logistics Income:

Demand drivers remain strong. Imports continue to rise while labour markets are tightening through six consecutive years of sustained employment growth. Such has been the growth in demand that some contract logistics providers are reporting capacity constraints, operating with very low levels of idle warehouse space - some with as little as 2% spare capacity. E-fulfilment space continues to be sought and, notably, Alibaba has leased its first unit in Germany and is reportedly looking for additional space in Europe. With estimated quality European logistics vacancies falling below 5% in Q2 2018 this reduction in vacancy rate reflects strong take-up activity and relatively limited new speculative development.

Net operating income should grow as occupancy rates rise, inflation comes through in indexation in lease terms and headline rents continue to edge upwards in supply constrained markets. We are forecasting unleveraged logistics total returns to reach mid-high single digits per annum over the next 3 years. There is no doubt, however, that yields in certain countries have seen increased compression with the very strong weight of capital targeting distribution warehouse assets.

While the overall prognosis for logistics is positive, we believe that there will be a growing differentiation between different types of logistics property. The changing drivers of demand, be it shorter supply chains resulting from greater mechanisation in the manufacturing process, or the growth in business to consumer e-commerce, will have a differentiating influence on the demand for different types of space - and ultimately income growth prospects for investors. While the 'big-box' international supply chain structure remains very valid, the demand for last-mile distribution is changing rapidly. The growing requirement from consumers to receive items within 24 hours of ordering has driven increasing demand for distribution space close to large conurbations.

Careful attention will need to be paid to units which constitute suitable urban logistics locations, with even ageing stock likely to be attractive to tenants and investors if the location is good enough. In contrast, given the growing cost pressures for contract logistics providers, increasing focus will be on the location and structural suitability of units in more peripheral locations with transport and fuel costs rising.

Furthermore, we remain focussed on environmental concerns which are rightly becoming more important to local government decision making. We expect that certain investors will avoid inefficient units in naturally sensitive areas. In time, these are likely to be penalised through a lack of tenant demand, levies on landlords owning vacant property and legislative requirements to improve inefficient properties before they can be let, as is the case in the UK.

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Debt

(compare Sector Specialist – Debt funds [here](#))

Robert Sharpe, chairman, Honeycomb Investment Trust: We believe that the retrenchment of mainstream lenders from our target markets continues to present attractive opportunities. We 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. We remain vigilant.

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Manager, Honeycomb Investment Trust: Looking ahead, we continue to position ourselves to address the economic challenges and opportunities that may arise as the long-term effects of the UK leaving the European Union becomes clearer. In addition, with household borrowing at high levels and increased competition in mainstream unsecured lending, we intend to continue to proceed with caution.

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Alex Ohlsson, chairman, GCP Asset Backed Income Fund: Market conditions remain supportive, with strong demand for bespoke lending solutions that are tailored to borrowers' requirements. The company continues to benefit from opportunities created by mainstream lenders focusing on core asset classes or being constrained by regulatory capital requirements.

The uncertainties in the macroeconomic environment and the growing concerns over the absence of a negotiated Brexit deal following the UK Government triggering Article 50 continues to be a principal concern for economic stability in the UK.

Several sectors are attracting yield compression as a result of increased interest in the sector from mainstream lenders and pension funds.

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Manager, P2P Global Investments: To date, there has been minimal impact from the UK referendum vote to leave the European Union. However looking ahead uncertainty persists around the UK and global economic outlook, the situation will continue to be monitored to address the economic challenges and opportunities that may arise as the long-term effects of Brexit become clearer.

Internal and external key performance indicators are monitored closely to help identify early signs of any deterioration and portfolios remains subject to ongoing risk mitigation actions as appropriate. With household borrowing at high levels, and the regulatory framework remaining an ever present factor as consumer credit regulation continues to develop, it is intended to proceed with caution.

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Manager, Starwood European Real Estate: Whilst the agreement of the terms of Brexit between the UK and the European Union are making slow progress, the elongated uncertainties of Brexit are less evident in the real estate markets. Appetite for London office investment is unabated and while Chinese investors have pulled back from new acquisitions, there are many other sources of capital attracted to the London investment market illustrated through recent transactions such as Ho Bee Land, a Singaporean listed company buying Ropemaker Place for £650 million, CK Holdings' purchase of 5 Broadgate for £1 billion and Korean investors buying 20 Old Bailey and

Cannon Street House. The occupational market has also been strong with Savills reporting in June that the City's 12 month rolling take-up hit its highest level since September 2015 at 7.6 m square feet, which is also 25 per cent up on June last year.

Student accommodation, residential private rented sector, light industrial, logistics and hospitality markets all remain robust with good levels of investor interest. The outlier in the UK is retail where there are a number of headwinds and since the beginning of the year there has been a constant stream of bad news on retail occupiers scaling back, Creditor Voluntary Arrangements and tenant insolvencies. While some areas of retail will do better than others from a leasing point of view, it is likely that the negative sentiment will still affect the values of UK retail assets across the board. As a result we are seeing increased interest from borrowers who had been looking to sell last year but are now considering refinancing as an alternative or a necessity as they begin to come up against financing maturities. We are cautious around this trend and are likely to watch and wait before considering new UK retail investments. Our overall retail exposure in the UK is 1.5 per cent which is derived from smaller contributions of mixed use assets or portfolios.

In the debt market there has been a resurgence in European CMBS issuance. With a small number of exceptions, over the past few years CMBS pricing had been at a level where bank and insurance companies generally would beat the CMBS market on pricing. However, since the end of 2017 CMBS pricing has lowered in line with other forms of fixed income. European fixed income yields have been driven lower by ECB bond buying and as a result CMBS pricing has come into lower levels which makes it competitive. A good example of the pricing arbitrage is the £427 million Ribbon hotel portfolio CMBS which priced at a blended margin of around 160bps at 65 per cent LTV. This represents pricing about 100bps inside of where the bank market would typically be for this loan. New CMBS issuance has created a lot of interest and headlines but to put it in context, volumes at less than EUR2 billion in only five issuances so far this year are still quite small compared to the overall EUR1 trillion sized European commercial real estate loan market.

While these CMBS financings have been in sectors that the company has been active in such as hospitality and light industrial, we do not believe that CMBS is currently changing the competitive landscape for the investments the Group is making. In order to be considered for a CMBS structure, the key elements are for the loan to have sufficient scale, to spread the cost of issuance and create sufficiently large note sizes, and for the underlying collateral to have sufficient in place yield and granularity of income to obtain the required ratings analysis. When looking at whether CMBS would have been suitable as an alternative for previous investments made by the Group we concluded that CMBS would have had limited success for a variety of reasons. For example, on the light industrial side for our Danish and CEE loans both the size of the loan and the jurisdictions resulted in a CMBS structure not being feasible. For our Dutch portfolio both the loan size and the multiple closings required for the borrowers needs would have not been suitable for CMBS issuance.

In the subordinated debt space, we continue to see that widely marketed mezzanine debt on income producing assets is being priced lower than our return requirements. According to Debtwire recent examples include a Libor+ 550bps mezzanine for the Enigma student housing portfolio and Libor+ 625bps for the Ribbon hotel portfolio. We continue to see investment opportunities in mezzanine financings.

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Dawn Kendall, manager of SQN Secured Income Fund: In July, the Bank of England raised the base rate, for the first time since the global financial crisis started but this had very little impact on our market and we expect to maintain rate discipline on new

underwriting. As the Brexit negotiations unfold, we are careful to assess this risk for new loan business and we will avoid sectors with significant exposure to a UK recession and sharp FX movements. We have been encouraged by new business generated in Europe and will continue to consider management buyout and acquisition finance deals as they are presented to us. Demographic and valuation multiples are still very attractive for debt financing of these companies. In the US, we observe a similar opportunity as baby boomer owned companies transition to the next generation. However, our appetite for US deals is dampened given the costs associated with USD hedging, arising from the dollar's continued strength versus our base currency of Sterling.

As the peer to peer platform market matures with many deals reaching their first refinancing period, we expect to observe continued write downs from less disciplined competition. Consolidation in the sector has already begun and we have already observed significant developments that confirm this, having been offered mature loan books at significant discount to par.

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Manager, Blackstone / GSO Loan Financing: As with much of 2017, we see the technical backdrop influencing markets much more than anything fundamental. Outside of any credit idiosyncratic risk, we continue to believe that this supply-demand dynamic will drive market returns. As we saw towards the end of the period, large primary deals coming to market created weakness in loan secondary prices as market participants rotating out of existing positions in the secondary market to fund primary allocations. With more large deals expected to come to market in the second half of the year, we believe a more balanced market could be seen in the second half of the year. If, however, we continue to see strong institutional inflows into managed accounts and appetite for CLO liability investors remains robust, it may be possible to see spreads begin to tighten once again.

As the era of "cheap money" draws to a close and we enter a rising rate environment, we believe senior secured loans are well positioned, providing investors with yield and relative performance stability. High yield bonds should also continue to benefit from negative interest rates but provide yields similar to senior loans with more risks, in our view.

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Hedge funds

(compare Sector Specialist: Hedge funds [here](#))

Vic Holmes, chairman, Highbridge Multi-Strategy Fund: I commented in my previous Chairman's Statement about global uncertainties and many of those uncertainties remain. In that regard, a clarification of the outlook for global trade relationships would come as a relief for many investors and my best guess is that any such clarification may be a long time coming. There are specific regions that are worthy of comment. For instance, the Eurozone has witnessed domestic political uncertainties in key nations, with an Italian Government now in situ which most would describe as being Eurosceptic and the strains within Europe are obvious, which are exacerbated by a continuing unpredictable and messy Brexit negotiation process.

What does all that mean? Global growth is still projected by the IMF to reach 3.9% in 2018 and 2019. However, tariff increases by the United States and retaliatory measures

by trading partners have undoubtedly increased the likelihood of escalating and sustained trade actions, which could derail the recovery and depress medium term growth prospects.

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