

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

The big event of December was the sell-off in US markets, while sharp falls left all major markets in loss-making territory for 2018 as a whole. The oil price continued to drop (this was a contributory factor to falling stock markets) and government bond yields tightened as investors wondered if slowing growth would curtail interest rate rises.

Global

Caution is the watchword as monetary policy is tightened.

The managers of Seneca Global Income & Growth are preparing for a recession. They think it is likely that rates will rise and bond buying programmes will cease. Richard Gubbins, chairman of Henderson Alternative Strategies, agrees. The managers of that fund see the current weakness as a buying opportunity. James Will, chairman of Scottish Investment Trust, notes the problems that have been created by rising wealth inequality. He is cautious about the short-term outlook for markets. Alasdair McKinnon, the manager of that trust, opines at length on the state of the global economy. He believes that measures taken over the past ten years to address the financial crisis have arguably made the situation worse.

Exchange Rate	31/12/18	Change on month %
GBP / USD	1.2754	0.0
USD / EUR	0.8722	(1.3)
USD / JPY	109.69	(3.4)
USD / CHF	0.9821	(1.6)
USD / CNY	6.8754	(1.2)

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/12/2017 to 31/12/2018



Source: Bloomberg, Marten & Co

	31/12/18	Change on month %
Oil (Brent)	53.8	(8.4)
Gold	1282.49	5.1
US Tsy 10 yr yield	2.6842	(10.2)
UK Gilt 10 yr yield	1.277	(6.4)
Bund 10 yr yield	0.239	(23.4)

Source: Bloomberg, Marten & Co

Everyone highlights the uncertainty around Brexit. Some commentators see value in UK stocks at these levels

United Kingdom

Hugh Twiss, chairman of Invesco Income Growth, believes the attractions of the value-focused income growth sector will be recognised by investors. Ciaran Mallon, manager of the trust, thinks that there is further recovery potential in Brexit-hit stocks. Stephen Bates, chairman of BMO Capital & Income, thinks higher interest rates are far more likely in the US than the UK. That fund's manager, Julian Cane, takes comfort from the high yield available on UK equities. James Henderson and Laura Foll, managers of Lowland, think we could see a recession in 2019. Eric Sanderson, chairman of Schroder UK Mid Cap, thinks there will always be opportunities to make money however and the management team behind that trust believe UK equities are attractively valued relative to other markets. Jonathan Cartwright, chairman of BlackRock Income & Growth, is particularly concerned about the impact of Brexit on the financial sector but is pinning his hopes on overseas earnings holding up. The management team for that trust are favouring companies with pricing power, thinking that we are seeing inflationary pressures building.

Investors are keeping a close eye on China and the potential impact of the trade war

Asia ex Japan

Nicolas Smith, chairman of Schroder Asia Pacific, says he is conscious of increasing State interference in private sector companies in China. The trust's managers are concerned about the impact of Trump's tariff war on the Chinese government's efforts to rebalance its economy, but think valuations reflect investors' caution. The managers of JPMorgan Asian think the growth of intra-regional trade is helping to offset the impact of the trade dispute with the US. David Shearer, chairman of Aberdeen New Dawn, thinks the region looks attractive relative to the rest of the world.

Brexit overshadows the UK property market. Could it put off the overseas buyers that have been driving prices up?

UK Property

Richard Shepherd-Cross, manager of Custodian REIT, expects investor inaction in the face of Brexit uncertainty. Calum Bruce, manager of Ediston Property, says a lack of liquidity was a factor in rising prices/falling yields in UK property markets and notes that overseas buyers have been dominating the market. MedicX explains the drivers of the primary care market in the UK and Ireland. Ground Rents Income sets out its views on leasehold reform.

Other

We also have comments on Europe from JPMorgan European Smaller Companies; North America from the managers of BlackRock North American; BlackRock Frontiers on Global Emerging Markets; on China from JPMorgan Chinese; on the Debt sector from Invesco Perpetual Enhanced. There is an extensive look at the healthcare sector from the managers of Polar Capital Global Healthcare. GCP Infrastructure provide some comments on the infrastructure and renewable infrastructure sectors. Standard Life Private Equity discusses the factors influencing their markets. Schroder European Real Estate takes us through property markets in Europe. Lastly, complementing last month's extensive piece from Yellowcake, Geiger Counter gives its insight into the global uranium market.

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Global

(compare Global funds [here](#))

Seneca Investment Managers, managers, Seneca Global Income & Growth: We do not think the sharp falls in markets in October are the start of a pronounced bear market. Yield curves in the US and the UK are still positive, albeit close to being flat, and long-term interest rates in the Eurozone and Japan are still very low. These factors suggest that the global economy still has scope to grow for the next year or two, and thus are not the sort of conditions one sees at the beginning of a bear market.

That said, employment conditions are now getting quite tight across the developed world and are putting upward pressure on wages and inflation. Trade tariffs and a rising oil price are also causing inflation pressures to build. Thus, it is very likely in the months ahead that central banks in the UK and US will continue to raise interest rates while those in Europe and Japan will end their bond buying programs. This will only serve to reduce further the attractiveness of equities and other so-called risky assets.

While the next recession and thus the next bear market are not yet within sight, they are getting closer. In this environment, market volatility is likely to continue, even if the overall trend in markets remains positive.

As for bonds, it is possible that the next recession will not be accompanied by the usual decline in inflationary pressures. Should the trade war intensify, inflation pressures may rise not fall. In other words, the possibility of a stagflationary environment looms large. The vulnerability of traditional asset classes in the next few years is only too apparent.

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Richard Gubbins, chairman, Henderson Alternative Strategies: Volatility picked up markedly in October, thereby reminding investors that markets do not just go up in a straight line. As in January this year, the correction in global stock markets was apparently precipitated by rising US government bond yields, but the sharpness and speed of the fall was surprising to many. The concurrent losses in both equities and fixed income also served as a reminder that a simple balanced portfolio of stocks and bonds may not prove as robust as it has in recent years defined by falling interest rates and quantitative easing. With the US Federal Reserve continuing to raise interest rates and to shrink its balance sheet and the European Central Bank also looking to shift to a less accommodative monetary policy, we can expect uncertain times ahead for mainstream assets.

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James de Bunsen and Peter Webster, managers, Henderson Alternative Strategies: While we may see a lot of red on our screens, we also see a lot of opportunity. So too do the underlying managers to whom we allocate capital. This is particularly evident in hedge funds, where managers run unconstrained mandates and can nimbly increase and decrease risk levels as well as their sizing of holdings in individual stocks. At the other end of the spectrum private equity managers have the luxury of looking through the noise of daily market volatility and focusing on generating attractive long-term returns.

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James Will, chairman, Scottish Investment Trust: Politics has changed in recent years. The consensual politician, driven by focus groups, is a species on the wane. Meanwhile, politicians with a greater tendency to shoot from the hip and to challenge established norms have been in the ascendancy.

The drivers of this trend are complicated but very important must be the fact that, economically, it has been a poor decade for large sections of the population in a number of countries. Politicians now seem to have adopted a mantra that the benefits of economic growth must be spread more equally within their own borders whilst eroding their commitments to balance budgets.

Central banks continue a creep towards the 'normalisation' of monetary policy following a long period of crisis measures. The US Federal Reserve is most advanced in this strategy, but the difficulty of this challenge when debt levels are high is best highlighted by the fact that President Trump has launched hostile tweets criticising its endeavours.

Brexit negotiations remain what best can be described as complex. We expect any perceived progress to be reflected in the value of sterling.

There are a number of other geopolitical issues that could move markets in either direction, depending on how they develop. The most obvious concerns are the apparent slowdown in the Chinese economy, the state of relations between the US and China, a debt crisis in Turkey, the actions of the new Italian government and US relations with Iran.

The larger than usual number of risks, combined with the strong performance of equities in recent years, mean that the company currently has a cautious view about the short-term outlook for markets.

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Alasdair McKinnon, manager, Scottish Investment Trust: In a conversation with US President Richard Nixon in 1972, the Chinese Prime Minister, Zhou Enlai, reputedly quipped that it was 'too early to tell' when asked about the impact of the French Revolution on Western civilisation. After listening to the translated reply, President Nixon was delighted by this profound example of far-sighted wisdom with reference, he presumed, to the seismic events of 1789. Disappointingly, witnesses to the conversation have subsequently insisted that the Prime Minister was, in fact, referring to the Paris student riots of 1968. However, the misunderstanding was allowed to stand, possibly because it suited all concerned.

Whatever actually happened in the above exchange, the episode does suggest two things that have relevance for today. Firstly, it is reasonable to expect major events in human history to cause reverberations for surprisingly long periods of time and, secondly, reality can be distorted to suit the interests of those involved.

The financial world has recently marked the tenth anniversary of the defining moment of the financial crisis of 2008/9, namely the collapse of Lehman Brothers. The occasion prompted more than a dollop of self-satisfied backslapping from the economics profession, politicians and officials about the inspired actions taken to avert a meltdown. The various measures employed were presented as calmly rationalised options that were deployed with known outcomes. The truth, of course, was far less edifying. In reality, increasingly panicked measures were thrown like mud at a wall in the hope that one of them would stick. Major industries were bailed out, toxic asset purchases arranged, sales taxes cut, accounting rules suspended, interest rates slashed to near zero and 'quantitative easing' (a clever way of printing money) was introduced. Eventually the rot was stopped.

Of course, something had to be done. But it is worth bearing in mind that some of the policies employed would have been considered downright heretical by mainstream economists even a few weeks before they were deployed. Further, despite a short history of usage, zero (or even negative) interest rates and quantitative easing are today treated as legitimate and controllable policy options that can be tweaked as required. From this, we can only surmise that, like the conversation in 1972, reality has been 'revised' to suit all concerned.

Despite this desire to paint a picture of certainty and control, the various crisis rescue measures have already introduced a raft of unintended consequences. Perhaps the biggest of these has been the increase in wealth inequality, particularly across generations. There are now fewer people with a meaningful stake in the system and, as they tend to be younger, the full implications of this will take some time to become clear.

If excessive debt was one of the main contributing factors to the financial crisis, the measures taken over the past ten years have not addressed this. In fact, they have arguably made it worse.

It seems unlikely that an entire generation will commit itself to a life of indentured servitude to repay debt that they had no choice but to accumulate. History would instead suggest that the rules of the system will be changed. It is, of course, 'too early to tell' how the rules will change but the time-tested solution is currency debasement, in other words inflation.

In my youth, I read *The Ragged Trousered Philanthropists* by Robert Tressell. Looking back, the book presented socialist ideas in a more digestible form and the title was meant to illustrate the irony of poverty stricken 'philanthropists' performing gruelling work for inadequate pay on behalf of avaricious masters.

I always considered the title very clever, as it summed up the thrust of the book, and as I look at today's stockmarket, I wonder if the author would have managed a wry smile at the gigantic malinvestment in the ecommerce area. Today, investors are acting as philanthropists as they subsidise unprofitable user growth by 'disruptive' entrants in a variety of areas. Investments connected with internet shopping, food delivery, ride hailing services, scooter rentals, music streaming and video streaming, to name just some, are strongly favoured by investors despite their continued propensity to burn cash. That the consumer appreciates a service sold below the cost of production is not a surprise. The challenge is converting a subsidised, or free service, to a sustainably profitable business model. The lack of scepticism about the difficulty of achieving this is a symptom of ten years of cheap money.

In recent reviews, I have noted some concern with regard to investor attitudes to risk driven by a fear of missing out. The mania for cryptocurrency get-rich-quick schemes proved to be brief but was concerning as it represented a proxy for both the ease and speculative nature of financial conditions. The investor infatuation with all things technological was also highlighted as a concern as the area appeared to be awash with both cash and excessive optimism. The premium smartphone boom has peaked, social media is now subject to increasing regulatory pressure and the ecommerce business model will have to evolve further. We have minimal exposure to these areas as we see elevated expectations and thus scope for disappointment.

It is now increasingly popular for politicians to pledge tax cuts and increased spending in anticipation of these actions generating improved future growth (and hence tax revenues). This may well prove correct but, equally, once politicians get a taste for this type of strategy, it is the first step on the road to currency debasement via inflation. That

said, this is likely to be a lengthy journey, as a large number of stakeholders favour the status quo.

United Kingdom

(compare UK funds [here](#))

Hugh Twiss, chairman, Invesco Income Growth: As I write this report, despite now being only a few months away, it is still no clearer whether Brexit is going to be hard or soft, let alone the full economic impact on the UK economy; President Trump is still upending the established world order and pursuing trade wars with both friends and foes; populism remains on the rise in Europe and elsewhere, interest rates are rising in the US and these are only some of the uncertainties that currently trouble investors. So it is perhaps not surprising that we have seen some weakness in stock markets in recent weeks.

However, I continue to take comfort from the fact that our sector has recently been out of favour and history suggests that trends, such as momentum, will eventually run their course and that the attractions of the income growth sector, which is more value focused, will again be recognised.

Ciaran Mallon, manager, Invesco Income Growth: The headwinds that have faced the UK over the last two years continue, the most prominent of which being the yet unknown impact of Brexit implementation. The likely result is that economic growth in the UK will remain subdued and the UK market sensitive to progress in negotiations for some time.

In the US, the interest rate cycle is now firmly on an upward trend, with a strengthening US dollar creating stress in certain emerging markets. The impact of trade wars on economic growth is as yet unknown. In China, there is a risk of a slowdown in the capital investment cycle later this year. Additionally, sterling could strengthen from still depressed levels, creating pressure on forecasts for the overseas revenues that comprise the major part of FTSE 100 company earnings. There is, however, further recovery potential in the Brexit-hit stocks.

At current stock market levels, it is proving a challenge to find quality companies able to deliver growth in both capital and income.

Stephen Bates, chairman, BMO Capital & Income: As I write, markets are suffering another bout of jitters. Sometimes, this seems to be because economic activity is too strong, which means more rate rises; sometimes it's because economies are too weak, which means pressure on corporate profits; and sometimes it's because something unpleasant has happened to Italy, or China or Brexit or free trade. In any event, the economic expansion and the bull market which has accompanied it, is quite long in the tooth.

Bull markets, though, do not die of old age. They generally finish on the back of a liquidity squeeze caused by higher interest rates. While this outturn looks feasible in the US where the economy has done much better than other developed countries and where the stock market has done exceptionally well, the likelihood of much higher

interest rates on this side of the Atlantic is remote. In the UK, we still do not know what will happen on Brexit and the level of uncertainty posits an accommodative monetary policy. Other things being equal, this is positive for equity markets, but we can expect any upward trend to be interrupted by periods of uncomfortable volatility as the politics unfold and the cycle matures.

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Julian Cane, manager, BMO Capital & Income: Given the number of very significant uncertainties facing the UK and other world economies it would be easy to be despondent about investing in the UK stock market. The outcome of Brexit negotiations and implications for the future are unclear at the time of writing (and I suspect will be for a long time to come), with perhaps the only certainty being that a large part of the population will not be happy; the possibility of a Labour Government with some radical policy plans would certainly deter many international investors.

There are uncertainties within Europe too, the economic situation in Italy remains difficult, dissatisfaction with the EU appears to be increasing and Germany is moving closer to a change in political leadership. The threats of escalating trade wars are unhelpful and destabilising to world trade.

All of this against a background of interest rates and bond yields rising would appear to make a fairly unattractive mix. Yet, time and again, it has been shown that trying to time market movements profitably is extremely difficult. The most obvious exceptions to this would be circumstances where valuations, either for particular sectors or the market as a whole, push to historically challenging limits.

At least in the UK, looking at the charts as shown, this does not appear to be the case at present and at the time of writing the FTSE 100 Index is trading at a level it first reached in 1999. The dividend yield available from equities still appears attractive when compared with the alternatives of either bonds or cash.

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James Henderson and Laura Foll, managers, Lowland: The outlook for the UK economy over the next year is difficult to predict. The economists who put forward estimates of GDP growth have a wide range of outcomes in their respective forecasts. Some predict reasonable growth, while others expect a recession. The result of Brexit negotiations and their implications are unclear, as is the damage a trade war between the US and China will create. However, the most likely outlook is for the global economy to keep on growing, albeit at a slow rate, as some of the issues are resolved. There is a possibility that the changes to trading arrangements brought about by Brexit for the domestic economy, and Trump more generally, may lead to a recession next year.

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Eric Sanderson, chairman, Schroder UK Mid Cap: It is frustrating that UK mid-caps are not a popular investment at the moment. UK equities in general are out of favour, and mid caps particularly so.

The standard explanation for the asset class's unpopularity, of course, is Brexit: the uncertainty of the negotiations, and the fear that domestic UK businesses will face a more difficult environment. It is still too early to see where the negotiations will end, but we know that there will be as many opportunities in mid caps in the future as there have been in the past.

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Managers, Schroder UK Mid Cap: Due to the uncertainty around Brexit, many international investors remain nervous about investing in UK companies. In Bank of America Merrill Lynch's November survey the UK remains the most out-of-favour asset class, with allocations around 20-year lows. Accordingly, the valuation of the market continues to look attractive relative to other major markets.

Away from the Brexit headlines, the backdrop for the more domestically-focused part of the mid cap universe is far from dire. UK growth has strengthened, and the country's fiscal position is improving, allowing for a small fiscal stimulus in the Autumn Budget. Despite their depressed levels of confidence in the outlook, UK consumers are continuing to increase their spend on areas such as pet care and casual dining. Furthermore, UK consumers should benefit from the increased basic tax rate threshold in the Budget, paired with real wage inflation.

As we see an ever-faster pace of disruption, nowhere is this more keenly felt than on the high street. Companies which are not carrying out the disruption or adapting to take account of it will be strongly disadvantaged. We see opportunities for management teams which are nimble and creative to take advantage of disruptive trends.

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Jonathan Cartwright, chairman, BlackRock Income & Growth: The outlook for global economic growth looks positive in the near term, although growth rates are likely to vary across the major developed economies. However, global markets remain volatile, largely driven by heightened geopolitical tensions; in particular the threat of a continuation of the US/China trade-war, concerns over rising US interest rates, tightening financial conditions globally and a wind down of the quantitative easing and easy monetary policy seen in recent years.

In Europe, the UK's exit process from the European Union continues to contribute to volatility in both European and UK equity markets sentiment. At the time of writing the UK Government has yet to reach agreement with the EU on the terms of the Withdrawal Agreement. There remains substantial uncertainty on how the Brexit process will play out and its longer term impact on the UK economy, particularly the UK financial services sector. In this context it is worth remembering that the UK equity market derives well over two thirds of its revenues from currencies other than sterling and for our largest companies the principal driver of future returns will be events in the global rather than domestic economy.

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Adam Avigdori and David Goldman, managers, BlackRock Income & Growth: We are broadly positive on global markets and expect continued global growth in the near term, albeit in a less synchronised fashion across the G7 nations and at a lower level than in the recent past. The trend of steady growth has provided a solid backdrop for equity market returns, which have also been helped by loose financial conditions from supportive governments and central banks. However political uncertainty is rising which, combined with tightening financial conditions (led by the US Federal Reserve), means that we expect continued market volatility.

We continue to like cash generative consumer staple companies, especially those exposed to the emerging market consumer given the prevalent demographic trends in those markets. These companies often generate substantial cash flow which allows them to invest in innovation, marketing and distribution to ensure the longevity of their brands while also paying attractive and growing dividends to shareholders. We have also sought exposure to infrastructure and construction spend whilst at the same time we are watching for signs of overheating in the US and monitoring the slowdown in China. US construction spend remains well below long-term averages and initiatives to

boost this spend features prominently on the political agenda. We also note that inflationary pressures are starting to build and therefore we seek those companies with sufficient pricing power and efficiency potential to withstand rising costs. As the last few months have demonstrated, it is crucial to be selective and to focus on those companies that are strong operators; those that provide a differentiated service or product and that boast a strong balance sheet.

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Europe

(compare European funds [here](#))

Francesco Conte and Edward Greaves, managers, JPMorgan European Smaller Companies: Long term inflationary expectations remain anchored at around 2% and the US mid-term elections resulted in a split congress, meaning the loose fiscal policies may be reined in. With Italian 2-year yields close to 1% and sterling weak but stable it seems that the bond and currency markets expect political risks in Europe to be manageable. One interpretation could be that the market has concluded that individual countries have far more to lose from confrontation with the EU than the block as a whole and consequently are likely to pare down their demands.

The recent rise in the US 10-year bond, at one point to above a 3.2% yield, reduced the appetite for stocks across all geographies, including Europe. On this side of the Atlantic, fears about the Italian budget and continued uncertainty around Brexit added to the general malaise. The US mid-term elections in the US resulted in a split Congress, meaning the recent loosening of fiscal policy, through tax cuts, is unlikely to be repeated. This has been a driver of higher US interest rates, and therefore we see a standstill here as a positive. In Europe, with Italian 2-year yields close to 1%, bond markets are signalling that political risks are manageable. In summary, we believe the volatility in October was a long overdue correction, rather than start of a more prolonged downturn in markets.

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Asia ex Japan

(compare Asian funds [here](#))

Nicholas Smith, chairman, Schroder Asia Pacific: The company's year-end coincided with the 10-year anniversary of the 2008 worldwide market shakeout. Now there are new challenges to growth, notably tariff wars and higher Western interest rates. Asia has been a major beneficiary of the new world order after 2008-09. Can this continue?

Of the new issues facing Asia, probably the most fundamental is whether China can transition to a lower growth model at a time it is under political and economic pressure from its largest trading partner, the US. China, and the region as a whole, has a great record of achieving its goals and the next few years will test that record. I am conscious too that, at the moment, the state authorities are increasing their involvement with the commercial operating environment, potentially affecting the profitability of leading private sector companies.

Manager, Schroder Asia Pacific: Arguably all purely financial forecasts and considerations are trumped (pardon the pun) by major, and by their nature unpredictable, political considerations. The most significant is the breakdown in relations between the US and China, which goes far beyond mere trade considerations. However, other imponderables include whether Italy will ever have the political will to do what it takes to create a competitive economy, Brexit, and (in our mind of very fundamental global import) whether the Chinese leadership hold the line accepting lower trend growth as the price for long-term financial sustainability.

Some or all of these issues may be amenable to at least short-term outcomes that are better than the consensus would suggest. However, the global economic and financial fundamentals are troubling, namely, an unbalanced growth picture (US vs the rest), tightening liquidity, and the rising risk of more systemic financial shocks resulting from mis-priced risk eg. loan funds, peer-to-peer lending, ETFs, remarkably low spreads in the high yield market, and multi-layered "risk free" infrastructure funds.

A stronger dollar, rising interest rates, trade tariff pressure from the biggest bilateral trade partner, and related faltering in investor and corporate confidence are not a great combination for the relatively trade-dependent and open economies of Asia. In general, the vulnerability to external financial shocks are lower across the region, certainly when compared with the 1997/98 crisis, and also with 2013 as markets became frightened by the prospect of the end of Western monetary easing.

Of greater concern are the prospects or otherwise for a smooth transition to a lower, but more sustainable, growth model for China. Our central view remains that the authorities can manage a soft landing consistent with their desire for a less credit-intensive growth model. Attacks from Washington are certainly not making the process any easier. However, it is also being made more complicated by less favourable country-specific factors including marked erosion in the current account surplus, elevated levels of domestic credit, and increasing vulnerability to capital leaving the country. Combinations of expanding the money supply, a modest rise in government spending and a gradual depreciation of the Renminbi accompanied by discouragement of capital outflows may still do the trick, but in our opinion scope for a more marked stimulus package looks limited.

Having said all that, regional markets are within a few per cent of the valuation lows seen in late 2015/early 2016, suggesting that investor caution is already elevated. A destabilising event in China remains a possibility rather than an imminent likelihood, and some progress on US/China relations is not out of the question.

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Ayaz Ebrahim, Robert Lloyd and Richard Titherington, managers, JPMorgan Asian: In the near term, the direction of travel for Asian markets is uncertain and political risk will continue to feature. We are more cautious than we were a year ago and we acknowledge that the period immediately ahead could be a bumpy one. But we are patient and discerning investors, confident that the long-term story for Asian equities remains robust.

While expectations of improved growth have shifted towards the US of late, we see the beginning of a cyclical recovery in selected Asian countries and we have begun to see signs of revival in Indonesia, where we are overweight. In India there are also positive signs, but we are maintaining an underweight position as valuations still look rich, and the risk of further shocks and negative news flow from the financial sector continues. Should markets fall further, we will be in a good position to add to holdings at more attractive levels.

Short-term, the status of trade relationships between China and the US is unsettling. Concerns linger about potentially stagnant consumer spending, even though the Chinese government's attempt to offset deleveraging and trade concerns through targeted stimulus should stimulate consumption growth. We would expect this growth to feed through to improvements in Asia inter-regional trade.

Across the region, domestic consumption is contributing much more to economic growth than it was 15 to 20 years ago; without understating the importance of Asian exports, the ability of the region's economies to withstand prolonged trade tensions resulting from protectionist US policy may be stronger than feared.

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David Shearer, chairman, Aberdeen New Dawn: The short term outlook for the Asia Pacific region remains uncertain owing to geopolitical concerns including rising trade tensions, higher interest rates and slowing global economic growth. However, macroeconomic fundamentals for the region are relatively positive compared to the rest of the world with higher economic and corporate profit growth as well as robust balance sheets.

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North America

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

Tony Despirito, Franco Tapia and David Zhao, managers, BlackRock North American: We believe a continuation of the current U.S. economic expansion is likely, although a growing list of risks has widened the range of potential outcomes. Previously, we have argued that targeting growth – while building resilience into a portfolio – bears attention in light of an evolving and ageing business cycle. We continue to hold this view – positive economic data and upbeat corporate earnings results support optimism, while monetary tightening, trade risks and late cycle markers (i.e. a pick-up in wage growth) justify a thoughtful approach to risk-taking. In regards to investment risks, we are monitoring the trajectory of inflation and interest rates for signs of economic overheating, as these factors could potentially pull forward the end of the current business cycle more quickly. We view the trade actions implemented so far as troublesome, yet limited. Further escalation, however, risks negatively impacting corporate confidence and investor sentiment.

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Global emerging markets

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

Audley Twiston-Davies, chairman, BlackRock Frontiers: Global economic growth is expected to continue, although growth is likely to vary across the major developed economies. Markets are also becoming increasingly volatile, largely driven by heightened geopolitical tensions – in particular the threat of an escalation in the US/China trade war through the imposition of fresh US trade tariffs and concerns in Europe about the economic consequence of Brexit and tensions arising from Italian

government spending. The strength of the US economy, the consequent strong US dollar, and the impact of rising US interest rates as a result of tightening monetary policy, have created headwinds for many of the countries in the Frontiers Universe whose debt is often denominated in US dollars.

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Sam Vecht and Emily Fletcher, managers, BlackRock Frontiers: Crisis point for Argentina was reached in August with a run on the currency which the Central Bank was unable to contain on its own. This precipitated an expanded agreement with the IMF, which came with additional requirements for Argentina to further reduce its fiscal deficit and shift from inflation targeting to monetary aggregate targeting. Under the agreement, the IMF will cover the gross financing requirement to the end of 2019 in the event that Argentina is not able to access debt markets. Whilst it is impossible to categorically rule out a debt default by Argentina, given current yields, the extent of the currency devaluation and the IMF backstop, we think risk reward tilts in our favour.

In Turkey, [we are] concerned about the extent of foreign currency debt owed by the corporate sector and have no desire to add to exposure until the government reverses its current policy course. In a similar vein, we have had no exposure to Pakistan, have significantly reduced our exposure to Sri Lanka and Bangladesh and are running meaningful short exposure in the Philippines.

We continue to be positive on the Frontiers Universe, especially where those markets are experiencing improved macroeconomic conditions, better political governance, cash flow growth, and cheap valuations.

Emerging and Frontier Markets have de-rated considerably. Whilst further rises in US rates would likely put pressure on some Emerging Market Central Banks to mirror these increases, we believe that, in general, Emerging Markets are better positioned to weather this strain than they were in the previous periods of monetary tightening of 2013 and 2015. At current levels, Emerging Markets are historically low on price to book valuations, which we believe is an attractive level. Despite the sell off and increased market concerns in 2018, we think that the expanded Frontiers Universe continues to exhibit strong GDP growth, has low government debt levels, and represents an opportunity to invest in companies with strong cash flow and high dividend yields, on some of the lowest valuations in the world.

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China

(compare Asian single country funds [here](#))

Howard Wang and Rebecca Jiang, managers, JPMorgan Chinese: China has not been immune to the climate of negativity that has dominated markets. Indeed, the country has been in sharp focus as fears of mounting trade wars between the US and its global trading partners have dealt a blow to Chinese stock markets. US-China trade tensions are not a new phenomenon but the imposition of trade tariffs on US imports of certain Chinese goods has created fears of a full-on trade war. The short-term prospects for Chinese exports look difficult and this is contributing to overall weakness in the economy, a slowdown in retail sales and a vulnerable currency. This uncertainty is causing manufacturers to reduce inventory and thereby precipitating a fall in revenue for the whole manufacturing supply chain.

After years of supercharged economic growth, the Chinese economy - the world's second largest - has slowed down in recent months and may grow by only 6.5% in 2018. These are still robust growth figures that confirm China's status as a global economic superpower but, nevertheless, economic growth in 2018 is likely to fall to its lowest level since the global financial crisis of 2008.

One of the great unknowns at the time of writing is just how the US-China trade war is going to play out. Whatever happens, the likelihood is that Chinese exports will face tougher times ahead and Chinese economic growth will continue to moderate further. We believe, however, that the decline is likely to be both modest and controlled, as targeted and coordinated policy responses by the Chinese government should offset growth headwinds resulting from the financial deleveraging efforts and the ongoing trade war.

Beijing's reforms reflect the changing economic landscape at home, acknowledging that the pendulum has shifted and targeting effort on reforms to minimise the impact of external challenges. The increased emphasis on domestic demand and a consumer-led recovery leading to less dependence on export growth should counteract the adverse effects of any further trade escalations with the US as well as the risks of higher inflation and slower global growth.

We acknowledge that Chinese stocks have been hit hard over recent months, reflecting negative news flow, volatility and US Dollar strength but are reassured that interest in the domestic market from foreign investors has remained strong.

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Debt

(compare debt funds [here](#))

Peter Yates, chairman, Invesco Perpetual Enhanced: Whilst there have been some encouraging developments in the high yield bond market for the longer-term outlook, markets continue to face headwinds including global trade tensions and the uncertain outcome of Brexit, whilst concerns over the extent of interest rate rises in the US and the prospect of slower global growth have implications for equities and bonds, particularly those where valuations already appear stretched. The direction of markets will be influenced by these and other factors and until there is greater clarity, markets are likely to experience periods of volatility.

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Rhys Davies, Paul Read and Paul Causer, managers, Invesco Perpetual Enhanced: In recent months we have seen a gradual but relatively small repricing to higher yields in the European high yield bond market. This is a trend that we regard as encouraging for the longer-term outlook. However, with the market continuing to face headwinds, there is the potential for further increase in yields from a relatively low base and we therefore remain cautious. Furthermore, the ECB is now highly likely to scale back the asset purchase programme which had proven to be so supportive for high yield bond markets.

That said, fundamentals within the sector generally remain good. Leverage has increased, but interest coverage ratios are at multi-year highs. Although we have seen some slowing of global growth it remains, for now, broadly supportive. Finally, while there has been some slowing of issuance this year, this follows the very high levels of

issuance in 2017. Overall the primary market remains active and most companies are still able to refinance when necessary.

Healthcare

(compare healthcare funds [here](#))

James Robinson, chairman, Polar Capital Global Healthcare: With stock markets looking particularly fragile, and with many commentators anticipating the peak of the economic cycle, the attractions of the healthcare sector stand out more clearly than ever. The relative valuation of the sector has declined significantly while the absolute valuation is in line with the long-term average. This is despite the superior growth prospects, driven by demographics, innovation and the need for greater efficiency.

Daniel Mahony, Gareth Powell and James Douglas, managers, Polar Capital Global Healthcare:

Structural disruption of the healthcare industry continues to evolve

Our key investment thesis is that the healthcare industry has embarked on a period of major structural change. Governments and health insurers are finding ways to improve the efficiency of healthcare systems so that they can deliver better healthcare to more people for less money. We see three principal drivers - an ageing population, new technology and economic pressure.

The baby-boomer generation expects a far healthier and more active retirement than their parents, largely because of advances in medicine that are now standard. In addition, increased longevity means that a significant part of healthcare expenditure is now devoted to the management of long-term chronic conditions such as heart disease, diabetes and dementia.

At the same time, recent medical advances in areas such as gene therapy, cell therapy and immuno- oncology have seen the emergence of new expensive treatments for hitherto untreatable conditions. As a result, healthcare spending, both on an absolute basis and as a percentage of GDP, continues to rise in most countries driven by increasing demand.

We see information technology as the major catalyst for change. Advances in information technology, especially data analytics, are helping governments and health insurers to predict the healthcare needs of a population and to measure the value of a product or a service. The way healthcare is managed, delivered and paid for is already changing and is set for considerable disruption over the next decade.

In the past 12 months, we have seen continuing evidence of healthcare disruption and, more importantly, how different stakeholders are responding. This is an evolving process and while the ultimate goal seems clear - to improve the efficiency of healthcare systems - the near-term direction of travel and how we get there are critical in identifying companies that are well-positioned to thrive and those that may fall behind.

Value-based care forms the basis of a new reimbursement system

Most reimbursement systems around the world are based on a fee-for-service system where a payment is made based on the number of services provided or the number of procedures ordered. As healthcare has become more complex over the past few decades, the deficiencies of this payment model have become more obvious. In particular, the fee-for-service system creates incentives for overuse, which drives up healthcare costs, and offers no incentives for co-ordination of care within the healthcare system, which is essential when managing patients with multiple chronic conditions.

Governments and insurers around the world are now determined to replace fee-for-service with one based on value. The concept of value is easy to define, it means delivering the best clinical outcomes at the lowest cost. Fee-for-service encourages activity, but it does not take the concept of value into account. At the moment, value occurs only because it is the right thing to do - there is little accountability beyond ethics. This is not a sustainable system as it drives up cost with the potential for delivering worse results over time.

The move to value-based care and reimbursement has ramifications for every participant across the healthcare value chain. Any supplier of a product - be it medical device, medical technology or drug - and any provider of a healthcare service will begin to be evaluated and paid on the basis of how such products or services contribute to a clinical outcome. The drivers of this change are the payers - governments and health insurers - that are now starting to evaluate and measure best practice and clinical outcomes at the individual patient level.

While we have accounting systems that are excellent at measuring costs, the measurement of clinical outcomes is far more difficult, not least because a clinical outcome is rarely a single measurable event. This is where the use of IT and data analytics can have such a profound impact - they are enabling the move towards value-based healthcare. Measuring outcomes requires data and over the past year we have seen a step-up in the use of real-world data within the healthcare sector.

Real world data are driving reimbursement decisions and redefining best practice.

A randomised clinical trial remains the gold standard for evaluating the risk/benefit of a new drug or therapy. However, these controlled clinical studies are less helpful when it comes to determining the value of a new treatment in a broader patient population. While the payers initiated the move towards value, large drug and medical technology companies are becoming more proactive in their approach to using real-world data to demonstrate value.

Value-based care will continue to evolve but is here to stay.

The shift towards value-based reimbursement seems inevitable and is the basis for our view that the management of healthcare will change significantly over the next 10 years. We expect to see greater use of real-world or in-market data to justify the use of certain products or services and ultimately this should help to drive more rapid adoption of best clinical practice.

From an investor perspective, it is important to understand that there is now a different alignment of incentives along the value chain between the government, payers, providers and product suppliers. The focus is moving to what can drive improved patient outcomes and, ultimately, greater efficiency.

The battle for the front door of healthcare

For most people, the entry point into healthcare is the General Practitioner (GP) or primary care physician. In the UK, at least 90% of patients have their first NHS contact with a GP but almost one in four people have to wait at least a week for that first appointment. This situation is not unique to the UK as access to primary care is a rate-limiting step in most parts of the world.

Primary care physicians are usually the lynchpin of healthcare systems in developed markets. Any referral to specialist care is generally made by a primary care physician and the burden of managing patients with multiple chronic conditions usually takes place in the primary care setting. As a result, the way that primary care is accessed and managed has a huge impact on the overall cost and efficiency of a healthcare system.

In many ways, the workflow of the GP visit has barely changed over the past 70 years. While GP surgeries now have computer systems, and some of the primary care is delivered by nurses or other healthcare professionals, the initial contact is generally a face-to-face meeting with the GP.

We think that this is now beginning to be disrupted - we see an emerging battle for the control of the front door of healthcare. The drivers are new technology, the need to improve efficiency and also a change in consumer expectations towards on-demand access to healthcare.

Telehealth is approaching an inflection point.

While telehealth is not a new idea, we see a group of companies emerging in a number of geographies that are trying to make this a mainstream approach for accessing healthcare.

In simple terms, telehealth technology enables a patient to book an appointment with a primary care physician online and then conduct a virtual visit using what is effectively a video-conferencing capability. This service can be provided in a matter of minutes - meeting the consumer desire for on-demand healthcare. Moreover, for the patient, this is far more convenient and cheaper than a physical visit to their primary care physician.

M&A activity in the US is also driving change in primary care.

While telehealth is providing a new entry point to primary care, the existing primary care infrastructure is also beginning to change. Over the past few years, there has been a race to acquire independent primary care practices, both by health insurers and hospital systems.

We are also seeing the emergence of large integrated care systems - especially in urban areas - where the hospital system is taking on more of the financial risk of patient care. Interestingly, as providers become more exposed to financial risk they become more focused on value-based care. The management teams of these large integrated networks realise that primary care practices are a critical part of the network. Controlling primary care means that there can be oversight of how patients are referred through the system and ensures that they are sent down the best clinical pathway - from both a quality and cost perspective.

Transforming healthcare delivery creates near and long-term investment opportunities.

While changes in healthcare delivery have clearly begun in the US, we would expect similar technologies to be embraced across the world. A combination of telehealth and a local pharmacy provides an efficient way of delivering high quality primary care at a lower cost. For investors, there are obvious near-term investment opportunities in the

companies developing this technology as well as companies that benefit from the improvements in efficiency.

In the long term, the emergence of new delivery systems will accelerate the demand for new types of healthcare products and services, especially in the areas of wellness and preventative care. Current healthcare systems have been set up to provide care for those who are sick, but the systems of the future will also maintain the health of the well. With consumer expectations already beginning to change, these new markets and investment opportunities may emerge more rapidly than currently anticipated.

The rising power of the consumer

The technological disruption of many industries has driven a major change in consumer expectations. Companies such as Amazon and Netflix have set new standards in the delivery of products and services. We think expectations of healthcare systems are changing and the power of the consumer in healthcare is on the rise.

In general, consumers and patients still find medicine and healthcare systems very complicated and they are looking for simplicity. Moreover, they want healthcare to be affordable, which is a big issue in the US, accessible, which is behind the rise of telehealth, and, in many cases, they want the option to take control of their own health. These are important trends that are not only affecting the political landscape but also having an impact on the end markets for products and services.

Drug pricing in the US is an affordability issue for consumers.

Over the past 10 years, US health insurers have tried to change consumer behaviour through the use of financial incentives. For example, we estimate that one-third of commercially insured individuals now have a high deductible plan, where the patient is directly responsible for a large proportion of initial medical costs.

Following President Obama's introduction of the Affordable Care Act, often referred to as Obamacare, many middle class Americans have seen their health insurance premiums soar despite wider penetration of high deductible plans. Affordability is now the key issue for the average American - the current political discussion over drug pricing needs to be seen in this context.

List prices for pharmaceuticals are set by the manufacturers who then negotiate rebates and discounts with middlemen in the supply chain, such as the prescription benefit managers (PBMs). PBMs work for insurance plans and the size of the rebate often depends on the volume of plan enrollees who use the drug. The problem is that the discount does not necessarily get passed on to the patient - individuals without insurance or those who are on high deductible plans often get charged the higher list price and so never see the lower, rebated net price.

The Trump administration has responded to consumer concerns and is looking to make disruptive changes to the system but the exact path forward remains uncertain at this stage. It is reasonable to argue that the rebate system will garner close attention, with the possibility of offering discounts directly to patients at the pharmacy counter. Two things are clear, however, and that is the administration will not rely on the altruism of the pharmaceutical sector (despite the recent price freezes) and that there is no simple, overnight solution.

Empowering patients creates new market opportunities.

The recent announcement that the new Apple watch series will incorporate an electrocardiogram (ECG) capability is an example of a growing trend that we refer to as democratised health. This is a new market opportunity that sits between the

consumer health market and the traditional professional medical market. We are beginning to see devices with capabilities that are medical grade being made available to consumers.

An ECG is a standard technique used in medicine to monitor and diagnose common cardiovascular conditions. The Apple watch is not intended to provide a firm diagnosis, but it is more of a screening tool that may be able to detect an irregularity in an individual's heart rhythm. If there is a problem, then the software will suggest that a visit to the doctor is necessary so that a formal diagnosis can be made.

The other area where we see growing consumer engagement is in the area of genetics. Companies such as 23andMe and ancestry.com offer individuals an opportunity to have their own DNA sequenced and analysed to provide information on genealogy, health traits and potential genetic risks. We are seeing increased interest in these services, especially in the US.

At the same time, there are a number of government programmes focused on the use of genomics in medicine. The UK is probably leading the world in this respect. The Secretary of State for Health recently announced a plan to sequence five million genomes over the next five years and has initiated a genomic medicine service targeting rare diseases.

As the cost of DNA sequencing comes down, it will be interesting to see how this market opportunity evolves. It is worth remembering the nature versus nurture debate - environmental factors are as important as genes in determining the observable differences in characteristics or traits of different individuals. The combination of genetic data with environmental or behavioural data (collected from wearables or a mobile phone) could prove to be a powerful approach for predicting the health status of an individual.

Nudging doctors and patients towards better decisions.

As new technology empowers individuals to take more control of their health, we have seen a change in the types of product offering emerging from health insurance companies. These go beyond simply offering an insurance premium discount for members who use a wearable device or go to the gym regularly.

Health insurance plans are now offering a range of different types of wellness options for enrollees. This covers services including exercise plans, diet plans, gym memberships, pregnancy care, stress counselling and online mental health services. In addition, there may be more specialist online services for patients with chronic conditions such as diabetes or asthma. Employers, who are paying for these plans, view them as a way of offering benefits to employees that will keep the work-force healthier and happier.

For insurers, the data gleaned from these types of programme is helping them to identify which plan enrollees are at high risk of generating significant medical costs. In general, 5% of the patients in an insurance plan generate the vast majority of the costs - these are often patients with chronic conditions that are poorly managed. Identifying who these patients might be enables the insurer to intervene proactively and offer services that improve quality of life, manage or prevent more serious complications and defer significant medical costs over the long term.

In addition to services that can be used to change consumer behaviour, we are also seeing new tools to help physicians deliver more affordable care and employ best clinical practice. For example, at the primary care level, there are now software tools that will highlight to a physician the cost of a selected drug therapy for a particular patient based on their insurance plan. The system can then show cheaper alternatives

that the doctor may decide to prescribe instead - the doctor still has control, but patient affordability becomes part of the decision-making process.

We also see new software tools emerging, again mainly targeted at primary care, which will recommend that a doctor may want to order certain diagnostic tests or recommend a particular clinical pathway or specialist referral based on the test results. The goal of this software is not to replace doctors but to augment their capabilities so they can make the best clinical decisions for the patient sitting in front of them.

Democratised health market is nascent but set to grow rapidly.

The issue of affordability has served to accelerate the change in consumer expectations in the US. We think similar trends are occurring elsewhere in the world although the financial impetus may not be the same. Consumers and patients want to start taking more control of their health and are being empowered to do so. Even in countries where medical care is free at the point of service, such as the UK, people are prepared to pay for products and services that they believe can improve or help manage their health.

For investors, this may mean looking beyond traditional healthcare companies and expecting new entrants from other industries to enter and grow this market.

Large companies with a proactive mind-set are innovating

Structural change in any industry has the potential to create winners and losers and we think the healthcare sector will be no different. Last year, we articulated a two-pronged investment strategy for investing in healthcare during this period: (a) focus on the large-cap consolidators that are adjusting to change, and (b) identify the small/mid-cap innovators that are disrupting the industry.

Over the past year, we have seen a significant change at some of the larger companies that has begun to blur these two trends together. We are now seeing healthcare management teams that are becoming more proactive, developing innovative business strategies, disrupting healthcare value chains and building new competitive barriers to entry.

From an investment perspective, these large companies generally offer the potential of steady earnings growth, strong cash generation and, ultimately, compounding returns for investors. Moreover, we think that valuations remain attractive in large cap healthcare and we can find stocks with double-digit earnings growth at a reasonable price.

Changing complex value chains requires collaboration.

We believe we are entering a new phase of structural disruption that is not just about a new therapy - be it drug or device - or developing a new technology to address a problem (such as GP visits). While all of these are still important, and can be good investments at the right price, the next phase of disruption requires a realignment of interests across the value range and relies on collaboration.

Dealing with this type of complexity is more the preserve of large companies - all of the stakeholders need to be engaged and this means nudging patients, persuading doctors, corralling politicians and influencing payers. We are beginning to see certain management teams adopt a more proactive strategy where they are trying to be the agents of change. This may be driven partly by their own vested interest, but we think it also reflects a recognition that healthcare disruption is inevitable.

Not all large companies are capable or willing to drive such change - certainly some will get left behind in this fluctuating environment. There are still many companies that have more of a reactive approach, often reeling from the new regulations or procedures that are being forced upon them either by a regulator or by a payer.

We recognise that not all proactive strategies will succeed and creating an alignment of a diverse set of stakeholders is never an easy feat, even for an industry leader. Nevertheless, there are a few themes we see emerging that are a useful guide to which companies may be successful.

Pharmaceutical companies are responding to the value-based environment.

Drug pricing continues to be a hot issue for investors given the political sensitivity around the affordability of drugs. We are now seeing some pragmatic approaches to pricing that are a significant diversion from what has been standard industry practice. The migraine and hepatitis C markets in the US are great examples of how quickly the pricing landscape is changing.

We have also observed another new dynamic related to the change in priorities when it comes to negotiating a product label with the regulators. One of the strict regulations for drug companies is that they can only promote medical data and indications that are contained on the product label. Historically, the industry's approach has been to apply for as broad a label as possible with a view to using sales and marketing muscle to drive wide adoption by the prescribing community.

We are now seeing companies looking for narrow labels that target very specific populations where a drug candidate can show strong efficacy. This improves product differentiation, demonstrates value when it comes to reimbursement discussions, and should drive high levels of adoption within the defined patient populations.

Medical technology companies are moving along the value chain.

While drugs are separately reimbursed, medical devices are generally purchased by a healthcare provider (ie a hospital) for use in a specific medical procedure. It is the procedure that is reimbursed, leading to a supplier/vendor mentality where a hospital views a medical device as an input cost.

In a value-based reimbursement environment, this needs to move to a more collaborative relationship where a medical technology company develops new products that provide true and measurable value to a healthcare provider and system. It is not about just proving to a surgeon or an individual doctor that it has developed a great new device - companies need to persuade patients, doctors and payers that the new product provides value in terms of quality of life, clinical outcomes and reduced overall cost to the system.

In some cases, this may require companies to develop a solution rather than selling a single product.

Healthcare providers and insurers are investing in data and analytics.

We have already discussed some of the ways that health insurers are looking for ways to change the behaviour of consumers, patients and providers. We think the use of data and analytics are now a 'must have' for any health insurer

For healthcare providers, the leading companies are investing in systems that help them manage patient populations more effectively. The payers are demanding better data output and so the providers need to show they are delivering best-in-class care in order to attract volume and maximise profitability. Also, with more provider systems

taking on patient populations at risk, they need to develop new tools to understand how to manage an entire patient population.

We are positive on the outlook for large cap healthcare stocks.

Since the beginning of 2017, small market capitalisation healthcare stocks have significantly outperformed the larger market capitalisation end of the investment universe. While the level of innovation we are seeing in small companies remains impressive, and while we continue to see them as key disrupters of the industry, we do think some of the valuations of smaller companies are beginning to get a little stretched.

Valuations of large healthcare companies, on the other hand, continue to look attractive on both a relative and absolute basis. The healthcare sector's price-to-earnings ratio is currently lower than the broader stock market and is close to the long-term average over the past 25 years.

Given the potential uncertainties going into 2019 - Brexit, trade wars, rising interest rates, geopolitical uncertainty etc - we think there is a strong case to be made for investing in large healthcare stocks given they offer investors defensive growth. Our focus is on the large companies that are adopting proactive business strategies to embrace and drive change.

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I Infrastructure

(compare infrastructure funds [here](#))

Ian Reeves, chairman, GCP Infrastructure: The Chancellor announced in his October 2018 Budget that there would be no new UK infrastructure procured through PFI or PF2. However, he reaffirmed the Government's backing for existing PFI projects, which supports the company's long-held view that existing PFI assets, whether as part of its existing portfolio or as potential secondary opportunities, remain attractive investments. Furthermore, the release in November 2018 of the Infrastructure and Projects Authority's 'Analysis of the National Infrastructure and Construction Pipeline' points to over £600 billion of planned investment in UK infrastructure, around half of which is intended to be sourced from the private sector. The release confirms the Government's commitment to ensuring that levels of private investment remain high, including through established tools such as CfDs, the Regulated Asset Base Model, and the UK Guarantees Scheme.

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Managers, GCP Infrastructure: PFI (and similar structures) originated in the UK during the mid-1990s as a public sector procurement model to privately finance, build and operate social infrastructure projects. Projects were procured on the basis of a contracted commitment from central or local government or an NHS Trust to pay for the use of the assets for 25 to 30 years. Significant development of new assets in the leisure, healthcare, education, transport, justice and defence sectors occurred under PFI contracts over a 15-year period, with an estimated £60 billion of projects developed.

Notwithstanding the significant evolution of the sector, the value for money of PFI as a Government procurement mechanism has become increasingly debated over recent years. As a result, political parties of all leanings have distanced themselves almost entirely from PFI, leading to the announcement in the 2018 Budget that the current

government would not be supporting any new PFI schemes, but would continue to support existing schemes.

Further, on several occasions over the last twelve months, the Shadow Chancellor has proposed the nationalisation of existing UK PFI projects should Labour win the next general election. We continue to believe it is difficult to draw useful conclusions as to the theoretical impact of such a policy without any detail as to what such nationalisation would entail from a legal and commercial perspective.

In January 2018, the compulsory liquidation of Carillion plc ('Carillion') was announced. As one of the then-largest providers of facilities management and construction services to infrastructure projects in the UK, the risk of disruption to continuity of service on those projects serviced by Carillion has been a key focus of investors in the sector.

However, despite these headwinds, the Investment Adviser has not seen evidence of any material adverse impact on the valuation of UK PFI projects and, conversely, noted several large secondary market transactions and the privatisation of the John Laing Infrastructure Fund Limited at a valuation representing a significant premium to prevailing net asset value.

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Private equity

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

Edmond Warner, chairman, Standard Life Private Equity: The outlook for the global private equity market remains competitive, with significant amounts of funds being raised. The managers of many funds continue to report positive earnings growth across their portfolio of investee companies. In addition, the company continues to benefit from strong levels of exit activity, and absent any major shocks, the Manager expects this to continue over the course of the next year. Such exit activity should result in further realised gains being generated.

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Managers, Standard Life Private Equity:

Primary investment market

The US and European private equity market remains very buoyant, with high levels of activity in fundraising, new investments and exits, an ongoing trend since the financial crisis of 2007-8. Many institutional investors have increased their allocations to private equity on the back of strong performance, and the expectation that this will continue relative to a more muted public market outlook. The high levels of investment activity, tied to increased private equity allocations, have resulted in many managers coming back to the fundraising market earlier and seeking to raise ever-larger funds.

In Europe and the US, Q3 2018 year-to-date ("YTD") buyout activity of \$109 billion and \$198 billion respectively represents increases of 32% and 28% over the same period in 2017. As such, buyout activity in Europe is at its highest since 2007, whereas the US post-2007 activity peaked in 2015 but remains elevated.

With respect to fundraising, the best small, mid and large cap managers are raising new funds rapidly (and being frequently oversubscribed), notwithstanding significant fund size increases in many cases. The excess of institutional private equity allocation

means that many second-tier and new managers are also finding success in reaching fundraising targets. 2017 was a record year for buyout fundraising in Europe (\$74 billion) and the US (\$179 billion). However, Q3 2018 YTD European buyout fundraising of \$55 billion (a 43% decrease on the same period in 2017) and US buyout fundraising of \$83 billion (a 6% decrease), indicates that buyout fundraising may have peaked.

The high level of buyout fundraising globally since 2013, comfortably exceeding new investment activity over this period, has resulted in current record levels of capital raised in Europe (\$192 billion) and the US (\$179 billion). The capital raised for European and US private equity now represents around 3.8 years and 4.4 years of investment capacity respectively, up from 3.0 years and 2.6 years at December 2012.

Valuations within the US have crept upwards in recent years, with the Q3 2018 YTD average of 10.2x now exceeding that of pre-recession levels. Increasing debt availability has contributed to higher valuations in the US - average debt of 5.8x EBITDA is now at its highest level since 2007. Valuations within the European buyout market of 9.5x-10.5x have also increased, and are now at similar levels as to that of the US. Debt availability has improved in Europe as well, albeit with average debt multiples marginally lower than that being seen in the US. Notwithstanding the higher debt levels, funding structures remain relatively conservative with 'covenant-lite' terms being a common feature of new debt issuance, providing a degree of comfort for equity investors in the event of a downturn.

Overall, the company has seen a steady pace of activity over the past few years and it is expected that the levels of new investment and realisation activity will remain robust over the coming year. This is driven, in part, by Europe and North America having a large population of privately-owned businesses and a substantial number of corporates looking to divest non-core divisions, providing significant opportunity for private equity managers.

Secondary transaction market*

The first half of 2018 set another record for the secondary market in terms of deals transacted within a six month period, with \$27 billion of transactions completed. This was 23% ahead of the same period in 2017. The strong momentum in deal activity has continued into the second half of the year and is expected to result in volumes for the full year exceeding the record level achieved last year.

The drivers behind this market growth continue to be a combination of strong pricing and innovation, which have unlocked an increasing number of larger transactions. 11 transactions over \$500 million in the first half of 2018 accounted for over 40% of the overall deal volume. While average pricing in secondary transactions in the first half of 2018 was flat relative to last year at around 93% of NAV, this remains at a historically high level and masks the fact that there is a wide range of quality and maturity of funds being traded. On the one hand, sellers (including fund of fund managers and secondary firms) are taking advantage of market conditions to offload older or poorer quality funds in order to wind up individual investment programmes and return cash to investors. These types of interests typically trade at wider discounts to NAV. On the other hand, the better known or better quality funds often trade at material premia to NAV and so require the buyer to hold the investment below cost for a period of time.

On the innovation side, GP-led transactions have grown in size and number, and a wide range of managers have used the secondary market to offer liquidity to investors in existing portfolios, often combined with securing fresh capital from the buyers of the secondary assets. These types of GP-led transactions are being adopted more widely across size segments and asset classes within the private markets space.

Another key factor behind the market growth trend has been the ability of secondary buyers to raise capital, both through their own fund-raising efforts and with the availability of more leverage. With four of the largest secondary managers actively raising capital in 2018, it is estimated that over \$120 billion will be available to invest in secondary transactions over the near term. Pressure to deploy capital and competition for deals, particularly at the larger end of the market, have anecdotally pushed buyers into underwriting deals at ever lower returns. Buyers then compensate for these lower returns by using leverage to boost performance for their investors.

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UK property

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

Richard Shepherd-Cross, manager, Custodian REIT: Investment market demand has continued in 2018 Q3 from property companies, institutions, private investors and overseas investors. While there have been marginal outflows from the open-ended funds and many REITs are trading at a discount to NAV, the demand for income focused investments has not abated. The rise in UK interest rates was sufficiently well forecast that it only had an imperceptible impact on the market and there does not appear to be an imminent threat of meaningful rate rises in prospect.

The continued demand for industrial/logistics properties has led to the sector showing the lowest initial yields in regional markets, in large part explained by the rental growth prospects in the sector which are being driven by occupational demand and more crucially, a lack of supply. This demand has led to an increase in speculative development, principally of 'big box' logistics units. We have yet to witness an increase in the development of smaller or mid-sized industrial units so the rental growth dynamics might be stronger at this end of the market.

Investment in the regional office market has also been consistently strong which has coincided with a number of the UK's 'big six' regional cities hitting record rental levels for prime offices. Like the industrial sector it is restricted supply, the lack of development and the extensive conversion of secondary offices to residential which is maintaining the upward pressure on rents. However, we are conscious that economic and environmental obsolescence and lease incentives can be a real cost of office ownership, which can hit cash flow.

There is a general move against retail as many institutional investors feel overweight in the sector where we have also witnessed an increase in CVA activity. While the easy explanation for the changing retail market is the rise of online retailing, the real picture is much more complex. Over-gearing, poor management strategy and an inability to modernise over an extended period of time has had a more detrimental impact on certain retailers than the internet. The challenge in the retail sector is not so much identifying the retailers who will prevail in the modern retail environment but to identify trends in rental levels in both retail sub-sectors and locations. In many locations rents need to adjust to support retailers, not least because labour costs are increasing and business rates are too high.

We generally feel comfortable that retail warehousing, with low rents per sq ft, 'big box' formats and free parking will be more robust than the High Street. Following in the footsteps of the USA the UK retail landscape is increasingly polarising, with robust city centre retail in the major conurbations where the experience of retail and leisure

together has remained attractive and resilient out of town retail in smaller towns where convenience and choice is the stock-in-trade.

There is continued weakness in secondary high street retail locations with rental levels still under pressure and a very real threat of vacancy, but retailers are still keen to have representation on prime high streets. The challenge across all high street retail locations is to understand where rental levels will settle following the current retail shakeout.

We do not expect to see a meaningful change in investor demand for UK real estate over the next few months. The conundrum of a 'soft Brexit' or a 'no deal Brexit' appears increasingly to be occupying investors' thoughts and we anticipate continued relative inaction while investors wait to see what happens next. Meanwhile the occupational market in the regions remains short of supply which continues to support rental growth in office and industrial markets.

Secondary retail is also worrying the market and we may see further asset sales with falling values to match. We also expect a clearer picture to emerge as to which retail assets are in demand by occupiers which, in turn, might start to allay investors' fears in this sector.

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Calum Bruce, manager, Ediston Property: The UK commercial real estate market performed well in the year ended 30 September 2018. The investment market finished 2017 strongly, with both total returns and investment volumes ahead of the start of year predictions. The rebound in deal volumes, double-digit returns and a recovery in rental growth prospects meant 2017 was unexpectedly strong on multiple fronts.

2018 started well with similar levels of activity as the same period in 2017, with plenty of buyers looking to invest. However, a feature of the market was the relatively low levels of stock available to buy. Whilst more assets did come to the market as the year progressed, the lack of liquidity has caused yields to tighten. This is especially evident in the office and industrial markets. Industrial has performed well, but is now looking overpriced.

The market was dominated by overseas buyers who view the UK as an attractive location in which to invest and regard it as a safe haven due to the lack of volatility, a transparent land registry system and strong rule of law, all of which makes transacting property much easier than in other countries. Local Authorities and UK Institutions were also active, with the latter becoming net investors in quarters two and three.

Investment demand is robust, particularly for good assets which offer strong fundamentals. The market is quick to discount stock which is blighted in any way, be that by sector, location or build quality. There is a definite polarisation between prime and secondary/tertiary stock with the yield gap widening. There is also a flight to quality evident in the market place.

Office and industrial yields are generally stable for the better quality assets, but in the retail sector the picture is more mixed. The high street and shopping centre markets will remain challenging, with all but the best assets likely to decline in value. There are opportunities in the retail warehouse market as yields, relative to other sectors, look more attractive. However, care must be taken to select assets with strong fundamentals (well-located, with the right planning consents and let off affordable rents) as these offer prospects of rental growth and will otherwise be susceptible to yields softening.

As 2018 draws to a close, it is likely that investment volumes for the calendar year will be at a similar level to 2017, when £59.8 billion of assets were transacted. Looking

ahead to 2019 we believe that there might be a reduction in activity as investors adopt a 'wait-and-see' position with regards to Brexit. It is the implications of Brexit which remain the biggest unknowns at the moment and, regardless of whether or not it is a 'hard-Brexit', the UK property market will be impacted in some way. There is no consensus view as to what will happen, but it is likely that there will be a pause and more subdued property market activity.

This occurred immediately after the EU referendum in 2016, when investors and tenants alike took time to consider where the market was heading. At the time, the issues were exacerbated by the liquidity problems faced by the daily traded open-ended real estate vehicles, but it must not be forgotten that the recovery was quite quick thereafter. Central London offices remain the most vulnerable but it is likely that all sectors will be impacted in some way.

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MedicX:

The demand for new modern primary care infrastructure continues to be strong as the population ages and grows, with more complex health needs. The Government and NHS have a clear strategy for GP practices to deliver services at greater scale and offer access to services seven days per week 8am-8pm.

United Kingdom Primary Care Services

The NHS celebrated its 70th anniversary in 2018. In this landmark year, the NHS launched a programme to ensure a stronger, more sustainable future for General Practice that will be appropriate for a growing and increasingly elderly population. The new long-term plan identifies potential improvements in primary care through the reformation of GP contracts, a review of the Quality Outcomes Framework ("QOF" provides a payment structure based on quality outcomes) and the revision of payments to support a fair and increasing roll-out of digital systems across primary care. NHS England has finished a public consultation seeking the views of healthcare professionals, General Practitioners and patients to provide feedback on these topics. National Director of Strategy and Innovation for NHS England, Ian Dodge, stated: "2019 starts the most substantial discussion of the GP contract since 2004. This calls for more intensive joint working between NHS England and our partners, particularly the BMA."

Primary Care Estates Strategy

NHS England launched a General Practice Premises Policy review which called for submissions by September 2018. MedicX and the Investment Adviser contributed to submissions by the Primary Care Premises Forum which represents the sector, as well as the Health Committee of the British Property Federation.

All Sustainability and Transformation Partnerships ("STPs") have now submitted draft bid documentation for new infrastructure funding which are being reviewed by NHS England/NHS Improvement with feedback and agreed priority schemes expected in Q1 or Q2 2019.

Third Party Development ("3PD") continues to be a cost effective solution for commissioners to use, partnering with investors to create new modern purpose-built infrastructure.

Republic of Ireland

In the Republic of Ireland there are similar demographic pressures requiring new primary care infrastructure and the Irish Government continues to support their Primary

Care Centre strategy delivering modern purpose-built centres serving the local community.

Pricing and rents

The primary care investment sector has continued to see further yield compression during the year due to investor demand, reinforcing the attractiveness of the asset class. Market rental growth remains below inflation but is improving as a result of a number of new development schemes setting new rental evidence. In addition, UK RPI inflation increased to 3.3% over the twelve months to 30 September 2018 providing another strong indication of upward pressure on market rents.

Building a brighter future for primary healthcare investment

The Government strategy of shifting services from secondary care to a primary care setting is driving GPs and practices to operate at scale and continues to underpin the need for new primary care infrastructure.

Improving primary healthcare infrastructure remains a key priority for the NHS in delivering its Five Year Forward View. Large parts of the primary care estate remain unfit for purpose, unsuited to GPs delivering care at scale or providing access to services twelve hours a day, seven days a week to meet society's ever-increasing health needs.

In his report on the NHS estate published in March 2017, Sir Robert Naylor highlighted that private sector funding and expertise has an important part to play in the transformation of the primary healthcare estate.

Since Sir Robert's report, the Government has accepted his recommendations and announced various NHS funding increases for primary care and its premises, including through the 44 STPs. Further, a number of the projects awarded grants under the Estate and Technology Transformation Fund (part of the £1 billion Primary Care Infrastructure Fund) are now being accelerated to meet funding deadlines.

Good progress has also been made by the Health Service Executive ("HSE") in the Republic of Ireland as it establishes new, modern, purpose-built and integrated infrastructure.

Despite wider market uncertainty following the result of the EU referendum, the UK primary care investment market has remained highly competitive with continued downward pressure on yields recognising the security of the Government backed income in primary care assets and crucial role in providing sustainable healthcare infrastructure.

Record low yields have been paid in both the UK and Republic of Ireland this year and the asset class is now widely seen as mature. The relative lack of good quality secondary market opportunities is likely to result in more new forward funding opportunities going forward.

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Ground Rents Income Fund:

The Board fully supports leasehold sector reform that aims to prevent the abuses and poor practices faced by some consumers and is in favour of many of the Government's policy proposals, including:

- Improving the buying and selling process of residential properties and providing consumers with better information. Contractual information should be in plain English, whilst legal advisers must be fully independent;

- Prospective homebuyers should not be offered a leasehold house when there is no overriding reason the house should not be sold under freehold ownership;
- The elimination of onerous ground rents, which we believe are those that double every 10 and 15 years; and
- Compulsory regulation of managing agents in order to improve management practices and drive up standards to safeguard homeowners.

The Board agrees with the proposal in the recent consultation calling for the banning of the sale of new leasehold houses in England, where the sale of the freehold is an option and supports considered reforms that will reduce costs and strengthen the sustainable management of England's residential developments.

The Board again asks the Government to take powers already provided to establish a Code of Conduct - with regulatory backing - for housebuilders, developers, freehold investors and managing agents to protect all stakeholders in the sector, and to make a clear statement that poor practice will be driven out of our industry.

However, the Board believes that the suggested annual £10 ground rent cap is ill-conceived and inconsistent with what would be required to uphold a Code of Conduct. This is because the level of ground rent is simply too low for large-scale professional investors to invest in the sector, as it does not recognise the level of genuine management, oversight and support that a responsible investor - the recent Independent Review of Building Regulations and Fire Safety, led by Dame Judith Hackitt, called for such responsibilities to be carried out by a 'Dutyholder' - will provide to a managing agent, residents' management companies and leaseholders.

In the wider economic environment, prospects continue to be dominated by Brexit negotiations and leasehold sector reform. The ultimate outcomes remain unknown, and it is therefore difficult to assess their future impact on the UK economy and the ground rent investment market. Any legislative reform that may impact the future growth of the Group is not forecast to become law before 2020/21.

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European property

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

Schroder European Real Estate: Growth in the Eurozone remains above trend, supported by structural reforms which are continuing to filter through to active leasing and investment markets. Going forward, Eurozone economic growth will slow, albeit slightly, to 1.75-2.0% p.a. through the rest of this year and 2019 given slower growth in major economies across the world. Consumer spending remains supported by further increases in employment and rising real wages and most Eurozone governments can afford to loosen their fiscal policy. However, there are signs that the decline in unemployment is starting to put upward pressure on wages, particularly in Germany, and while the European Central Bank ("ECB") has announced a halt to quantitative easing at the end of the year, Schroders expects the ECB to raise interest rates gradually from the second half of next year. While all asset classes are exposed to rising rates, the large gap between real estate yields and bond yields, however, makes it unlikely that they will rise in parallel. Nevertheless, income growth will be the key driver of returns and assets with poor prospects for income growth will be hit harder by the rise in yields. Structural trends such as rapid urbanisation, technological innovation and demographics are also likely to drive the continued divergence of real estate

returns with some cities, submarkets and assets capturing strong growth and some disproportionately suffering from obsolescence and lower growth.

Offices

Office demand remains strong across continental Europe. While the main driver is the growth in employment, demand is also being propelled by two other trends. Firstly, the expansion of serviced office providers - although that is to some extent cannibalising lettings to smaller occupiers. Secondly, many larger companies are upgrading their offices in an effort to attract and retain skilled staff and improve their wellbeing and productivity. The high level of demand continues to erode vacancy rates which are sitting at record lows, particularly for modern, Grade A space. As a result, rental growth has spilled out of CBD locations and we see further growth in both prime and average grade office rents in most established sub-markets. While construction activity has slowly started to pick up, the risk of oversupply due to a building boom remains low and much of the new supply has already been pre-let.

Logistics/industrial

The logistics market in continental Europe is also enjoying strong demand thanks to the upturn in manufacturing, the growth of online retail and a structural increase in contracting out to third-party providers. However, on the supply side, developers have been quick to respond with build-to-suit projects, with the result that prime logistics rents in most locations have been mostly flat this year. The exceptions are to be found in regions where development land is scarcer or planning is harder to obtain. Looking ahead, we expect more cities to see an increase in the prime logistics rents, with growth typically running around 2% p.a., with occupier demand strongest for modern stock that allows the implementation of new technology and automation.

Retail

Retail real estate markets remain polarised as consumers buy more online and prioritise experiences over goods. The trend is clearest in northern Europe where online sales now account for over 10% of total sales and the number of people visiting stores in France and Germany is falling. In most countries shopping centres are seeing a higher vacancy than retail parks because internet penetration in clothing is higher than in bulky goods and shopping centre rents are higher relative to sales than retail park rents and retail parks tend to be more accessible by car. In general, food-anchored schemes are also relatively defensive, although the success of individual formats varies from country to country, reflecting varying consumer preferences.

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Renewable infrastructure

(compare renewable infrastructure funds [here](#))

Ian Reeves, chairman, GCP Infrastructure: On the tenth anniversary of the Climate Change Act, the UK can reflect on a decade that has seen significant growth in renewable energy generation.

The policies that have historically supported the growth in renewable electricity generation have either expired or are at levels that do not readily promote new investment. The notable exception is the CfD regime, which is expected to continue to encourage developments principally in the offshore wind sector. The Company,

therefore, anticipates relatively limited new opportunities to finance primary investments in renewable electricity assets.

Progress in reducing greenhouse gas emissions from heating and transport in the UK remains significantly behind expectations. As such, the company expects to see attractive investment opportunities that benefit from continuing Government support (such as the renewable heat incentive).

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Managers, GCP Infrastructure: The Climate Change Act, which is ten years old this year, saw the UK take on binding obligations to reduce greenhouse gas emissions. The Government introduced various subsidy regimes to incentivise the private sector to invest in the development of renewable energy projects. Policies such as the Renewables Obligation ('RO'), the Feed-in Tariff ('FIT'), the Renewable Heat Incentive ('RHI') and Contracts for Difference ('CfDs') offer owners of renewable energy projects long-term (up to 25 years) contracted cash flows, inflating at RPI or CPI, based on the amount of renewable energy generated.

The introduction of renewable subsidies successfully prompted the development of widespread renewable energy projects throughout the UK. A total of 29% of the UK's electricity generation in 2017 came from renewable technologies compared with 9% in 2011.

Policy priorities have shifted under the current Conservative government to limiting the cost of energy (renewable support mechanisms have, in part, been financed through consumer energy bills) and ensuring security of supply.

As the UK has moved closer to achieving its renewable electricity targets, support mechanisms for new renewable generation have become more limited. Subsidies for onshore wind and solar have all but ended, resulting in a significant reduction in primary development of projects in those sectors.

The key remaining Government support for renewable energy is under the CfD mechanism and this is expected to encourage investment principally in new offshore wind projects.

The UK remains well behind in meeting its renewable heat and renewable transport targets.

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Resources

(compare resources funds [here](#))

Robert Crayford and Keith Watson, managers, Geiger Counter: Significant and favourable changes in uranium market fundamentals took place during the year. On the supply side Cameco announced the closure of its McArthur River mine, removing around 8% of global primary mine supply indefinitely, while Kazakhstan announced that it would extend previously announced production cuts for three years, removing an additional 3% of global mine output. Kazakhstan's move to focus on value over volume, as highlighted during its recent IPO, represents an important shift in strategy and is particularly relevant given the country's dominant control over approximately 40% of primary global uranium production, a position more influential than OPEC enjoys in crude oil markets.

On the demand side the impetus behind China's nuclear power industry, underpinned by its Blue Sky Policy, remains very strong with the country's development pipeline expected to deliver one completed reactor, on top of the 45 currently in operation, every two to three months out to 2020 by which time construction of another thirty will be underway. In Japan the re-election of the pro-nuclear Abe government has also re-invigorated momentum for the restart of the region's nuclear power industry with nine reactors now back in operation following the most recent favourable court ruling. Around three times this number are required to fulfil the Abe's energy plans to generate between 20-22% of the country's power from nuclear energy.

Overall global electricity demand growth continues to trend upwards with a rise of 3.1%, an increase of 780TWh[1], in 2017. Within this China continues to lead overall growth rising 360TWh (+6%) during the calendar year with India rising 180TWh (+12%). Illustrating the rising demand, thermal coal and Asian LNG prices increased 16% and 37% over the year, the latter occurring despite Japanese utilities selling LNG cargoes as their nuclear fleet restarts. Such trends improve the cost competitiveness of nuclear power generation in the region with the added benefit of reducing carbon emissions.

Meanwhile, following the closure of its McArthur operations Cameco will purchase approximately 10-12Mlbs from the spot market in order to offset lost production in 2019, soaking up excess inventories which have weighed on pricing. Interest in physical material has also arisen from newly listed vehicles such as Yellow Cake, a trend which appears to be gathering momentum.

Looking at the US, currently the largest nuclear power market globally, the government is assessing the strategic need to improve domestic self-sufficiency through the uranium supply chain following a petition by two regional operators Ur-Energy and Energy Fuels, both held in the Fund. While this could benefit prices received for US sourced U3O8 and therefore economic returns for regional miners, clarity on US policy could in any event remove uncertainty that has caused a utility buyers strike and unlock pent-up demand.

Elsewhere, there has been increasing resistance to Germany's Energie Wend policy, to transition off nuclear power in favour of renewables, which has failed to deliver promised reductions in carbon emissions and has contributed to a near doubling of domestic energy prices to approximately €0.06/kWh. While it may be too late for

Germany's coalition to moderate policy forcing the premature closure all of the country's nuclear reactors by 2022, this costly exercise highlights the rationale to maintain output from existing nuclear generating capacity, as being shown by

Japan's restart programme and the recently announced agreement to improve its cooperation in nuclear power generation with the USA.

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