

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

Markets had their worst month of the year in May, as capital moved out of stocks and into government bonds. Renewed fears over the path and potential fallout from the escalating dispute between the US and China, over trade and technology, negatively impacted risk appetite. European stocks performed particularly poorly, sending the yield on the 10-year German Bund to its lowest ever level (pushing up prices).

Global

Risks rising following early 2019 rally

Peter Spiller, and the rest of the management team at Capital Gearing Trust, believe the Fed's decision to reverse course (stopping rate increases) removed a key catalyst that could have ended the current business cycle. The managers of JPMorgan Multi Asset identify the US as their most preferred and Europe their least preferred equity regions. William Barlow, CEO of Majedie Investments, makes the point that the 2019 market rally has not been accompanied by upward revisions to global growth forecasts.

United Kingdom

Future no clearer as markets await leadership change

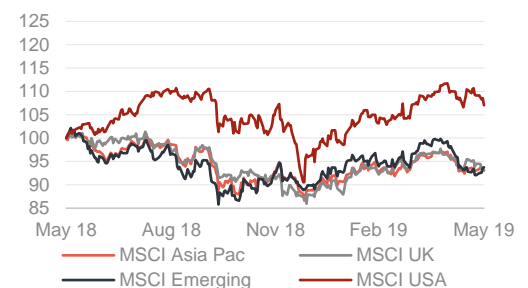
Mark Barnett, manager of Perpetual Income and Growth discusses the polarisation of UK equities between a basket of multi-national...

Exchange Rate	31/05/19	Change on month %
GBP / USD	1.2629	(3.1)
USD / EUR	0.8954	+0.4
USD / JPY	108.29	(2.8)
USD / CHF	1.0006	(1.8)
USD / CNY	6.905	+2.5

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/05/2018 to 31/05/2019



Source: Bloomberg, Marten & Co

	31/05/19	Change on month %
Oil (Brent)	64.49	(1.4)
Gold	1305.58	+1.7
US Tsy 10 yr yield	2.1246	(15.1)
UK Gilt 10 yr yield	0.886	(25.2)
Bund 10 yr yield	-0.204	(1800.0)

Source: Bloomberg, Marten & Co

UK (continued)

...companies. which command high valuations, and a basket of domestic equities, which are valued significantly lower. Robert Talbut, chairman of Shires Income, states that a lack of confidence from businesses in the UK and in continental Europe is leading to disappointing investment levels. Judith MacKenzie, manager of Downing Strategic Micro-Cap, points to company-specific factors rather than Brexit or the general volatility in small-caps for the underperformance of their strategy while Thomas Moore, manager of Aberdeen Standard Equity Income, focuses on opportunities created by the widening divergence in valuation between defensive growth stocks and value/income stocks. Thomas also references how consumers appear to be taking Brexit uncertainty in their stride, helped by buoyant employment conditions, rising wage growth and improving household consumer cash flows.



Asia Pacific

Chinese lenders responding to fiscal stimuli while dividends across the region well supported by improving fundamentals and low payout ratios

Allan McKenzie, chairman of Edinburgh Dragon Trust, believes that while the late 2018 market weakness seemed overdone, the opposite has been true for the market's recent rebound. Volatility seems a constant and he sees the US-China dispute being part of a larger and more complex tussle for geopolitical supremacy. The managers of Schroder Oriental Income discuss the significant shifts in China's policy stance over the last few months; reserve requirement ratios have been cut and banks have been encouraged to lend more aggressively to businesses. They add that the sharp pick-up in total social financing in 2019 so far suggests that local financial institutions are responding to this guidance. While they also flag up many of the global risks that are around, the managers also highlight low gearing levels by historic standards in the region and rising free cash generation; these forces present good conditions for dividends to surprise on the upside as pay-out ratios are in line with historic (modest) averages.



Japan

Japan expected to be a key beneficiary from the multiplier effect of China's stimulatory measures

Christopher Samuel, chairman of JPMorgan Japanese Investment Trust, says China's stimulus policy should help to support regional growth and lead to a recovery in global exports. Should growth pickup across the region, this would improve the outlook for the Japanese economy. Karen Brade, chairman of Aberdeen Japan Investment Trust, discusses the opportunities in the relatively under-researched small-cap area, where companies are demonstrating greater appreciation for the role good governance policies can play in attracting greater support from investors.



Biotech and healthcare

Reasons to believe M&A environment will remain buoyant

The managers of Polar Capital Global Healthcare take us through a market review of the past year, followed by a discussion on how technology is changing the way healthcare is being managed, delivered and paid for. Their outlook for M&A across the sector is discussed as well. To this end, they believe global healthcare remains highly fragmented, populated with strong balance sheets and stocked with management teams that are generally receptive to inorganic solutions to either complement internal assets or address portfolio shortfalls. Elsewhere, Andrew Joy, chairman of Biotech

Growth, tells us that there is a sea-change taking place in the science underlying biotech, led by advances in gene technology.



Private equity

Record exit environment good for realisations but makes sourcing new deals difficult

The market for private equity remains very active according to Hamish Mair, manager of BMO Private Equity Trust. Hamish tells us that many of their partners are noting record amounts of 'incoming' interest in their portfolio companies. On the flipside, finding attractive deals is very competitive with acquirers having to demonstrate a genuine 'edge' to win over vendors and management teams. Elsewhere, the manager of Electra Private Equity takes us through some of their key investments in the UK, including a commentary on the casual dining and shoe manufacturing sectors. Michael Bunbury, chairman of HarbourVest Global Private Equity, discusses the uncertain global climate and adds that significant quantities of capital are seeking deployment in the private company space.



Property UK

Opportunistic capital waiting for clarity while logistics and industrials-based assets continue to outperform

We hear from the manager of Residential Secure Income REIT who discusses the market for specialised retirement living and the shortfalls they cater to. The managers of LXi REIT note how inflation has continued to outpace open market rent reviews and the spread has widened since the EU referendum result in June 2016. The industrials segment of UK real estate has been performing well; Neil Kirton, chairman of Warehouse REIT, expects this trend to continue through 2019/2020 and beyond. He says that demand for space is strong, with e-commerce continuing to grow and UK employment at record levels. Calum Bruce, manager of Ediston Property Investment Company, explains why the UK remains an attractive location for overseas investors who view it as a safe haven, but also a market where they can secure better yields when compared to the rest of Europe and the world. However, 2019 has started slowly, more so than in the first quarter of 2018. This lack of activity has been caused by investors adopting a 'wait-and-see' approach to deploying their capital, principally due to Brexit. The manager of Drum Income Plus REIT tell us that the political and economic issues facing the UK currently are having an impact on investor demand and therefore transactional levels for commercial property, as investors sit on cash awaiting greater certainty. On the topic of price falls, they say that one would expect that if prime yields have risen (price falls) by a certain amount, then secondary should have risen by more; so far there has not been evidence of this.



Property securities

Record divergence in performance between weaker and stronger segments of European real estate

Hugh Seaborn, chairman of TR Property Investment Trust, says that the impact on the UK, and to a lesser extent continental Europe, inflicted by unprecedented levels of political uncertainty may well only become apparent in years to come. He adds that recent economic news has been weaker than anticipated and this has encouraged the European Central Bank to remain dovish towards the timing of the next interest rate increase. Market expectations for interest rate rises have therefore moved out to 2020. He says property companies' ability to fix longer term debt at record low levels remains highly attractive and helps the predictability of earnings. Hugh also says that the

divergence in performance between real estate sectors that offer the likelihood of rental growth against those that are less well placed has widened to record levels.

Deal flow and pipelines remain resilient while unlisted investors compete for high-quality assets in hunt for yield

Infrastructure

On the subject of the political landscape in the UK, the manager of HICL Infrastructure Company says that cross border taxation is always on the agenda, with the prospect of a tightening in cross border taxation regulation remaining a risk. On the portfolio side, the manager’s report states that deal flow across target markets remains reasonable while the pipeline is healthy. The report also explains how there continues to be evidence of elevated pricing for high-quality assets, driven by strong demand from unlisted investors that are willing to accept a high proportion of returns derived from residual value (cash flows after the contracted revenue periods ends). Elsewhere, Ian Reeves CBE, chairman of UK-focused GCP Infrastructure Investments, tell us that the Brexit impact is expected to be greatest in the event of a hard, no-deal scenario, which may affect the cost and/or availability of European supply chains for infrastructure projects that rely on their ongoing operations and maintenance. Any negotiated arrangement is likely to have a limited impact on the company.

Other

We have also included comments from Ecofin Global Utilities and Infrastructure and Pacific Alliance China Land.

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Polar Capital Technology Trust plc

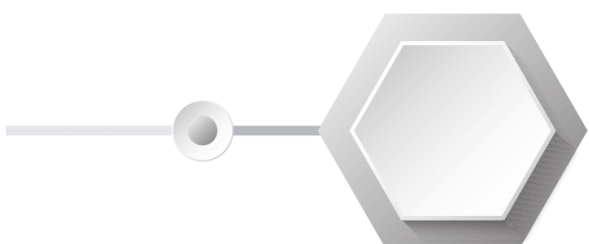
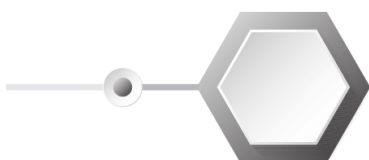
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Global

(compare Global funds [here](#))

Peter Spiller, Alastair Laing and Christopher Clothier, managers of Capital Gearing Trust: The long experiment of persistently stimulative monetary policy conducted by the Federal Reserve looked last autumn as though it might be ending. However, in December chairman Powell capitulated as even modestly rising interest rates proved problematic for the over-indebted US economy. The market now anticipates that the next move will be a cut. Accommodative monetary policy, combined with large deficit funded tax cuts, has kept the US economy moving forward. Even supporters of these stimulative policies recognise their possible toxic effects, including asset price bubbles, over-leveraging, misallocation of capital, socially undesirable distributional effects and difficulties in funding insurance and pension obligations. Implicitly, these costs are acceptable because the alternative, a recession with elevated debt levels, could spiral into something significantly worse.

In Europe, the bold experiment of the ECB doing “whatever it takes” to protect the integrity of the eurozone is still a work in progress. Trend growth is so slow that the threat of recession is ever present. Growth rates anticipated for Italy in 2019 are close to zero, which will require fiscal tightening if deficit targets are to be met. More likely, another political row between the European Commission and the Italian government looms. This highlights that the structural reforms that are required to provide stability to the currency union are nowhere in sight and a redenomination crisis cannot be excluded. Arguing against that outcome is the almost religious belief that the euro is critical to the future of the European project and the fear of the huge losses that any restructuring would crystallise. So, the euro will likely muddle through but at a huge cost. The ECB looks likely to enter the next downturn, whenever that will be, with a weak banking system, inflation below target and negative nominal interest rates. To resist a deflationary spiral from that starting place will require heroic monetary policies combined with a significant fiscal stimulus. Under current constitutional and treaty constraints neither of these policy paths are available. One thing seems certain, real interest rates will be negative for a long time to come.

With real rates set to remain at historically low levels, it is not easy to identify a short-term catalyst that will bring an end to the current business cycle and the associated powerful equity bull market. The fragile macro-economic backdrop, combined with elevated equity and bond valuations, suggest that portfolio returns will be modest over the medium term and could be negative if there is a period of recession. As with the past year, capital preservation remains the key objective of portfolio allocation, until valuations return to more attractive levels. An objective of merely preserving capital sounds modest. But if it can be delivered over a period of normalising asset prices it will represent a significant achievement and lay the foundation for potentially more exciting returns in the future.

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Fiona McBain, chairman of Scottish Mortgage: The strengths of Scottish Mortgage's investment strategy tend to be recognised most clearly when markets focus their attentions on company fundamentals. However, there will almost inevitably also be periods of broad-based swings in sentiment when that is not the case and short-term views prevail in markets. The board does not view such oscillations as a true investment risk for the patient investor who is prepared to hold steady; it is why we continually emphasise that this is a long-term investment.

Today, Scottish Mortgage has perhaps become best known for its holdings in the tech giants but investors are cautioned that defining the portfolio in such terms gives too narrow a perspective on this company's future prospects. The portfolio not only includes retail, advertising and media businesses but also a wide variety of companies in healthcare, manufacturing, transportation, financial services, food production and consumption. There will inevitably be some portfolio companies whose future progress does not match their ambitions. Yet while this is a clear investment risk, it is mitigated by the asymmetry of the capital exposure compared with the potential scale of returns from those which do succeed.

The fund acknowledges the potential risk of changes to the regulatory environment for some of the larger portfolio holdings, but believe such risks are manageable as the likelihood, scope and impact of any such changes may be anticipated to a reasonable degree. There is also a range of macro level risks facing Scottish Mortgage, such as issues around global security and rising geopolitical tensions as a result of the eastward shift of economic power and influence. Macro factors such as these have far reaching, interconnected consequences but are more properly considered general risks which all investors must acknowledge and accept. The board predominantly focuses its efforts on analysing risk to the extent to which it is possible to predict the potential impact on individual companies and thereby the Scottish Mortgage portfolio.

Over time, the board believes that it is likely that the winners and losers from the deep structural shifts taking place will become more apparent but that the transition period will likely be challenging and more volatile. Once again, shareholders are cautioned not to expect any attempt by the trust to mitigate short term market swings. Scottish Mortgage's advantages lie elsewhere. The board will continue to stand resolutely behind the long-term strategy.

Brexit

The greatest exposure of Scottish Mortgage to potential negative impacts from Brexit is through fluctuations in foreign currency exchange rates, which impact the sterling value of the company's overseas assets. The following observations may therefore be helpful. The pound has already fallen considerably in recent years against a range of currencies, most notably the US dollar. A certain degree of pessimism is therefore already priced in. However, if concerns over Brexit were to weigh further on sterling, this would actually benefit the portfolio due to its global nature. Conversely, if Brexit were to be resolved in a more constructive manner than is currently feared and sterling was to appreciate, this would be a headwind for our overseas assets; however, this would likely be offset to a degree by a corresponding improvement in sentiment and perhaps even in the actual business environment.

The managers will not be turning their investment skills to attempting to predict the byzantine path of Brexit or to express any views on potential resulting currency market moves.

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Joe Bauernfreund, manager of AVI Global Trust (formerly British Empire Trust):

During the last quarter of 2018, global stock markets suffered a sharp sell-off as investors worried about the combination of tightening monetary policy, slowing global economic growth and a trade dispute between China and the US.

The first quarter of 2019 subsequently saw a strong recovery in markets. Evidence of slowing economic growth has put a lid on the prospect of further monetary tightening and the markets have priced in a positive outcome to the US/China trade discussions. The broad macroeconomic and political environment around the world remains uncertain and there is much to worry about. Short-term volatility and uncertainty create

good opportunities for long-term performance from a group of attractive businesses around the world. Given the opportunities that we are seeing, we remain fully invested and are utilising all of the gearing available to us (indeed, we recently announced a small increase in gearing). As volatility increases and discounts widen, we are seeing more opportunities to exploit.

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Katy Thorneycroft and Gareth Witcomb, managers of JPMorgan Multi Asset:

Market Review

Following a remarkably calm period, market volatility made a comeback in 2018. Investors had to balance a generally solid global economic backdrop and accelerating earnings growth for equities with the escalating trade tensions and concerns over European populism. Divergence in the growth expectations across regions and evidence that trade protectionism globally produces distinct winners and losers, added to the uncertainty.

In the US, growth accelerated in the first half of the year as the economy benefited from Donald Trump's looser fiscal policy. Economic data remained strong, with low unemployment supporting a broad-based rise in wages and leading to strengthening consumer and business surveys. However, with the fading of the fiscal boost, growth slowed towards the year-end and volatility accelerated. This led to global equity markets suffering their worst quarterly performance in the fourth quarter of 2018 since the Eurozone crisis in 2011.

For government bonds, the relatively constructive growth picture early in the year kept upward pressure on US bond yields. As the Fed continued to raise rates, the US yield curve flattened materially. However, over the final quarter, sovereign bonds rallied and the 10-year US Treasury yield fell to 2.68% due to lower oil prices and expectations of a more moderate pace of monetary tightening in 2019. The European Central Bank ended its quantitative easing programme in 2018 but acknowledged the lack of inflation and weaker growth environment, both domestically and globally.

The first two months of 2019 brought with it a new wave of optimism, with equities and corporate bonds rallying strongly across the world. Investor sentiment was buoyed by a combination of constructive US-China trade talks, a considerably more dovish stance from the US Federal Reserve with no expectation of US interest rate rises in 2019 and the implementation of Chinese stimulus measures.

Outlook

From a macroeconomic perspective, we believe that the probability of a recession in the next 12 months remains low. The recent change in policy from the US Federal Reserve, indicating that it would pause its rate rises for the foreseeable future, should boost global growth and help to extend the eventual length of the business cycle. However, recent measures of economic activity and global business surveys have moderated, which warrants caution. While equities should be supported by beatable earnings expectations and easy monetary policy, today's mature, late cycle environment does not offer many catalysts for a strong upside to earnings.

The U.S. is our most preferred equity region and Europe our least preferred; we also like emerging market stocks where the potential for a weaker US dollar lends support. A more accommodating US Federal Reserve means that we have a more positive view on higher yielding assets. Broadly this means being neutral in emerging markets debt and neutral to slightly positive on high yield, absent a recession. We continue to like

infrastructure as the sector offers an attractive yield and return profile with stable cash flows and is a good source of diversification.

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David Stewart, chairman, and Will Wyatt, CEO of Caledonia Investments: There is an unavoidable sense of 'fin de siècle' with this bull market in equities, now in its tenth year. The strongest influence on investor confidence seems to be the direction of interest rates, particularly in the US. There is, of course, a direct effect on earnings of companies should the cost of capital increase. The Federal Reserve, having been gradually raising interest rates to their current 2.5%, signalled that it would not raise rates further in the near future. This provided the impetus for the market recovery in January. It will be worth following closely the signals coming from both the US and UK central banks, as they have a direct effect on listed markets. With US tax cuts now in the past and trade talks with China showing no signs of resolution, there is much of which the investor should be wary.

We have been active over the past year in UK unquoted markets and have been fortunate to find companies that value our differentiated proposition over the simple measure of price. We have a relatively immature unquoted portfolio that will take a combination of time and further capital to develop and grow. In the meantime, our portfolio of fund assets and high-quality listed companies offers prospects for further growth. Whilst we anticipate continued periods of turbulence, especially in quoted markets, over the medium term we are confident that our portfolio and measured, long term approach will continue to achieve the aims set by the board.

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William Barlow, CEO of Majedie Investments: The six-month period to 31 March 2019 was a story of two very different quarters. In the quarter to December 2018 the FTSE all-share index fell by 10.3% and the MSCI all country world index (in sterling terms) fell by 10.7%. Markets became concerned that leading economic indicators were turning down at the same time that central banks were increasing interest rates and some economic forecasts suggested that the US economy could fall into recession in 2019. Stock markets, having traded at all-time highs and on historically stretched valuations, fell sharply.

The new year brought a change of policy from central banks and a much more dovish outlook for monetary policy particularly in the US and China. Stock markets rallied, with the FTSE All-Share index rising by 9.4% and the MSCI all country world index (in sterling terms) rising by 8.5%. It is noticeable however that expectations for global economic growth were not upgraded and forecast earnings growth is muted. US, German and UK unemployment rates are low, so the risk of rising wage pressure has increased. Other global macroeconomic risks include a further escalation of the trade dispute between US and China. Of course, from a UK perspective, the Brexit chaos and political fallout weigh on the market and in recent years the UK market has performed relatively poorly and seen substantial investor outflows. Nevertheless, in the six months to 31 March 2019 the FTSE all-share index has performed in line with the MSCI all country world index, suggesting that at current ratings UK markets have discounted much of the uncertainty.

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Peregrine Moncreiffe, chairman of North Atlantic Smaller Companies: Economic uncertainty persists with last year's monetary tightening succeeded by a more accommodative Federal Reserve Bank stance. It had been widely accepted that rates would continue to normalise in 2019 and that quantitative easing would be unwound over a five-year period. Faced with a crisis of liquidity stock markets fell sharply in the

fourth quarter of 2018 which led to the Federal Reserve's hasty volte-face. This in turn sparked off a significant rally in equities but limits the scope for further monetary stimulus in the event of a rapid decline in growth in the coming year. While the US and China are working to improve their fraught trade relationship with China probably committing to buying more from the US, continental Europe will have difficulty in adjusting to an aggressive US trade policy, the advanced manufacturing success of Asia and a secular decline in the traditional automobile industry. The UK with its emphasis on services and its flexible entrepreneurialism should fare better, supported by its more favourable reception in Washington as a serious contributor to NATO.

As I stated last year, MIFID2 should create good opportunities for the Company with the consequent contraction in smaller company coverage and liquidity compelling many large institutions to change their focus to the main market. Based on recent developments, it now appears that as the dust settles the situations presented to us will be far better than I anticipated. This will favour our approach and create the opportunity for significant capital gain over the next few years if these attractive investments can be identified.

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David Macfarlane, chairman of JZ Capital Partners: The company's performance over the last twelve months has been set against a backdrop of continued global market uncertainty, led by a widespread increase in populism, mounting trade tensions and financial conditions tightening globally. Meanwhile, prolonged Brexit negotiations and US trade tariffs continue to undermine business confidence and investment.

Despite this, the US economy remains in a period of economic expansion, driven by large tax cuts, spending increases and falling unemployment levels.

Comparatively, the European economic outlook remains gloomy. A series of surprising election results in Italy, Sweden and Ukraine saw voters move away from traditional parties, signifying the appeal of populist rhetoric across the region, and economic expansion in 2018 occurred at a much slower pace than predicted.

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United Kingdom

(compare UK funds [here](#))

Nick Train, director of Lindsell Train (the manager), Finsbury Growth & Income Trust: We know some shareholders are concerned about the possibility of a prolonged period of underperformance from our strategy – because they tell me so. In particular they expect the underperformance to come from one important part of the portfolio. That is they worry about a downturn in the share prices of our consumer branded-goods companies – that downturn to be caused either by the possible overvaluation of such companies or by deterioration in their business performance, or both.

It is true that over 45% of Finsbury Growth & Income Trust's portfolio is invested in consumer brand owners – A G Barr, Burberry, Diageo, Heineken, Mondelez, Remy and Unilever. You could also argue that their strong performance has left their valuations looking too high. I disagree. Although by that I don't mean to suggest that they might not go through a period of dull stock market performance – as can happen to any company in any part of the market. Of course they could. But I disagree that they have become perilously expensive. But where I do agree with the sceptics is that there is a

bigger question. That being the debate as to whether changes in consumer tastes and the digital disruption of the 21st century are impairing the growth and value of big brands.

Now although we have deliberately picked companies where we have most confidence in the sustainability of their brands, of course we give consideration to this question. And there is evidence that some previously successful brands are struggling, notably in processed foods and household care. To be clear, we know we must sell out of any company where long term brand equity is being lost. Practically what we do is continually monitor the performance of the businesses we are invested in to be alert to warning signals.

But so far as FGIT is concerned the signals delivered over the last six months by our consumer companies are encouraging, we think and this has been confirmed by their share price performance.

Over the period four of our top five performers were global brand owners – led by Diageo and including Mondelez, Unilever and Heineken. (Sage was actually the fourth best – a welcome recovery from its poor performance in the first half of 2018.)

But returning to the question of the fortunes of big 20th century consumer brands in the 21st century – it's worth thinking about Unilever. Of all our holdings Unilever is undoubtedly the most challenged by changes in consumer tastes and buying behaviour because it has the most mass or mid-market brands. And one might indeed be cautious about the outlook over the next 25 years for the brand power of its packaged foods and washing powder assets. Nonetheless one has to be impressed by the mitigations Unilever has been able to present against these trends and concerns. For instance, the biggest single brand in Unilever is Dove – at about 9% of total group revenues. This global property – it is available in more than 170 countries – “delivered another year of broad-based growth” in 2018 and that means just under 8%. Dove's revenues are up 84% over the last decade – that's over 6% CAGR and that rate has accelerated over the last 7 years. This does not indicate a moribund, irrelevant 20th century brand. In fact, Dove, established in 1957, sells more and is almost certainly more valuable as we get toward the end of the second decade of the 21st century than any other time in its history. It is an example of the advantages that can accrue from scale for truly global brands, delivered by truly global companies. Another consolation for investors in Unilever is that surely it is right to be optimistic about increasing wealth around the world? And it is indisputable that Unilever is a beneficiary of increasing wealth. Its sales in Asia – 44% of the total – grew by more than 6% last year. Consumers in Europe may be blasé about soap powder, but sales at Unilever's Home Care division were up over 4% last year, led by Sunlight (a 19th century brand) in India and China. We were also reassured by the account given to us by Unilever's new chief executive, Alan Jope. He pointed out that when he joined Unilever as a graduate over 30 years ago the Beauty and Personal Care division accounted for only 8% of Unilever's sales. Today it is 40% and growing more quickly than the rest of the group. This is an example of how big consumer companies can change over time, responding to the changing tastes of consumers and helps explain the longevity of these rare and very valuable companies like a Nestle, P&G and Unilever.

This phenomenon of truly global brands increasing in value in 2019 – even as local/regional brands without the same economies of scale struggle – can be seen in other key properties owned by companies in FGIT. For instance, Diageo's Tanqueray grew over 20% last year, as the global gin boom rolls on. Johnnie Walker net sales were up 6% over the same period too. Heineken's eponymous brand – still the biggest earner in the group – grew by 7.7% last year, its best rate for a decade. Mondelez' Oreo biscuits – the world's #1 brand – grew high single digits in the US, its biggest market and mid-single digits in its second biggest market, which is China. Meanwhile Cadbury

(owned by Mondelez and an important reason it is such a major holding in FGIT) grew double digits in India. Remy's cognacs grew 15% year on year.

I know I'm cherry-picking statistics here and that all these companies have portfolios of brands, for some of which trends may not be so encouraging. But already here is a formidable counterargument to the proposition that big brands are necessarily doomed in the 21st century. To the contrary, it seems to us there is a decent argument that beloved and prestigious brands are more valuable than ever before. That's why IRN-BRU, Burberry's iconic check, Guinness, Tiger Beer, Toblerone, Cointreau and Magnum Ice cream (to name some other great brands FGIT owns) still fill us with enthusiasm.

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Mark Barnett, manager of Perpetual Income and Growth: The UK equity market provided a mid-single digit rise in the twelve months to 31 March 2019, a figure that masks periods of significant underlying volatility. The UK equity market rallied strongly in the second quarter of 2018, but, having peaked in May, the FTSE all-share index sold off sharply in the second half of 2018. The principal causes of this change were the outlook for US interest rates, heightened fears of a global economic slowdown and the escalation of US-Sino trade tensions. Against a backdrop of declining global equity markets, the UK equity market fell to an eighteen-month low in December 2018. However, a shift in the stance on interest rate policy from the US Federal Reserve and a cooling of the previously negative trade rhetoric between the US and China laid the foundations for a strong equity market rally during the first quarter of 2019. This resulted in a positive UK equity market return for the period under review.

Domestically, the question of the UK's exit from the European Union continued to dominate the agenda. The extended political uncertainty saw the value of Sterling fall materially through the year, reaching a twenty-month low of US\$1.23 in December, as a vote of no confidence against Theresa May was called over the terms of the negotiated EU withdrawal agreement.

Against this challenging backdrop, the Bank of England's monetary policy committee voted to increase the UK's base interest rate by 0.25% at its August 2018 meeting, but kept rates on hold for the rest of the period as the political impasse continued. In February 2019, the BoE cut its UK growth forecast from 1.7% to 1.2% for the year. Despite this, economic data proved remarkably robust in 2018. We saw a return to real wage growth, whilst the number of people in work increased by 350,000, more than three times the increase in the size of the working age population.

Sterling weakness and prolonged political uncertainty saw the internationally orientated companies of the FTSE all-share index outperform domestically orientated companies. Stock selection within the theme of international growth further contributed to the portfolio's relative underperformance over the year.

Elsewhere, internationally orientated leisure companies faced some challenging trading conditions during the period. The portfolio's positions in Thomas Cook and easyJet suffered as a result of rising oil prices, an unusually hot summer across Northern Europe and the Brexit impasse, which impacted demand within the sector.

However, the portfolio has a significant weighting in the oil & gas sector, namely in BP and Royal Dutch Shell, which performed well over the period. The sector's outlook depends on the ability of these companies to cover their cash flow and dividends. Unlike other commodity sectors, this is reliant on capital discipline within the sector, rather than price strength in the underlying commodity.

Outlook

Patience is an essential characteristic of successful long-term investing. However, over the past twelve months this quality has been severely tested, as the UK stock market's sentiment has remained firmly rooted in momentum style investing, supporting an ever-increasing disparity between valuation and fundamentals. This trend has been exacerbated by exogenous economic and political factors – primarily the sustainability of global economic growth and the protracted Brexit negotiations. As a result of these persistent uncertainties the market has focused on supporting premium valuations for growth or highly disruptive companies, which has not suited the core investment themes of this portfolio.

The valuation support for the UK stock market is strong in an historical context; a dividend yield of 4.4% for the current year is four times higher than the 10-year gilt yield. However, valuations remain polarised between a basket of multi-national companies, which command high valuations, and a basket of UK domestic equities, which are valued significantly lower. Given this wide valuation disparity, the portfolio has retained a large exposure to sterling revenues, which are undervalued due to the persistent caution towards the UK economy as evidenced by the weakness of the exchange rate.

The performance of the UK economy continues to confound most forecasts by recording steady growth. Over the course of 2019 the overall level of growth is expected to remain solid, supported by improvements in household cash flow and rising employment, which will benefit consumption activity and economic growth. Given that the outlook for the economy appears to be more resilient than currently implied by the currency or valuations of domestic sectors, it is anticipated that a level of clarity in domestic politics will see this material differential start to close.

The portfolio has also maintained exposure to a number of global industries, namely oil and tobacco, which despite yielding significantly higher than average dividends, remain attractively valued in a market that seeks out new disruptive business models within the context of perceived sunset industries. In many respects, the stock market's current sentiment towards these industries resembles behaviour that was seen during the last tech bubble. It would appear that the market is happy to discount a future decline in the cash flow from these businesses that is much more rapid than appears likely.

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Kevin Allen, chairman of Chelverton Growth Trust: The entire country, and apparently the whole of Europe, have become exasperated and exhausted by the Brexit process. As I write nothing is resolved and the whole process, which has been ongoing for almost three years has been delayed for either one month, three months or until the end of October. It is very difficult, to say anything positive about the current position.

Markets hate uncertainty, and, unfortunately, we are living in very uncertain times, which have borne down on the valuations of UK equities. By the same token when the current position is resolved, as it will be, then the removal of the current uncertainty should lead to a reappraisal of prospects and valuations. Ironically, because our portfolio is in small, highly UK-centric businesses, as long as we remain confident that the UK will not sink into recession, then our investments should prosper.

There are of course a whole range of other real concerns in the world. These include the ongoing trade disputes and introduction of tariffs by the United States and any subsequent retaliatory actions by China and the European Union and the ending of quantitative easing by the ECB followed by its possible reintroduction to try and ease the plight of some European countries, particularly Italy. In addition, the ongoing conflicts in Syria and Libya and the actions of Russia around the world continue to cause great concern.

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Robert Talbut, chairman of Shires Income: Following a relatively strong start to the year, markets fell sharply in the final quarter of 2018, driven mainly by concerns over growth prospects across the US, Europe and Asia, and the prospects of a trade war between the US and China. These fears receded during the first quarter of 2019, with some progress on trade discussions between the US and China and a moderation of the outlook for interest rate increases. However, tensions have risen again recently and this looks likely to be a long running dispute. In the UK, there was continuing uncertainty over the outcome of Brexit negotiations between the UK and Europe and whether a deal would be agreed by the UK Parliament. The initial departure date of 29 March 2019 passed without an agreed deal and was extended until later in the year.

Although stockmarkets have performed reasonably well since the start of 2019, there are reasons for caution. Economic data globally continues to indicate uncertainty over the growth and inflation outlook and a lack of confidence from businesses in the UK and in continental Europe is leading to disappointing investment levels. In the UK, although the prospect of a no-deal exit from the EU seems unlikely, any departure will probably be followed by a new period of uncertainty regarding the UK's future relations with its largest trading partner.

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Judith MacKenzie, manager of Downing Strategic Micro-Cap: We could blame Brexit (or the lack-of), market volatility in AIM and small cap, and we could even blame the weather for our decline in NAV over the last 12 months. That would be wrong. The decline in NAV is directly correlated to the businesses in which we have chosen to invest, where the market value has declined significantly in a handful of positions (Gama, Redhall, FireAngel) reflecting their challenging trading and the need for change. Our other ten positions have performed rather well. We have been very active with the 'problem children', working hard to help these businesses adopt appropriate governance and face their strategic challenges.

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Thomas Moore, manager of Aberdeen Standard Equity Income: In the first three months of the period under review (six months to 31 March 2019), equity markets sold off as investors worried about fading global growth, continuing US/China trade tensions, the path of monetary policy and ongoing Brexit uncertainty. This period saw a rotation from cyclical stocks into defensive stocks, with large caps significantly outperforming small and mid-caps. The sell-off reached its climax shortly before the New Year and January saw the beginning of a phase in which investors regained their composure. The key trigger causing sentiment to improve was an abrupt change in signalling by the Federal Reserve on the future path of US interest rates. Jerome Powell, the Federal Reserve chair, said that the case for continuing to raise rates had "weakened somewhat". Market participants had previously pencilled in two rate rises in 2019, but these were immediately priced out and some forecasters predicted a rate-cut within a year. The shift in policy boosted risk appetite and stock markets rallied sharply.

Brexit remained centre stage throughout. As the period progressed, the threat of 'no-deal' Brexit increased. This culminated in Prime Minister Theresa May failing to secure enough votes for her withdrawal agreement for a third time. As a result, she was forced to ask the EU to delay the departure date until 12 April and the deadline was subsequently extended to 31 October 2019. While political uncertainty has not gone away, there were signs by the end of the period that investors had become hardened to it. Consumers also appeared to be taking Brexit uncertainty in their stride, helped by buoyant employment conditions, rising wage growth and improving household consumer cash flows. The UK continued to confound expectations on GDP growth,

growing at a similar rate to Germany and France, although sceptics pointed to the impact of manufacturers stockpiling goods ahead of Brexit.

Outlook

The primary focus for many investors during the period was fear of macro turmoil, notably slowing global growth and the risk of a hard Brexit. The result was a widening in the valuation divergence between defensive growth stocks, to which the portfolio has limited exposure, and value/income stocks, to which the portfolio has considerable exposure. We see an abundance of stocks with attractive prospects on significantly lower valuations, with scope to rebound strongly.

Currently we are finding the most compelling investment ideas within three areas:

- 1) Global yield stocks - attractively valued overseas earners whose strong cash flows underpin confidence in dividend delivery (this includes resource stocks and industrials)
- 2) Domestic opportunities - UK- focused companies that offer the prospect of meaningful valuation re-rating as political uncertainty fades (this includes consumer and financial stocks)
- 3) Uncorrelated value - stocks whose growth prospects are independent of macro drivers (this includes stocks such as John Laing).

These attractive valuation opportunities exist partly as a result of the uncertain economic and political outlook.

When the current uncertainty has disappeared, valuations are likely to be meaningfully higher. While taking a non- consensual view can be uncomfortable when investing, we believe that it holds the key to achieving strong investment returns over the long term.

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Philip Webster, manager of BMO UK High Income Trust:

Brexit

Predicting the outcome or the longer-term implications of Brexit on the UK market is a futile exercise. What we do know is that it has been a challenging time to be a UK investor, although, as is often the case, the 'fear' has provided opportunities to own quality UK businesses at attractive valuations. Brexit may be deemed by some to be severely negative for the UK, but it is a known event and valuations already reflect a lot of the concerns.

Stepping back from the noise and political wrangling, plans are being implemented at the portfolio level, or are already in place, to deal with the potential fallout. I cannot say that some of my positions won't be affected, but I've bought into them with the understanding that there is a margin-of-safety in the valuation. That doesn't mean that they can't fall so I've also been diligent in making sure those that are most exposed to this risk have the appropriate balance sheets to weather some short-term upset to trading.

Outlook

As we approach the Brexit deadline I would expect volatility to increase and investors to seek solace in safe-haven assets. My focus has been improving the quality of the company's holdings, balance sheets, cash-flow and ultimately dividend cover which will allow us to maintain the high yield and drive medium-term capital growth for our shareholders. I see significant value in the portfolio today caused by the current market backdrop which is an opportunity for the medium-term investor.

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Steven Bates, chair of BMO Capital and Income: While it is often said that a game has two halves, in the case of the first half of our fiscal year (year-ending 30 September), it was a half of two halves. As an investor, you would have avoided a lot of angst if you had simply not looked at markets or listened to the economic prognosticators in the period. While there was a decline, it was nothing out of the normal experience of investing in equity markets. In between times, if you had been following the news, you would have thought the financial world was coming to an end, only to discover eventually that its death had been somewhat exaggerated.

The reason for this frenetic grinding through the gears in both directions was the expectation that the era of easy money (known in the jargon as quantitative easing) was finishing. Interest rates in most countries were expected to rise, there was trade tension between the US and China and growth was disappointing. This was a perfect storm, and investors ran for cover. At the beginning of the 2019, the Federal Reserve in the US changed tack, alarmed by the market reaction, and responding to soggy economic data from the US. While things may not be completely rosy, they are reasonably benign with little prospect of rate rises and a nascent recovery in China which is the most important stimulus of global growth.

It is important to remember in these unusual times that economies are cyclical animals, and downturns are a natural corollary of economic activity. A downturn will come, but for now the can has been firmly kicked down the road.

The UK market has had its own specific Brexit flavour to add to this global recipe, and that has only served to confuse the picture even further.

Outlook

The UK stock market is quite an outward looking beast, as much affected by the volatility in the global economy as it is by the vicissitudes of our home-grown variety. Having said that, the UK market is also a source of value at present, with many international investors staying away until the uncertainty of Brexit is resolved. This has led to attractive valuations in an environment where monetary conditions are likely to remain supportive. Concerns about the global economy have also dissipated in recent weeks and the backdrop is broadly positive. Of course, the political uncertainty in Westminster can and will lead to bouts of nerves, but your portfolio is well positioned in areas which are not especially sensitive to shenanigans of the sort we have seen all too often.

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Manager's report for Odyssean Investment Trust: At the time of writing, markets appear benign with ratings having rallied almost 10.0% from the depressed levels at the beginning of 2019. However, UK equities appear to be relatively cheap in absolute terms compared to other international equity markets. It seems that they are shunned by international investors, despite many UK companies having very international earnings.

It seems that the current domestic and international political conditions are making investors extremely uncertain about the prospects for markets and the underlying companies. Allied to this uncertainty, the spectres of an ever-lengthening period of economic growth and increasing debt levels seem to continue to temper investor risk appetite.

In some situations, and with some companies, this cautious approach is probably well founded. However, we strongly believe that the market turmoil is presenting attractively priced medium to long-term investment opportunities within our target market. Where these quoted companies have significant self-help potential to improve margins,

regardless of the state of demand in their end markets, and are rated modestly, we become very excited. These situations tend to offer a very good risk/reward ratio for patient investors.

There is no doubt in our minds that, properly executed, selective constructive corporate engagement can aid or accelerate some of this self-help. We believe that plenty of scope for engagement exists amongst our portfolio holdings and look forward to spending more time in this area now that the initial portfolio is largely complete.

We anticipate some further capital deployment and then managing the portfolio with a cash balance of between 5% and 15%, to enable opportunistic purchases of blocks of stock, without being forced sellers. Whilst this balance sheet approach is more conservative than the broader peer group with highly diversified portfolios, we believe that over the long term it suits our selective and differentiated investment approach well.

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Manager's report for Schroder Income Growth Fund:

Outlook

The global nature of the UK equity market has led to international developments setting the tone for the market. We expect the events that dominated recent months - US monetary policy, US-China trade tensions and risks to global economic activity - to continue to drive sentiment. While we still expect liquidity to be withdrawn from the global financial system over 2019, economic data is increasingly pointing to deteriorating fundamentals. This has caused central banks to temper expectations of tightening policy. While this provided support to markets in the early stages of 2019, we expect to see further bouts of volatility, in an environment that increasingly appears to exhibit late cycle characteristics. Ultimately it is not good news for share prices if central banks do not feel confident enough in future prospects to continue normalising policy from the extraordinary measures taken during the global financial crisis.

Many forward-looking indicators, particularly in manufacturing, are pointing towards a slowdown. Data was particularly weak in Europe, where it was reported that Germany only narrowly avoided recession during the final quarter of 2018. Initially, indications appeared that there were one-off or country-specific factors that were causing the weakness, such as low water levels on the Rhine, but the slowdown is increasingly looking widespread. Industrial production in China is also slowing and US activity has been disrupted by the government shutdown. This uncertainty is being reflected in many corporate outlook statements across the globe, particularly those in more cyclical, industrial sectors.

While global trends will remain crucial to the performance of UK assets, Brexit also looms large. This is creating considerable uncertainty for the UK economy and political environment, as there is still no clarity on the preferred path that the government and MPs wish to take.

The uncertainty continues to affect sentiment towards the stock market, with many international investors remaining nervous about investing in UK companies. We believe this is presenting a buying opportunity, with the UK market trading at a c.30% valuation discount to global peers, close to a 30-year low. Whereas this valuation gap is likely to persist until there is some form of clarity over the terms of any Brexit deal, it provides an attractive entry point for investors with a long-term time horizon. Indeed, though the UK market has been widely ignored by the investment community, corporate activity has continued. Most recent companies subject to bid approaches include Inmarsat, Provident Financial, Dairy Crest and RPC. This gives us confidence that there are

considerable opportunities in the market and while cheap financing is readily available, we would expect this trend to continue.

Dividend outlook

Last year saw the yield on UK shares hit its highest level since 2009, in the midst of the global financial crisis, as share prices have fallen and dividends have grown. Rising profits, slightly better than expected special dividends, and the slump in the pound in the second half of 2018 contributed to the dividend record of £99.8b. The average yield over 30 years has been 3.5%, so the current 4.5% is exceptionally high. With the potential for a deteriorating global economy and Brexit risk, dividend growth is expected to slow.

The company's income will remain sensitive to exchange rate movements - boosted by sterling weakness or reduced by sterling strength against the US dollar and to a lesser extent the euro. The majority of the company's income is usually received in the second half of the financial year.

As we have discussed before, the short-term outlook for underlying dividend growth, excluding special dividends and exchange rate movements, has improved due to the strengthened pay-out ratios resulting from rising commodity and oil profits. However, medium and longer-term dividend growth remains somewhat more uncertain as the economic impact of Brexit is unlikely to be felt until 2020 or later and the global economic outlook looks increasingly cloudy.

Lastly, given the company's aim to provide real growth of income it is important to consider UK inflation. The consumer price index rose 1.9% in the year to end February. We expect inflation and monetary policy to reflect the impact of Brexit negotiations and sterling. Given the intensification of Brexit uncertainties and slowing global economy, the Bank of England has stated its intention to keep interest rates on hold and has indicated that monetary policy in response to developments could be in either direction. In the event of no deal we would expect sterling to weaken. The effect of this would be to increase inflation but also boost the company's income given the extent of dividends declared in dollars and euros. Conversely, if a Brexit deal is agreed, leading to sterling strength, the inflation rate would likely remain stable, interest rates would rise steadily whilst the company's dividend income could be restrained somewhat by exchange rate movements.

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Europe

(compare European funds [here](#))

Rodney Dennis, chairman of Henderson European Focus: Equity markets have staged a strong rebound from the lows of December 2018. The basis for this has been renewed monetary accommodation by central banks, as the US Federal Reserve, the European Central Bank and the People's Bank of China have sought to reassure markets and/or stimulate their respective economies. This has encouraged the view that a rebound in both economies and corporate earnings will follow in the second half of 2019. Pulling the other way are bond markets, which signify a continuing disinflationary environment and so the tug of war between bonds and equities continues. The European equities market remains deeply out of favour among investors. However, the Company believes there are opportunities in the market and

the current negligible portfolio gearing brings the capacity to capitalise on those opportunities should we see a repeat of last year's sell-off.

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Asia Pacific

(compare Asia Pacific funds [here](#))

Allan McKenzie, chairman of Edinburgh Dragon Trust: A torrid final quarter of 2018 dragged Asian equities lower over the six-month period to 28 February 2019. Shrinking global liquidity impacted markets negatively and the US Federal Reserve's interest rate increases lifted the US dollar. This in turn triggered policy tightening by various Asian central banks to maintain stability. Meanwhile, trade tensions between the US and China continued to ratchet higher. These worries combined to create a broadly based sell-off in Asian stockmarkets. Regional pressure points, including China's slowing economy, and a liquidity crunch afflicting India's non-bank financial sector, added to risk aversion.

However, the tide turned in the new year. With macro risks rising and signs of growth momentum faltering, the Fed unexpectedly changed tack. It signalled a possible pause in further rate hikes, shifting away from its previous hawkish stance. The US and China also appeared to reach a detente in their trade dispute, with President Trump deferring a planned tariff hike in March. Investors grew more hopeful that both sides could strike a deal. As a result stock markets rallied, recouping some of 2018's losses.

The last six months have been challenging for Asian equities. While the late 2018 market weakness seemed overdone, the opposite has been true for the market's recent rebound. Volatility seems a constant, especially if the US-China trade truce dissipates. It is clear that the trade dispute is part of a larger and more complex tussle for geopolitical supremacy. With both sides still holding deep-seated differences, a solution that fully resolves the conflict may prove hard to attain.

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Manager's report for Schroder Oriental Income: A shift in policy stance from the Fed and the Chinese authorities towards more accommodative positions have marked a significant reversal in sentiment coming into 2019. A more dovish Fed commentary has significantly lowered market expectations for future interest rate increases, and long bond yields have come down from their November highs. A flattening yield curve (where interest rates are closer to long-term bond yields) points to slower global growth, but as the US dollar remains the key reserve currency, it allows Asian monetary authorities scope to adjust their own policy stances given that inflationary pressures are uniformly subdued.

We have also seen an important shift in China's policy stance in the last few months. Reserve requirement ratios have been cut and banks have been encouraged to lend more aggressively to small and medium-sized enterprises and the private sector. The sharp pick-up in total social financing in year-to-date data suggests that local financial institutions are responding to this top-down guidance. Fiscal spending also appears to be picking up to support growth, with lower taxes for consumers and SMEs being announced and an acceleration of some infrastructure spending coming through.

Having appeared to be progressing relatively smoothly, at the time of writing the trade negotiations have clearly hit something of an impasse. Conspiracy theories abound,

and the one thing we can be sure of is that the various parties are putting the best spin possible to their own actions. It remains very unclear whether China has stepped back from what the US took to be firm promises, or whether strong domestic equity markets and a strong economy emboldened Trump to seek more concessions. Irrespective of the causes, while regional markets do not look expensive, severe trade disruption has the capacity to lead markets substantially lower, particularly as prospects for a reversal in negative earnings revisions recedes.

We believe that the case for equity income in Asia remains robust, supported by generally stronger governance. The portfolio bias towards quality businesses with sound capital structures and strong cash flow generation remains relevant as the nearer term growth outlook remains uncertain, and hopefully compensates for the lower flexibility to buy high growth (but high priced) stocks.

Low gearing by historic standards and burgeoning free cash flows present good conditions for dividends to surprise on the upside as pay-out ratios are in line with historic (modest) averages. The propensity for dividends to surprise in Asia is further helped by improving corporate governance and regulatory changes in the region. On a medium-term view, structural deflation suggests that bond yields will remain lower for longer. The demographic trend of an ageing global population will be supportive of dividend investing in the longer term.

Given these short-term uncertainties, we continue to tread carefully in equity markets. However, the shares of some of the lower-growth/higher yielding companies with predictable dividends have performed well and look fairly valued. Our preferred areas of investment remain in select blue chip names in Australia, Hong Kong and Taiwan, with smaller but significant exposures in China and Korea. The main sector exposures include real estate, banks, technology, communications, and consumer discretionary.

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Japan

(compare Japan funds [here](#))

Christopher Samuel, chairman of JPMorgan Japanese Investment Trust: The period under review has been disappointing for Japanese equity investors as global stock markets were generally under pressure in the latter months of 2018 reflecting, amongst other things, concerns over a slowdown in Chinese growth and global political uncertainties.

Outlook

Concerns over a trade war between the United States and China continue to overshadow equity markets and there are mixed indicators from global economic data. However, the stimulus coming from China should help to support growth in Asia and lead to a recovery in global exports. With the prospect of a pickup in growth in Asia, the outlook for the Japanese economy should also be positive.

Against this background I continue to believe that the investment strategy of JPMorgan Japanese Investment Trust plc remains attractive.

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Karen Brade, chairman of Aberdeen Japan Investment Trust: Despite Japanese share prices hitting a 27-year high last autumn, the past year has been challenging for

the market. The return of volatility that buffeted the first half was followed by a global sell-off in the latter six months. Worsening trade tensions between the world's two largest economies, the US and China, along with the deceleration in economic activity in China undermined investor sentiment and saw risk aversion spike in the second half. The deteriorating outlook forced corporations, particularly those with major capital investments pending, to defer their commitments. This exacerbated the economic slowdown, while impacting those businesses with a significant exposure to the Chinese market.

On a separate note, technology sector stocks were hurt by Washington's attempts to thwart Beijing's rapid advance in the development of 5G wireless technology, as well as sluggish smartphone sales amid marginally incremental innovations in recent product launches. Although the US Federal Reserve's pause in monetary policy normalisation at the end of 2018 provided a boost to global stock markets, the rebound in Japanese stocks was more muted due to a less certain outlook. Sentiment among large manufacturers fell to the lowest level in two years.

Against this difficult backdrop, the portfolio underperformed. Heavy selling in the market was particularly prevalent among the better-quality names that also tend to be more liquid. Such stocks are held by a larger proportion of foreign shareholders who are quick to re-allocate cash elsewhere. Notably, companies with an exposure to the Chinese economy de-rated.

The manager continues to adhere to its approach of detailed due diligence and engagement with the management of the companies held in the portfolio. The domestic Japanese market remains under researched compared to other developed markets. However, corporate governance standards, though gradually improving, continue to lag other advanced economies. The trust only invests in companies that are relatively transparent and whose valuations can be readily analysed. The trust's ongoing engagement also seeks to ensure that these companies' objectives remain aligned with that of minority shareholders including our company, and that efforts are made to improve shareholders' returns over the long term.

In the near term, we expect that market sentiment will continue to be dictated by slowing global growth and the challenges of trade negotiations. Share prices are likely to be affected by the proposed increase in the planned consumption tax later this year and concerns over the impact of decelerating growth in China, especially on companies with significant exposure to the mainland. Nevertheless, the Japanese stock market remains attractive over the longer term.

Japanese companies across the market-cap spectrum, particularly many of those held in the portfolio, are world leaders in their industries, run by experienced, conservative management who invest consistently to maintain their competitive advantage. Many have established operations in markets overseas to circumvent potential trade barriers as well as to be nearer to their end markets. While forays abroad often come with steep learning curves, it places these companies on a solid footing for their next phase of growth.

As part of the company's all-cap investment mandate, the manager has taken advantage of the increasing number of investment opportunities it is now seeing within the small-cap sector. This sector, which has been relatively under-researched, has the potential to provide superior alpha returns. As smaller Japanese companies show increasing awareness that pursuing good governance policies can lead to greater support from investors and a consequent improvement in the rating of their shares, the pool of potential investee companies has grown.

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Biotech and healthcare

(compare biotech and healthcare funds [here](#))

James Douglas, Daniel Mahony and Gareth Powell, managers of Polar Capital Global Healthcare: Global equity markets were very volatile during the six months to the end of March thanks to a variety of different factors. The sell-offs in October and December were quite sobering, leading most major indices into negative territory for the calendar year. The primary drivers were a reversal of monetary policy and the transition from quantitative easing to quantitative tightening; anti-globalisation and trade friction impacting the supply chain and global growth; and eroding confidence in the EU, both economically and politically.

Thankfully, the new year brought with it renewed optimism. Concerns about slowing global growth encouraged a more dovish outlook from central banks, a tone that was well received by the equity markets. This increased appetite for risk transpired despite no firm resolutions on either Brexit or the US/China trade war dispute.

While backward looking, the temperamental, almost nervous nature of the market further underpins our view that large-cap healthcare companies should be a relatively attractive place to invest in the near to medium term. With technology at the fore, we continue to believe we can find companies within our investment universe that are capable of delivering mid to high single-digit, organic, top-line growth, operating leverage as well as high single to low double-digit total shareholder returns. We also believe valuations are attractive on both a relative and an absolute basis.

Market review

During the period, subsector performance within healthcare more or less reflected investor appetite for risk across the broader market. Large-cap pharmaceuticals were a relative safe haven during the first three months, with the riskier small and mid-cap universe experiencing significant, downward pressure. Further, and despite robust underlying fundamentals, subsectors that had performed well in 2018, namely medical devices and managed care, appeared to suffer from profit-taking. As we moved into 2019, however, some of those trends reversed with the riskier asset classes in small and mid-caps outperforming their larger counterparts.

We think it also important to reflect on politics given the conclusion of the US mid-term elections in November 2018. In line with expectations, the Democrats took control of the house of representatives while the Republicans held on to their majority in the senate. We believe the outcome to be a modest positive for the healthcare sector, given the potential for legislative gridlock and the avoidance of potentially draconian changes being written into healthcare law. We remain vigilant, however, as the affordability of healthcare remains high on the list of priorities, not just for the politicians but for many US citizens.

We remain constructive on the healthcare sector driven by a sound demographic backdrop, supportive valuations and an industry that is using technology to drive efficiencies. While innovative technologies are not the sole privilege of large-cap companies, we believe they are well positioned to capitalise on what is a rapidly changing environment. We also believe that M&A will continue to be a near and medium-term theme in our investment universe.

Technology: Changing the way healthcare is being managed, delivered and paid for

The most direct way to invest in the theme of cost control in the US healthcare system in the medium term is through managed care companies given they hold the purse strings. It is these companies that are using technology to drive changes in the way healthcare is managed, whether utilising data analytics to improve clinical and financial performance or to drive value-based negotiations with providers and manufacturers.

Technology is also being used to alter the way healthcare is delivered, with Telehealth an excellent example, allowing a patient to interact with a healthcare professional in a virtual setting rather than the more traditional physician's office. Not only is the interaction more convenient, it is likely to be more efficient and at a lower cost, something that benefits both the consumer and the payer (either government or insurance company). Surgical robots are another great example, they are not only changing the way certain procedures are performed but also enabling companies with these differentiated technologies to take market share.

We are also seeing companies take more innovative approaches to commercialisation. Differentiated medical devices and therapeutics are being launched at price points that are attractive to consumers, not just to circumvent the short-term access barriers that can be put in place by payers, but to rapidly gain market share. This strategy is gaining traction and proving to be successful in areas such as blood glucose monitoring and the treatment of chronic migraine. Last but not least, manufacturers are using technology to gather data on how products and devices are performing in the real world that can be used to drive not just reimbursement discussions, but also access discussions.

M&A activity looks set to continue across the sector

The global healthcare industry is highly fragmented, populated with strong balance sheets and often has management teams open to inorganic solutions to either complement internal assets or address portfolio shortfalls. M&A activity has been buoyant during the reporting period and we expect the trend to continue for the foreseeable future.

No two situations are identical, with recent deals highlighting a wide variation in business needs and priorities. Starting in January 2019 we saw two significant deals with contrasting rationales. Firstly, Bristol-Myers Squibb announced its intention to acquire US biotechnology company, Celgene. While the portfolios of the two companies are complementary, and Celgene does expand Bristol's late-stage pipeline, the near-term financial returns and cost synergies should not be underappreciated as a driver behind the transaction. By contrast, Eli Lilly announced the acquisition of US biotechnology company Loxo Oncology, a deal driven by Lilly's desire to obtain first-in-class and best-in-class oncology assets.

Other transactions worth highlighting in the period are Danaher's acquisition of GE's biopharma business and Roche's acquisition of US biotechnology company, Spark Therapeutics. GE's biopharma business is a high-performing asset in attractive end markets and is expected to generate attractive near and medium-term returns. The Spark Therapeutics transaction, by contrast, is more strategic and gives Roche access to a gene therapy platform.

Politics: Weighing on sentiment but unlikely to materially shift the near-term landscape

Healthcare continues to be a major political issue in the United States and the two topics that are garnering the most attention are drug pricing and Medicare for all.

In terms of drug pricing, the near-term focus appears to be on affordability and transparency. At the risk of oversimplifying, the aim is to reduce the out-of-pocket costs that US consumers face when they collect a prescription at the pharmacy counter. One way to achieve that goal is to remove the controversial rebates that exist in medicare and managed medicaid and so move to a more transparent system based on lower net prices. We believe this regulatory intervention is feasible in the near term and is something that manufacturers support given it should drive utility of the most innovative medicines. Adopting a similar approach in the commercial market, however, is more complicated and appears to be less likely in the short term.

The second area of focus is medicare for All, the idea that the US will move to a single, government-run system that will cover every US citizen. This idea has some support in the Democratic party and is favoured by some of the candidates in the Democratic party presidential primary election. The attraction of medicare for all reflects the popularity of the original medicare program, but it is the cost of implementation and potential consequences that are less appealing. Independent research pegs the potential cost at \$32.6trn over 10 years which has obvious implications for taxes and the Federal budget. Other less appealing implications are those of lost private health insurance, reduced choice and the potential for delays in treatment. In conclusion, medicare for All has political appeal for some but is highly unlikely to become a reality anytime soon.

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Andrew Joy, chairman of Biotech Growth: There are reasons to be optimistic about the future for the biotechnology sector. There is a sea-change in the science underlying the sector, driven by advances in gene technology. Gene therapy and gene editing are now a reality; new CAR-T products addressing blood cancers have been approved and other novel treatments, such as Vertex's for cystic fibrosis, are now on the market. In addition, there has been a pickup in merger and acquisition (M&A), including the take-over of Celgene by Bristol-Myers Squibb noted above.

The biotechnology sector has proved both difficult and volatile over the year. However, there remain good reasons for it to resume its record of growth over the long term particularly as stocks are now starting from a relatively low base.

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Private equity

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

Hamish Mair, manager of BMO Private Equity Trust: At this stage of the year, it appears that the levels of activity within the portfolio are very similar to the same point during 2018. There remains a very active market for private equity exits with many of our partners noting record amounts of 'incoming' interest in their portfolio companies. On the other side of the equation finding attractive deals is, as always, competitive with acquirers having to demonstrate a genuine 'edge' when winning over vendors and management teams. This is usually far more than the mere provision of attractively priced capital. Private equity investment harnesses strategic, and sometimes operational, expertise to capital improving the chance of a target company's success being sustained. Ideally the closer the investor's understanding of a company or sector, the more value they can add and the less they will be required to pay to invest. Private equity firms who take this approach can usually find good deals even when markets are competitive. Much fresh capital has been raised for private equity in recent years,

but the increase is not out of line with overall growth in deal value, nor is it surprising given that private equity investment is growing in popularity with institutional and retail investors alike, yet at present represents only a low single figure percentage of all equity investment. There are clearly some 'headwinds' for investment ranging from the UK/EU Brexit Impasse to trade tensions between the US and China, however these are factors which are incorporated by private equity investors into their long term investment plans and certainly do not deter our investment partners from their value creation activities nor should they discourage investors looking to participate in the output from their efforts by gaining exposure to our well diversified portfolio. At this early stage in the year we expect further growth for shareholders.

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Richard B Rosenberg, chairman, and Noam Lanir, CEO of Livermore Investments Group:

Global Investment Environment

The global economy continued to grow in 2018, supported by the ongoing expansionary monetary policies in the major currency areas and favourable financing conditions. Business and consumer confidence remained relatively healthy, although they did ease back as the year progressed. Employment rose further in the advanced economies, and in some countries (US, Japan, Germany) unemployment fell to its lowest level in decades. Developments varied across the emerging economies. Growth slowed in China, while economic conditions in Brazil, India and Russia continued to improve. The utilisation of production capacity increased worldwide. Against this background, wage growth picked up in various advanced economies. By contrast, consumer price inflation remained subdued overall.

In the second half of the year, the positive economic momentum was overshadowed by concerns regarding the global economic outlook. Trade tensions between the US and China as well as several other countries as well as a number of political issues such as the UK's imminent exit from the EU dampened prospects. Volatility on the financial markets increased markedly from October and most stock markets closed the year with a clear loss.

The US economy gained further momentum in 2018 with annual GDP growth averaging 2.9%. Growth was stimulated by extensive tax cuts and higher public spending. Furthermore, companies continued to benefit from favourable financing conditions. Private consumption remained a driving force on the back of robust disposable income growth and upbeat consumer confidence. By contrast, higher mortgage rates led to a decline in construction investment. The labour market improved further, and the unemployment rate fell to 3.9% by the end of the year. Towards the end of the year, however, the optimism for continued higher growth faded as the US Federal Reserve indicated their intentions to raise interest rates despite signs of slowing global growth.

Economic growth in the euro area was unable to match the strong momentum of 2017. This was partly attributable to special factors, including adverse weather conditions, strikes and a reduction in vehicle production in Germany in connection with new emission standards. Furthermore, business and consumer sentiment cooled during the course of the year. Nevertheless, domestic demand held up well overall and GDP grew by 1.8% in 2018 (2017: 2.5%). The labour market continued to improve. By the end of the year the unemployment rate had fallen to 7.9%, its lowest level since October 2008. Against this backdrop, wage growth picked up.

Economic growth in China remained solid at 6.6%. Nevertheless, momentum slowed during the year, primarily due to modest investment growth. Higher capital market interest rates and macro-prudential measures taken by the government dampened the

demand for loans, stabilising household and business debt relative to GDP. The escalation of trade tensions with the US over the course of the year constituted a further risk to the Chinese economy. From September, the US imposed an additional 10% tariff on selected Chinese products with an annual trade value of around \$200b.

Commodity prices fluctuated sharply. Buoyed by the solid global economy and the oil output restrictions agreed by major oil-producing countries, by autumn the price of Brent crude had risen to USD 86 per barrel. However, the expansion in global oil production and concerns regarding a global economic slowdown subsequently led to a price correction. At the end of 2018, the oil price stood at approximately USD 55 per barrel, slightly lower than at the beginning of the year. Industrial metal prices also initially maintained their upward trend before declining in the second half of the year.

Inflation, as measured by the CPI, rose in most advanced economies compared with 2017, primarily driven by higher energy and food prices. Core inflation, which excludes volatile categories of goods such as oil products and food, thus changed only marginally in many countries. In the US, annual average headline inflation rose to 2.5% and core inflation to 2.1%. The Federal Reserve's preferred price inflation measure, the personal consumption expenditure deflator, which excludes volatile energy and food prices, was back in line with the Fed's target of 2% for the first time since 2012.

Headline inflation in the euro area increased to 1.7%. However, core inflation remained at around 1%, as it has done for some years. In Japan, headline inflation rose to 1.0% while core inflation continued to fluctuate around 0% over the course of the year. Despite the highly expansionary monetary policy, medium-term inflation expectations persisted significantly below the Bank of Japan's inflation target of 2%.

In light of the inflation momentum and the improved labour market conditions, the US Federal Reserve continued to tighten its monetary policy. It increased the target range for its policy rate in four steps by a total of 1 percentage point to 2.25 - 2.5%. At the same time, it carried on reducing its balance sheet, and emphasised in December that further interest rate rises would be dependent on economic developments. The European Central Bank left its deposit rate at - 0.4% and the main refinancing rate at 0.0%, and said it intended to leave its key rates unchanged at least through the summer of 2019. The ECB remained confident that inflation would move towards its target level of just under 2%. Against this backdrop, it ended its programme of net asset purchases at the end of 2018, having already reduced it from EUR 60b per month to EUR 30b per month in January, and again in October to EUR 15b per month. However, it intends to continue reinvesting maturing bonds for an extended period of time.

While 2017 was characterized by unusually low volatility in financial markets, 2018 was another story. Despite a good start to the year, almost all asset classes had a poor showing. In the US, although the S&P 500 index had gained about 8% by the end of September, it lost about 15% in the last quarter to end the year down by 7%. The EuroStoxx 50 index in Europe fared worse losing about 14% for the year. The SHCOMP index suffered the worst with the Index down about 25% in 2018. Although the US government bond markets performed well in the last quarter, they had a terrible first 9 months. The US 10-year yields increased from 2.46% at the start of the year to a high of 3.23% before ending the year at 2.68%. Fixed rate investment grade bonds suffered a similar fate.

Leveraged Loans was one of the only major asset classes that generated positive returns. The Credit Suisse leveraged loan index was up 1.14% as compared to the 2.25% loss in the US high yield market as measured by the Merrill Lynch High Yield Master II index. Loans performed exceedingly well in the first half of the year on the back of continued economic growth in the US and a rising rate environment. Total institutional loans outstanding was \$1.048 trillion as of June 30, 2018, up 11% from the

prior year. As a result of strong inflows and CLO creation, loan spreads continued to compress. This picture changed in the last two months of the year as concerns over the future growth of the economy and reduced chances of rate increases drove outflows from retail funds as the credit spreads turned wider. Strong demand in 2017 and early 2018 led to weaker documentation and increase in the loan market exposure of Single-B rated loans. This dynamic has the potential to create issues if growth slows down in the future or if financing conditions tighten for an extended period of time.

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Manager's review for Electra Private Equity:

Key Investments Commentary

1.) TGI Fridays - The UK franchise of an American themed restaurant chain:

Demand in the UK casual dining market continues to grow and offers attractive opportunities for those brands that keep up with changing consumer expectations. TGI Fridays continually seeks to improve its proposition, updating its menus, refreshing its stores and developing its staff, as it aims to provide an experience that is valued by its customers. Over the last year, new healthier menu items and an updated ordering platform have been introduced.

In summer 2018 the combination of exceptional weather with the football World Cup compounded what was already a market challenged with over-supply and widespread discounting to be a difficult period for TGI - although it remained profitable and cash generative. Since autumn 2018 the trajectory has been one of gradual recovery and the business is now well placed to continue its recovery over the summer months.

2.) Hotter Shoes - The UK's largest shoe manufacturer:

Hotter operates in the comfort footwear market primarily in the UK and US, where demographic changes offer significant opportunities for growth over the long term. Following Electra's purchase of the founder's interest during 2018, the company has been able to invest in necessary initiatives to enable future growth. These are aimed at developing the brand and product to remain relevant to customers whilst investing in key operational areas to increase the efficiency and flexibility of the cost base.

2018 was a very challenging year for the business in which the well-documented challenges facing the UK retail market were compounded by adverse weather over the key seasonal change periods in spring and autumn. Although the direct-to-consumer channel remains strong the business as a whole was not as resilient or flexible as was needed in 2018 and steps are being taken to accelerate the strategic change already planned. Ian Watson joined as CEO in March to lead this change and trading recovery.

The strategy in the short-term is to optimise the retail estate, renew focus on the core customers in the UK direct business, increase return from the US business and make the cost base more flexible. This is likely to result in a smaller but more resilient business which represents a solid foundation for growth.

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First quarter results press release from Dunedin Enterprise Investment Trust:

There continues to be significant uncertainty regarding the final outcome of Brexit. While the board does not expect there to be any significant impact from Brexit on the operations of the company itself, each of our portfolio companies has developed plans to cater for a variety of outcomes which will be continually reviewed as the course of Brexit becomes clearer.

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Michael Bunbury, chairman of HarbourVest Global Private Equity: The geopolitical scene remains very uncertain as does much of the world's economic outlook with anaemic growth in many major developed countries and interest rates, save for in the US, still nailed to the floor. Meanwhile significant quantities of capital are seeking deployment in the private company space. Successful deployment requires experience and access to top performing managers and HarbourVest's more than 35 years of experience confers the opportunity to deliver both. The valuation of some high-profile private assets looks elevated by historic standards.

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Property - UK

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

Jon Slater, chief executive of ReSI Capital Management, the manager of Residential Secure Income:

Retirement rental housing

The UK population continues to age, with opportunities for downsizing for over 60's historically limited to renting sheltered accommodation owned by charities and local authorities, or buying into age-restricted accommodation blocks, which can expose the resident to significant transaction costs on entry and on departure. Surveys indicate that 25% of UK over 55's would like to buy or rent in a retirement village. However, the market is faced with a lack of supply of specialised retirement living options. We see significant opportunity to deliver an affordable good quality rental offering to provide accommodation that is fit for purpose without the burdens and transaction costs of ownership.

RESI's retirement rental model provides retirees with an alternative to having to commit capital and costs to the purchase of a leasehold retirement flat and offers them lifetime security of tenure at a known, RPI-linked rent.

Local Authority housing

Many local authorities, especially those in south east England, have in recent years experienced significant increases in households presenting as homeless. This is primarily a result of the critical shortage of both affordable and market housing, exacerbated by reforms to the local housing allowance. Together these factors have left local authorities with a statutory duty to find housing for increasing numbers of households but without the permanent homes to do so. The recently enacted homelessness reduction act has further added to the pressure on local authorities to find housing solutions in order to prevent homelessness building upon the housing act 1996, as amended by the homelessness act 2002, which places a duty on local authorities to secure accommodation for unintentionally homeless people who are in priority need. According to published reports, England had 79,880 households in temporary accommodation at the end of March 2018, and the households included 123,130 children. Demand for temporary accommodation has grown by over 70% since March 2011.

As such, we are working with a number of local authorities to provide good quality buildings as accommodation for vulnerable single people and families without relying on expensive and short-tenure solutions such as hotels or hostels. ReSI provides local authorities with a long-term institutional landlord to replace the numerous individual

landlords that local authorities currently rely upon and removes the difficulties that local authorities have with ensuring adequate standards across their rented estates.

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Managers of LXi REIT: Inflation has continued to outpace open market rent reviews and the spread has widened since the EU referendum result in June 2016, which triggered a decline in the value of sterling and pushed up the cost of imported goods. As set out below, the anticipated continuing outperformance of inflation over open market rental growth forecasts is expected to prove advantageous to the Group's rental growth.

The HM Treasury forecasts for the economy (medium term forecasts, February 2019) shows an average RPI growth forecast of 3.12% p.a. from 2019 to 2023. (see below). The investment property forum UK consensus forecasts report (winter 2018-19) shows a materially lower average open market rental growth forecast of 0.8% p.a. for the same period.

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Neil Kirton, chairman of Warehouse REIT: The market outlook is favourable for 2019/20 and beyond. Demand for space is strong, with e-commerce continuing to grow and UK employment at record levels. Supply of small to medium sized warehouses will remain constrained, with build costs making it uneconomic to develop new space across much of the country. The board is therefore confident in the outlook for the group and I look forward to reporting on further progress.

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Calum Bruce, manager of Ediston Property Investment Company: The investment market finished 2018 strongly which resulted in total volumes for the year being ahead of both 2017 volumes and the forecasts made by many at the start of the year. Whilst the headline figure suggests a strong market, the overall deal volume was heavily influenced by several large transactions. Investment demand remained polarised and there was a definite flight to quality with long-leased, index-linked buildings let to strong covenants in demand.

The UK remains an attractive location for overseas investors who view it as a safe haven, but also a market where they can secure better yields when compared to the rest of Europe and the world. However, 2019 has started slowly, more so than in the first quarter of 2018. This lack of activity has been caused by investors adopting a 'wait-and-see' approach to deploying their capital, principally due to Brexit. This uncertainty is also delaying potential sellers from offering properties to the market for sale as there is concern that best value will not be obtained. Sellers are worried that sales might be viewed as 'distressed' and any offers will reflect this belief, whether it is true or not.

A prolonged period of inertia will be unhelpful for the property market. Clarity on Brexit is required, whether that is in or out of Europe, or a hard or soft Brexit. A clear view will allow investors to assess what the decision means for the market and they can then decide on the appropriate strategy with more confidence.

This uncertainty will create opportunities as investors will have different interpretations of the potential outcomes of the decision and will take alternative stances on the key issues. We are aware of a lot of capital with an appetite for UK real estate waiting in the wings, ready to be deployed at the appropriate moment.

Outlook

A slow investment market hindered by uncertainty means the focus will remain on maximising the potential of the existing property portfolio. Our style of asset management has always been intensive and hands-on. As the market has evolved, we have not had to adapt our approach to suit the changing conditions. We are doing what we have always done; 'getting under the skin' of our properties, understanding the needs of the tenants and delivering solutions for their occupational requirements, whilst securing and growing income for our investors.

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Bryan Sherriff, managing director of Drum Real Estate Investment Management, manager of Drum Income Plus REIT:

Market View

The political and economic issues facing the UK currently are unfortunately having an impact on investor demand and therefore transactional levels for commercial property as investors sit on cash awaiting greater certainty. There will of course be opportunistic purchases amidst the uncertainty.

The last year has definitely seen the return of the bargain hunter to the UK commercial property market, driven both by the rise in yields and the prospects of further Brexit-related price or currency changes. However, finding real evidence of price falls (or yield rises) in the secondary, regional end of the market has been challenging.

Logically one would expect that if prime yields have risen by a certain amount, then secondary should have risen by more. However, neither the valuation-based indices, nor analyses by the likes of JLL or Savills of actual transactional evidence actually confirm this trend. Indeed, commentary from Savills is that the spread between the yield quartiles has actually narrowed over the last 15 months, rather than widened.

This could indicate a slightly worrying trend where investors who cannot or choose not to pay prime yields are convincing themselves that secondary is "almost as good as prime". This was very much the story in the 18 months running up to the global financial crisis, when the spread between the prime and secondary yield narrowed to a record low level. However, investors are approaching the secondary end of the market with a healthy degree of scepticism, and it is the comparative lack of transactions at that end of the market that is causing the tightening of the yield spread, not over-exuberance.

Consumer confidence remains fragile, and the latest national accounts data shows that the UK has been spending more than it earns for an unprecedented period. This started when real earnings growth was in negative territory, but has not corrected now that growth is positive. Part of this story can be attributed to structural changes, such as the rise of car leasing over ownership, and the overall data is not in itself particularly worrying when borrowing rates are low.

However, it does imply a degree of fragility in household accounts that could rapidly correct in the face of future shocks. For example, a sudden swing towards precautionary saving (similar to that seen in the period soon after the global financial crisis) would have a dramatic negative effect on retail sales growth, and hence wider economic growth.

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Richard Moffitt, manager of Urban Logistics REIT:**Overview**

Our focus is the urban logistics sub-sector of the UK property market, concentrating on a part of the market that delivers essential products to UK businesses and consumers, usually by way of e-commerce.

We have always avoided fashion retailers, whose fortunes can be volatile. Our tenants typically supply everyday items such as pharmaceuticals, ambient and frozen food, building supplies and general merchandise.

The continued rise in online ordering continues to drive logistics take-up to unprecedented levels in the UK with 2018 take-up 82% higher than in 2017, (Source: CBRE H2 Logistics 2018) and exceeded 2016's previous record (31.5m sq ft v. 29.35m sq ft). Take up in this sector of the market, (sub-200,000 sq ft), was 8.5m sq ft in 2018 with speculative development for 2019 predicted to be only 2.5m sq ft. Against this backdrop we are developing a considerable pipeline of assets across the logistics sector.

Retail economics suggest that online retail in the UK might well represent over 24% of total retail sales by 2022, totalling approximately £98.5b of sales. It is estimated that for every additional £1b of online sales this leads to an additional requirement for approximately 1.125m sq ft of warehouse demand. Alongside population growth around major UK cities of over 10% by 2038, according to Savills, we see a strong market for local delivery continuing.

Supply in the 20,000-200,000 sq ft logistics space where we are focused has fallen by 36% since 2012 and rents are expected to rise by an average of 11.5% by 2022 across the market (source: Savills).

The market

We are seeing a modest amount of speculative developments, but this is typically for assets of over 300,000 sq ft. In particular, last mile logistics businesses are struggling to find available space in the 'mid-box' market, due to competition from other land uses. This presents unique challenges to the future configuration of the supply chain model. The UK warehouse association, for example, is reporting capacity constraints across more than 75% of its members, with Brexit concerns also causing some shorter-term build-up in inventory.

Whilst automation and autonomous vehicle solutions for distribution garner headlines, we see labour availability as a more immediate concern for suppliers. Properties near urban locations will benefit from improved labour pools.

According to our research commissioned from Savills, the 'mid-box' market remains compelling due to indicators demonstrating that structural changes are continuing to stimulate occupier demand, causing availability to fall and rents to rise. A constrained development pipeline suggests vacancy rates in the sub 200,000 sq ft range will remain low in the medium-term. The most significant "space race" going forward is set to be focused around urban locations. Greater London alone is deemed to have lost one third of its industrial land over the past 10 years.

Radius data exchange shows that units of approximately 45,000 sq ft have been taken up with greater intensity recently; growing from 54% to 61% of overall letting activity in 2018.

Better supply chains will facilitate a decisive competitive advantage for retailers who possess or control them, with further benefits from moving to a vertically integrated

model. To a large extent we believe large-scale operators have developed their supply chains and it is to last mile logistics where the funding needs to be committed.

Traditional locations for logistics - alongside motorways and on urban boundaries - will not be sufficient to cover city demands for last mile deliveries and reverse logistics. Therefore, more logistics facilities will be needed close to city and town centres. We foresee an increasing growth of demand for logistics hubs or consolidation centres to service big cities across the UK.

Market Outlook

We believe that the logistics sector continues to show resilience in a context of wider economic uncertainty. Underlying market conditions remain favourable for domestic UK business and we see ongoing activity across our occupier base which is centred proportionately across SMEs, third party logistics operators and FTSE listed entities.

Investment volumes remain high at over £4b per annum and despite the sector's popularity there is no dominant player. The sector's superior returns in 2018 allied to projected rental growth prospects have proven highly attractive.

With alternative real estate assets generally providing low returns there is continued search for yield and growth, with the pricing gap between logistics and 10-year gilt yields remaining wide. We are well positioned to continue to achieve our target returns for our investors.

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Property securities

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

Hugh Seaborn, chairman of TR Property Investment Trust: In November 2018, I concluded that whilst the ECB had signalled its intention to resume a more normalised interest rate cycle, this could well be deferred if economic growth dampened. We now find ourselves in that state of affairs with global trade tensions and attention on Germany, the European powerhouse, which is focused on exports and hence global growth. Recent economic news has been weaker than anticipated and this has encouraged the ECB to remain dovish towards the timing of the next interest rate increase. Market expectations for interest rate rises have therefore moved out to 2020 and possibly beyond, the longer end of the interest curve also remains very subdued. For our companies the ability to fix longer term debt at record low levels remains highly attractive and helps the predictability of companies' earnings.

In an environment where investors are seeking income, property benefits from the characteristic of offering relatively high-income returns, often growing with inflation. The company continues to focus on real estate businesses in areas and sectors which offer the likelihood of rental growth. The divergence in performance between companies with those attributes and the remainder has widened to record levels. This does create the risk of the most popular names becoming overbought and the least popular are at risk of being oversold. Our manager is keeping a very close eye on earnings - the bedrock of this asset class.

Our confidence in the stability of earnings and the relative attractiveness of the asset class versus other risk assets offers little succour in the event of broader market weakness. The impact on the UK, and to a lesser extent continental Europe, inflicted

by unprecedented levels of political uncertainty may well only become apparent in years to come. What we do know, at the time of writing, is that we remain in a period of great political uncertainty and I take the opportunity to remind shareholders of the broad pan European spread of our assets.

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Property – Rest of the world

(compare rest of the world property funds [here](#))

Margaret Brooke, chair of Pacific Alliance China Land: In line with market expectations, China's Gross Domestic Product (GDP) grew 6.6% year-on-year, slightly lower than 6.8% in 2017, indicating a moderate slowdown in China's economic growth. Robust growth in consumption and the services sector contributed positively to economic performance as tertiary industries grew by 7.6% in 2018. Although real estate development investment still increased by 9.5% year-on-year, the Chinese economy still faces challenges and downward pressure from excess industrial capacity, as well as rising trade tensions with its largest trading partner, the United States. While the macroeconomic situation is decidedly mixed, China's overall outlook remains stable and a positive resolution to the current China-U.S. trade disagreement is possible. The government is likely to continue its monetary policy support and fiscal expansion in order to maintain a moderate and sustainable level of growth.

Most tier-one and tier-two cities saw limited growth in terms of both price and transaction volumes as a result of the Chinese government's stricter property tightening measures. According to data from China's National Bureau of Statistics (NBS), prices of new homes increased in 59 of the 70 cities tracked by the NBS in December, compared with 63 in November. Average new home prices in first-tier, second-tier, and third-tier cities increased 1.3%, 0.7% and 0.7% month-on-month respectively. China's home sales volume, in terms of transacted building floor area, also increased 2.2% year-on-year during 2018. We expect the government to continue to follow a differentiated housing policy strategy for different tier cities, where policy is likely to be more loose in oversupplied areas and tighter in cities with less supply.

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Infrastructure

(compare infrastructure funds [here](#))

Manager's report for HICL Infrastructure Company:

Politics and Regulation

The political landscape in the UK remains uncertain, and political risk remains a key risk faced by HICL.

Cross border taxation is always on the political agenda, and while no changes have yet been announced which would directly impact HICL's business, the possibility of tightening of cross border taxation regulations remains. The transfer of the domicile of the investment business of HICL from Guernsey to the UK, assists in mitigating this risk.

At the date of writing, the final outcome of the process of the UK leaving the EU is unknown and thus continues to create unhelpful political uncertainty. This uncertainty contributes to the perception of an increased likelihood of an early UK general election and a potential change of government. The Labour party continues to table policies regarding nationalisation of public infrastructure. While we believe a wholesale nationalisation programme faces considerable hurdles to implementation, the perception of this risk and the adverse impact of it on investor and stakeholder sentiment is understandable.

Market

We continue to see reasonable deal flow across all three of HICL's target market segments, although it is concentrated in specific countries, rather than being consistent across all geographies. In the PPP market segment, the year saw opportunities in Europe (notably greenfield projects in the Netherlands and Germany) and North America (greenfield activity in the US and secondary market activity in Canada). The UK and Australian markets have seen limited deal flow in the period. There has been acquisition activity in UK regulated assets, ranging from large utility-scale networks to offshore transmission owners and smaller, 'last mile' independent networks. A number of fibre-related initiatives are being pursued by governments in European markets (including the UK), although we note that these often rely on roll-out assumptions to deliver scale and/or returns.

For high-quality assets there continues to be evidence of elevated pricing, driven by strong demand from unlisted investors - something we have witnessed in all geographies for several years. For example, recent deal activity around rolling stock for railway networks has seen relatively high prices paid for assets that are subject to a period of contracted revenues, but with a significant proportion of returns derived from residual value (cash flow assumed after contracted periods expire). In most cases this blend of risk and return has not been suitable for HICL.

In summary, the core infrastructure markets in which the manager seeks opportunities for HICL have continued to see investors prepared to pay full prices as they seek yield in the continuing low interest rate environment. Against this backdrop we have proceeded cautiously with acquisition activity.

Outlook

The board and the manager continue to focus HICL's acquisition strategy on core infrastructure market segments: PPP projects, demand-based assets and regulated assets. Our balanced approach to portfolio construction requires a continued focus on diversification, by both market segment and geography. Acquiring assets which in combination meet HICL's accretion tests, while investing in sufficient size so as to make a material contribution to improving portfolio diversification, remains challenging.

In the financial year to 31 March 2019, the manager reviewed over 65 opportunities on behalf of HICL. These were from across HICL's target geographies (UK, Europe, North America and Australia/New Zealand) and across all HICL's target market segments. Detailed due diligence was conducted on 11 of these. HICL Guernsey ultimately made five investments in the year, of which three were the product of bilateral discussions with vendors, with a further four projects where rights to invest have been agreed or the projects are at preferred bidder stage.

Within the core infrastructure market, manager's origination & execution team is pursuing operational and greenfield PPP projects, particularly in Europe and North America. Pricing discipline remains key in this market segment due to competition from unlisted investors for high quality assets: HICL Guernsey benefited from this when

disposing of investments in two PPP projects during the financial year; however, the reverse of this is that finding value is challenging.

At the time of writing, deal flow in HICL's target markets remains reasonable and the pipeline is healthy.

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Ian Reeves CBE, chairman of GCP Infrastructure Investments:

Government and regulatory involvement continue to be a strong theme in the infrastructure sector.

A consultation published by the government seeking views on the future of infrastructure finance in the UK was published in March. Included within this, the consultation aimed to identify alternative mechanisms to private finance initiative 1/private finance initiative 2 that could be adopted by the government to ensure private sector capital supports much needed investment across a number of infrastructure asset classes. The company is currently working on a small number of secondary investment opportunities in the private finance initiative sector and continues to monitor any new mechanisms that represent attractive financing opportunities.

The manager continues to see a strong pipeline of potential transactions in the secondary renewables sector and a limited pipeline of primary opportunities. During the period, the regulator of gas and electricity markets, Ofgem, has increased its activity in auditing the historic and ongoing compliance with renewables accreditations.

The regulator for social housing published a note in April detailing its assessment of long-lease models of finance in the supported living sector. The company is exposed to loans totalling 15% of total assets secured against this model of financing. The RSH has noted a number of concerns relating to the financial viability and governance of a certain number of registered providers (RPs) operating in this sector. This principally relates to the sensitivity of such RPs to changes to housing benefit linked to the low operating margins and small balance sheets of such entities. The company does not consider this to be a new risk and has adopted the view that the continuation of housing benefit in the supported living sector represents an attractive investment model. Whilst the company's position remains unchanged in this respect, we are actively working with investee companies and the associated RPs to seek to address the regulators concerns. Until such concerns are resolved, the company does not intend to make material new investments in this sector.

The board continues to review the potential impact of Brexit on the company. As a UK focused investment company, the impact is expected to be greatest in the event of a hard, no-deal scenario which may affect the cost and/or availability of European supply chains for infrastructure projects that rely on their ongoing operations and maintenance; and the operations of the single electricity market in Northern Ireland and the Republic of Ireland. The board believes any negotiated arrangement is likely to have a limited impact on the company.

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Utilities

(compare utilities funds [here](#))

Manager's report for Ecofin Global Utilities and Infrastructure: The final quarter of 2018 was uncomfortable for equity markets which succumbed to apprehensions about a deceleration in global activity, particularly in Asia and Europe, and the protracted trade dispute between the United States and China. Equity markets rallied enthusiastically in the first quarter of 2019, however, as long-term bond yields declined and central banks signalled more accommodative monetary policies. The MSCI world index, which had declined by 11.3% in the final quarter of 2018, recovered considerable ground in the opening months of 2019. Over the six months which ended on 31 March 2019, the MSCI world index fell by 2.0% (all total returns in sterling). Sterling was volatile reflecting the lack of consensus in Parliament about the strategy for Brexit but it closed the half-year almost unchanged against the US dollar and approximately 3.5% stronger against the euro.

Utilities and listed economic infrastructure shares performed well against this backdrop of moderate growth, flattening yield curves and risk aversion. The MSCI world utilities index rose by 11.5% and the S&P Global infrastructure index, comprising 75 listed infrastructure companies (utilities, energy infrastructure and industrials), increased by 8.6% during the half-year (total returns in sterling). Utilities outperformed the broad averages in every region and by the largest margin in continental Europe. Reported earnings lived up to, and in many cases exceeded, expectations, justifying the rising valuations. Infrastructure share prices were more closely correlated with broad market averages than with utilities for much of 2018 but recovered smartly in recent months and outperformed the advance of utilities and the MSCI world index in 2019's first calendar quarter.

The fundamentals for businesses operating in the company's sectors have improved materially and valuations are increasing as investors notice the growth in free cash flows and dividends. Especially in Europe, wholesale power prices should continue to be supported by tight reserve margins - due to the ongoing decommissioning of nuclear and coal capacity - and firm CO2 prices. The delayed benefits of the improvements in pricing are expected to continue to feed through to earnings and our confidence in our own forecasts for company cash flows is being reinforced. Corporate restructuring abounds and balance sheets continue to be deleveraged. We expect above market average free cash flow and dividend per share growth for utilities in North America and Europe (including the UK) over the next 2 years, barring a dramatic upswing in economic momentum. In Europe, utilities such as RWE have made profound strategic shifts to drive forward the transformation of the power sector required to provide low carbon electricity; their shares have been performing well but valuations remain modest and, in the UK, still reflect regulatory and political unease. Energy infrastructure (Williams Companies) and transportation services companies (Zurich Airport and Ferrovial) provide growth potential and diversification in the portfolio. Against a background of moderate economic growth, these sectors are offering attractive earnings growth, often from regulated or contracted activities (networks, renewables), and relatively high and sustainable dividend yields - on an absolute basis and relative to government bonds.

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123a Kings Road, London SW3 4PL
0203 691 9430

www.quoteddata.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House
19 Heathmans Road, London SW6 4TJ

Edward Marten
(em@martenandco.com)

Alistair Harkness
(ah@martenandco.com)

David McFadyen
(dm@martenandco.com)

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)

Shonil Chande
(sc@martenandco.com)

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