

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

October was notable for the pound's rally as the threat of a no-deal exit from the European Union on 31 October was averted. Equity markets were broadly down and the dollar lost value following a third interest rate cut this year. Gold continued to benefit as investors sought safe-haven exposure.

Global

Global recession risk edges up

Katy Thorneycroft and Gareth Witcomb, managers of JPMorgan Multi-Asset, acknowledge that the possibility of a global recession over the next 12 months has increased, though this is not currently their base-case scenario. Continued easy monetary policy from all major developed market central banks is likely to provide ongoing support to the business cycle. With respect to asset allocation, The US remains their most preferred equity region from a top down perspective and they retain a neutral view to emerging markets, pointing to the ongoing risks that trade disputes pose. They also have a constructive view on infrastructure, which they say provides a good source of diversification, attractive yield and positive return profile.

Resilience at the real economy level

Jonathan Brown and Robin West, managers of Invesco Perpetual UK Smaller Companies, say that Equity valuations within the smaller companies sector are well below their 20 year average. They add that whilst the outlook for profit growth has become more difficult, the resumption of monetary easing via lower interest rates and the potential for more creative forms of economic stimulus should continue to be supportive for equities. Bond yields are plumbing...

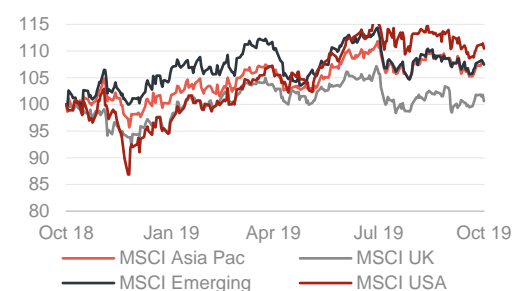
Kindly sponsored by Polar Capital and Allianz

Exchange Rate	31/10/19	Change on month %
GBP / USD	1.2942	+5.3
USD / EUR	0.8967	(2.3)
USD / JPY	108.03	0.0
USD / CHF	0.9864	(1.1)
USD / CNY	7.0391	(1.5)

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/10/2018 to 31/10/2019



Source: Bloomberg, Marten & Co

	31/10/19	Change on month %
Oil (Brent)	60.23	(0.9)
Gold	1512.99	+2.8
US Tsy 10 yr yield	1.691	+1.6
UK Gilt 10 yr yield	0.629	+28.9
Bund 10 yr yield	-0.409	(28.6)

Source: Bloomberg, Marten & Co

UK (continued)

...new depths with investors showing appetite for negative yielding debt with durations as long as 30 years in some cases. Within in this context they believe that equities look very attractive. Guy Anderson and Anthony Lynch, managers of Mercantile, point out that amidst the gloom fuelled by political uncertainty, there are positives: UK companies' earnings and dividends have proved resilient, the UK labour market is strong with unemployment remaining low whilst the employment rate nudges historic highs and we are seeing real wage growth for the first time since before the EU referendum. We also hear from the manager of Strategic Equity Capital, who notes that that an air of trepidation has created opportunities. Conditions are ripe for private equity activity. Valuations are low, financing is generationally cheap and there is significant dry powder; \$2.5trn globally.



Europe

European consumers have been resilient but confidence in eurozone stocks remains subdued

The managers of BlackRock Greater Europe note that policy remains supportive and the consumer resilient with Eurozone retail sales increasing 2.6% year-on-year to 30 June 2019. Henderson Eurotrust's manager, Jamie Ross, focuses on the end-demand impact from the ongoing trade war. He notes that there has been a clear weakening in demand in several areas of the market, for example autos, semi-conductors and chemicals as three of the most obvious of these areas. Ollie Beckett and Rory Stokes, managers of TR European Growth, say that Europe is out of favour with asset allocators with the European equities market has seen heavy outflows this year. The transition to a new EU Commission, new leadership at the European Central Bank and Brexit all need to be navigated in the coming months. They do not expect global politics to become more harmonious or less noisy, but are of the view that economics matters more than politics.



Asia ex Japan

Asian markets less vulnerable to exogeneous forces than before

Hugh Young, manager of Aberdeen Standard Asia Focus, says the environment for Asian stocks over the rest of 2019 remains challenging. An end to the US-China trade spat seems as elusive as ever, while slowing growth continues to cast doubt over the outlook for commodities and some regional economies. Political risks remain high, as evidenced by the ongoing protests in Hong Kong. The manager also says that market swings can present excellent buying opportunities. Vinay Agarwal and Scott McNab, managers of Scottish Oriental Smaller Companies highlight the South East Asian trio of Indonesia, the Philippines and Thailand, where equity market performance was relatively strong. These countries are perceived as being relatively insulated from any trade downturn. Susan Platts-Martin, chair of Witan Pacific, touches on the factors behind strong performance in Australia and the China A Share market. James Williams, chairman of Pacific Assets, believes we have moved into a period of downward adjustment of investment returns, exemplified by the paltry or even negative interest rates on fixed income assets. He also says that Asian 'emerging markets' have in recent years shown less vulnerability to a rising dollar, rising interest rates, and rising trade tensions, than in previous such episodes.



Chinese economic expansion at its lowest ebb in the modern era

Global emerging markets

JPMorgan Global Emerging Markets Income's managers say that going forward, the most important short-term risks to progress are global growth remaining sluggish, a stubbornly-strong US dollar and, of course, the trade collisions between the US and China - which are far from resolved. On China's economy, they say that following the slowest growth in China's modern era, we are yet to see Chinese authorities really step up their efforts to support domestic demand through targeted fiscal measures and monetary easing. Austin Forey, manager of JPMorgan Emerging Markets, provides commentary on developments over the past year that include, India re-electing Narendra Modi as Prime Minister, a new President in Brazil. Austin also says that with political uncertainty seemingly the norm these days, markets may eventually become desensitised by the incessant gyrations of politicians.

.....

Last year the FDA approved a record 59 new drugs whilst a record number of clinical trials were registered, almost double the number ten years ago

Biotech and healthcare

International Biotech Trust's managers, Carl Harald Janson, Ailsa Craig and Marek Poszepczynski, go over a number of themes in a Q&A format. They discuss the likely impact of next year's US election, provide a view on whether the biotechnology sector will be able to meet this increasing demand and the outlook for M&A. On the M&A theme, they say that given how larger companies are struggling to maintain the pace of earnings growth, they will continue to pursue smaller companies. Smaller companies are at the forefront of drug discovery but lack the resources to launch.

.....

Uncertainty continues to benefit the gold price

Commodities and natural resources

The managers of CQS Natural Resources Growth and Income, Ian "Franco" Francis, Keith Watson and Rob Crayford, walk us through their views across the sector. Geopolitical events are weighing on the sector, raising demand concerns and ultimately deferring the broader sector recovery they expect. In light of the unpredictability governing commodities, the managers have a large weighting to precious metal miners as useful portfolio insurance. Gold equities have shown their ability to act with a negative correlation to the wider market.

.....

Other

We have also included comments on North America from Jupiter US Smaller Companies; Japan from Baillie Gifford Japan and Schroder Japan Growth; Vietnam from VinaCapital Vietnam Opportunity and Vietnam Holding; Thailand from Aberdeen New Thai Investment; debt from CQS New City High Yield; Private equity from HarbourVest Global Private Equity; hedge funds from Gabelli Merger Plus+ and property – rest of the world from Macau Property Opportunities.

.....

Contents

7	Global (thoughts from JPMorgan Multi-Asset)
8	United Kingdom (thoughts from Invesco Perpetual UK Smaller Companies, Mercantile and Strategic Equity Capital)
10	North America (thoughts from Jupiter US Smaller Companies)
10	Europe (thoughts from BlackRock Greater Europe, Henderson Eurotrust and TR European Growth)
11	Japan (thoughts from Baillie Gifford Japan and Schroder Japan Growth)
12	Asia (thoughts from Aberdeen Standard Asia Focus, Scottish Oriental Smaller Companies, Witan Pacific and Pacific Assets)
17	Global emerging markets (thoughts from JPMorgan Global Emerging Markets Income and JPMorgan Emerging Markets)
19	Vietnam (thoughts from VinaCapital Vietnam Opportunity and Vietnam Holding)
30	Thailand (thoughts from Aberdeen New Thai Investment)
32	Biotech and healthcare (thoughts from International Biotechnology Trust)
33	Debt (thoughts from CQS New City High Yield)
34	Private equity (thoughts from HarbourVest Global Private Equity)
35	Hedge funds (thoughts from Gabelli Merger Plus+)
36	Property – rest of the world (thoughts from Macau Property Opportunities)
38	Commodities and natural resources (thoughts from CQS Natural Resources Growth And Income)

Polar Capital Global Financials Trust plc

Oiling the wheels of the worldwide economy

The financials sector is the largest sector in the world. It oils the wheels of the worldwide economy and includes a wide range of financial institutions such as banks, life and non-life insurance companies, asset managers, stock exchanges, speciality lenders and fintech companies.

Post the financial crisis technological developments and regulatory reforms have led to profound changes. These are providing attractive investment opportunities in this sector which is in different stages of recovery and within underpenetrated emerging markets.

Access this unique investment with the
Polar Capital Global Financials Trust

Offering investors access to a large and broad sector with compelling investment opportunities globally.



London Stock Exchange Ticker: PCFT

Visit polarcapitalglobalfinancialstrust.co.uk
Available to purchase through all major platform providers, stockbrokers and/or your financial adviser

Capital at risk and investors may not get back the original amount invested.

Important Information: This announcement constitutes a financial promotion pursuant to section 21 of the Financial Services and Markets Act 2000 and has been prepared and issued by Polar Capital LLP. Polar Capital is a limited liability partnership with registered number OC314700, authorised and regulated by the UK Financial Conduct Authority ("FCA").



AS FOCUSED ON DIVIDENDS AS YOU ARE

The Merchants Trust PLC

The Merchants Trust aims to provide a rising income by investing in large UK companies with the potential to pay attractive dividends. Although past performance is no guide to the future, we've paid a rising dividend to our shareholders for 37 consecutive years, earning us the Association of Investment Companies' coveted Dividend Hero status. Beyond a focus on dividends, Merchants offers longevity too. This year we celebrate our 130th anniversary, making us one of the oldest investment trusts in the UK equity income sector. To see the current Merchants dividend yield or to find out more about us, please call or have a look at our website.

A ranking, a rating or an award provides no indicator of future performance and is not constant over time. You should contact your financial adviser before making any investment decision.

0800 389 4696 www.merchantstrust.co.uk



1889 – 2019

INVESTING INVOLVES RISK. THE VALUE OF AN INVESTMENT AND THE INCOME FROM IT MAY FALL AS WELL AS RISE AND INVESTORS MAY NOT GET BACK THE FULL AMOUNT INVESTED.

This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, D-60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (www.bafin.de). Allianz Global Investors GmbH has established a branch in the United Kingdom which is subject to limited regulation by the Financial Conduct Authority (www.fca.org.uk).

Allianz 
Global Investors

Global

(compare Global funds [here](#))

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

Market review

At the start of the period the macro backdrop looked increasingly supportive as the US Federal Reserve (the Fed) revised down its interest rate forecast profile and the European Central Bank (ECB) similarly adopted a more dovish tone. Added to this, global survey data was encouraging and positive developments were reported on US-China trade talks.

First-quarter GDP surprised positively in the US, Eurozone and China. Results from the first quarter US earning season were reasonable corroborating some of the economic data. However, trade tensions reappeared and escalated in May. The US announced a tariff increase and plans to expand tariff coverage to all Chinese goods, and restricted trade with Chinese technology giant, Huawei. China responded more forcefully than previously, raising tariffs and creating its own restricted list. The US also announced plans to raise tariffs on Mexican goods. With this backdrop and a modest slowdown in global growth data, riskier assets performed poorly in May. Developments in trade relations between the US and other countries have been a key driver of market sentiment.

The new escalation in trade tensions was short-lived and sentiment recovered in June, as the US suspended plans to impose tariffs on Mexican goods and markets began to anticipate a positive US-China meeting at the G20 Summit, which occurred at the end of the month with both parties agreeing to re-engage in negotiations.

Markets recovered their poise with equities hitting new highs in July. However, at the end of July and in early August the calm was broken with renewed trade tensions and currency battles creating headwinds for markets. Increasing dovishness, relative to market expectations, from the Fed has been mirrored by other central banks, which is likely to be a theme for the rest of 2019.

Though we still do not forecast a near-term recession, we acknowledge the probability has increased due to ongoing trade and currency battles and concern about the degree of dovishness of the Fed relative to market expectations. In the US, the economic outlook remains robust with continued strength of the consumer somewhat offset by weakness in manufacturing. We continue to watch for any signs of weakness in the labour market, as an early indicator of potentially weaker consumer spending.

Outlook

Although we acknowledge that the possibility of a recession over the next 12 months has increased, continued easy monetary policy from all major developed market central banks is likely to provide ongoing support to the business cycle. Although manufacturing data has slowed, at least in part due to ongoing trade disputes, labour markets remain strong supporting real wage growth and underpinning consumer spending. The U.S. remains our most preferred equity region from a top down perspective, where we have highest confidence in the growth outlook.

We retain a neutral view to emerging markets, as we note the ongoing risks that trade disputes pose, and maintain a cautious view towards high yield debt at this point in the economic cycle. We continue to favour infrastructure, which provides a good source of diversification, attractive yield and positive return profile.

.....

United Kingdom

(compare UK funds [here](#))

Jonathan Brown and Robin West, managers of Invesco Perpetual UK Smaller Companies:

Outlook

At the time of writing, clarity around international trading relations looks no closer and most major economies are seeing slower growth or outright contraction. The trend for protectionist policies is unhelpful given the lengthy period of sub-par growth we've been experiencing since the financial crisis. However, we continue to hope that mutual economic self-interest will encourage a resolution to the current difficulties sooner rather than later. Although we believe the potential for a significant economic set-back has increased, it is more likely that the current situation will prove to be just a soft patch.

Whilst the outlook for profit growth has become more difficult, the resumption of monetary easing via lower interest rates and the potential for more creative forms of economic stimulus should continue to be supportive for equities. Bond yields are plumbing new depths, with investors showing appetite for negative yielding debt with durations as long as 30 years in some cases. Within in this context we believe that equities look very attractive.

In light of the uncertain backdrop, we continue to favour stocks with 'self-help' characteristics that enable them to grow independently of the economy. This can include the restructuring of underperforming businesses, sector consolidation, roll-out strategies or market share gains led by innovation. Equity valuations within the smaller companies sector are well below their 20 year average and we believe there is potential to make money even in this highly uncertain environment.

.....

Guy Anderson and Anthony Lynch, managers of Mercantile:

Outlook for the coming six months

We are witnessing weaker momentum across the global economy. The trade dispute between the United States and China remains unresolved after more than a year of tit-for-tat tariffs, threats and counter threats. There is little evidence of a resolution occurring any time soon and the dispute is weighing heavily on the prospects for the global economy.

Domestically, Brexit uncertainties are creating a backdrop of elevated political risk, whilst sterling weakness and low consumer confidence are impacting the earnings of UK domestically focused businesses. Thankfully there are positives: UK companies' earnings and dividends have proved resilient, the UK labour market is strong with unemployment remaining low whilst the employment rate nudges historic highs and we are seeing real wage growth for the first time since before the EU referendum. These latter points could provide a platform for an economic upturn. Furthermore, the fall in

the value of sterling against other currencies may boost inward UK investment as and when economic and political clarity returns.

.....

Manager's report for Strategic Equity Capital:

Market background

The past twelve months has been a relatively turbulent period for financial markets. Slowing global growth, increasing protectionism and the oscillation between expectations of interest tightening and loosening have created challenging conditions for investors. At a headline level, this has been reflected in UK equity market performance. Over the period, the FTSE Small Cap ex Investment Trusts Index retrenched by 8.6% and the 'junior' FTSE AIM All-Share Index fell by 13.9%; both on a total return basis.

In last year's report, we noted that as an asset class, UK equities remained out of favour with almost £10bn withdrawn from UK equity funds since the EU Referendum in June 2016. This has continued and worsened in the intervening period. We also noted that this downbeat view was not shared universally with a heightened degree of M&A activity. This has also continued with notable take-outs of Tarsus, BCA Marketplace, RPC, KCom, Manx and the company's holding IFG Group. To copy and paste from last year's report; where markets don't re-rate good companies, buyers often correct the valuation gap.

Outlook

The broader market view is one of nervousness; global political and economic (trade) relations remain fractious and macro-economic data is softening. This is filtering through into weakening business sentiment and reflected in companies warning on profits. This has, in part, contributed to a period of underperformance for smaller companies recently, as they are generally viewed as riskier, more domestically focussed and, with the changes brought around by MiFID II, less well researched and more illiquid.

Liquidity has been very poor in smaller companies with over £400m cumulatively withdrawn from UK Smaller Companies open-ended funds in the last three months according to the Investment Association. This is significant at around three percent of total assets in the space. This is further depressing smaller company share prices and favours a closed-ended strategy with a long-term investment approach.

This trepidation has created opportunities. Conditions are ripe for Private Equity activity. Valuations are low, financing is generationally cheap and there is significant dry powder; \$2.5trn globally according to Preqin; the alternative asset industry data provider. This is evidenced, in part, through an increase in takeover activity in the UK.

According to Preqin, investors view small to mid-market buyout funds as presenting the best opportunities.

.....

North America

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

Robert Siddles, manager of Jupiter US Smaller Companies:

Outlook

The US economy is expanding more slowly than earlier in the year. This reduces prospects for corporate profits growth for US smaller companies as a whole, which are predominantly domestically-focused. The Fed's move from tightening to easing interest rates is, however, a positive for equities with the caveat that since the US Presidential Election is just over a year away, other factors such as renewed trade concerns could come to the fore.

.....

Europe

(compare Europe funds [here](#))

Stefan Gries and Sam Vecht, managers of BlackRock Greater Europe:

Looking forward, the global economic environment is clearly deteriorating in response to the uncertainty caused by US-Chinese relations. We believe this has created disruption within supply chains and potential delays to capital expenditure, but do not see structural imbalances in the economy at this point in time. Policy remains supportive in Europe and the consumer resilient with Eurozone retail sales growing 2.6% year-on-year to June. Second quarter earnings releases in 2019 have unveiled a slowdown in companies exposed to short-term activity within the industrial sector, however our portfolios are generally not exposed to these types of businesses. At present, we do not see contagion beyond this. Valuation dispersion within the market remains an investment debate, but we believe the prevailing environment and structural headwinds warrant 'cheap valuations' for some sectors. Our portfolio capital is positioned to where we see the best upside driven by fundamentals. Whilst markets can respond to statistical indicators in the near-term, at times causing sector rotation, we believe company fundamentals drive long-term performance. We continue to have a small pro-cyclical tilt in our portfolio, primarily expressed through late cycle industrials, such as aerospace stocks, and consumer exposed names, such as luxuries.

.....

Jamie Ross, manager of Henderson Eurotrust:

Markets and Outlook

As the last year has progressed, there has been a clear weakening in end market demand in several areas of the market, for example autos, semi-conductors and chemicals as three of the most obvious of these areas. All three are exposed to the vagaries of Chinese demand (and supply) as well as being exposed to sentiment around global trade; it is these two features that likely account for a large degree of their observed weakness. There are also areas of the market where demand is holding up very well: software, certain consumer staples and many areas of healthcare. These observations really sum up current market conditions; we have seen pockets of weakness, but no widespread collapse in demand. We also have to remember that the current sluggish demand environment is happening at a time of ultra-loose monetary

policy. This should prove supportive, especially when combined with currently inexpensive equity valuations.

.....

Ollie Beckett and Rory Stokes, managers of TR European Growth:

Outlook

The global economy appears to be slowing as a consequence of trade wars, arguably too rapid monetary tightening and general political uncertainty. Europe is out of favour with asset allocators and the European equities market has seen heavy outflows this year. The transition to a new EU Commission, new leadership at the European Central Bank and Brexit all need to be navigated in the coming months. We do not expect global politics to become more harmonious or less noisy, but are of the view that economics matters more than politics.

Our current view is that the risks associated with an overly rapid tightening of policy have been recognised by central banks, resulting in a change of tack that should allow global money supply to grow sufficiently, warding off imminent recession. A settlement to the trade dispute between the US and China looks more remote. Most participants now accept this will be a generational battle between two hegemonies. Hopefully, fiscal stimulus in the US and China will help stabilise the economy. A fiscal stimulus from Europe is also possible.

In this environment, valuations for European smaller companies do not look stretched, although investor demand has pushed multiples for reliable "bond proxies", "low volatility" equities and favoured momentum names to very high levels. "Value" stocks have rarely looked so cheap.

There are ample investment opportunities in our market, with good businesses that trade at attractive prices. In the medium term we believe that European smaller companies will continue to deliver superior investment returns, as they have in the past.

.....

Japan

(compare Japan funds [here](#))

Nick AC Bannerman, chairman of Baillie Gifford Japan:

Prime Minister Shinzo Abe has two years left in power as leader of the ruling Liberal Democratic Party making him Japan's longest serving Prime Minister. He remains pro-growth and pro-business, and is expected to bring a renewed focus on structural reform, entrepreneurship and industrial reorganisation while maintaining a high level of economic policy coordination. In October, the Government raised the sales tax from 8% to 10% which may impact consumer spending in the short term. However, the labour market continues to tighten thus stimulating labour market related innovation. Corporate governance remains an important pillar of the Government's economic programme and we see ongoing progress in this area.

A significant boost to the country's morale was felt in May when Crown Prince Naruhito acceded to the throne on the abdication of His Majesty Emperor Akihito, ushering in the new Reiwa era, meaning beauty and harmony. The onset of the new era is expected to encourage a fresh focus on innovation and revitalisation of the economy.

As was the case in my last report, there remain some political tensions in the region. The deterioration in US-China trade relations has increased US pressure on its trade relations with Japan, and a downturn in Japan-South Korea relations is straining US-Japan-South Korea cooperation over East Asian security issues. Ongoing missile testing by North Korea is adding to tensions.

.....

Manager's report for Schroder Japan Growth:

Outlook

The move by the US Federal Reserve to cut interest rates in early August has reignited the debate on Japanese monetary policy and, specifically, whether there is scope for the Bank of Japan to ease further without having a significant negative impact on the financial sector. The most recent comments from the Bank suggest policy could be eased further in coming months, but the level of the currency remains a significant element in any decision. Meanwhile, the negative yield on 10-year Japanese government bonds has already moved below the levels seen in mid-2016.

Data on Japan's domestic economy will be affected in the short-term by the increase in consumption tax in October. There may be some distortions to data as consumption is brought forward ahead of the tax rise, which is then followed by lower consumption. The extent to which the government can offset any negative impact through its fiscal policy is also uncertain, with some economists even suggesting a net positive impact. Overall, however, these economic influences will be temporary and we see nothing that necessitates any change in our long-term view of the outlook for individual companies.

Although the current profits progress for Japanese companies appears sluggish, we believe that most of this is already discounted in stock prices and the underlying economic fundamentals continue to improve gradually, within a stable policy environment. The scope remains for a profit recovery in the second half of the fiscal year, at a time when we believe that the current level of profits already provides attractive valuations. We continue to base our positive long-term assessment on improvements in corporate governance, which are driving both structurally higher returns on equity and increasing pay-outs to shareholders. The recent evidence of improved shareholder returns, despite the cyclical slowdown in earnings, provides some encouragement, as do anecdotal examples of unwinding of cross-shareholdings (where listed Japanese companies own each other's shares).

.....

Asia ex Japan

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

Hugh Young, manager of Aberdeen Standard Asia Focus:

Review

It was a tumultuous year for Asian equities. Notably, the push and pull of global monetary policy and trade relations held sway over all stock markets. Volatile currencies and oil prices further dampened the overall mood. The ongoing trade conflict compounded persistent worries about China's economic health. This dragged on mainland stocks, along with those in Hong Kong and Korea. India was also weak due

to stress in the financial sector, though a market rally after Prime Minister Narendra Modi's re-election win limited losses.

In our search for potential stock ideas, we cast a wide net that encompasses non-traditional markets and companies. One such market is Vietnam, where structural trends of increasing urbanisation and income levels are becoming central in driving growth. We have spent a lot of time over the years gaining comfort with Vietnam, and recognise its growing importance in global supply chains as well as the positive direction of the government to open up capital markets.

Outlook

How will stocks in Asia move over the rest of the year? In our view, the environment remains difficult, and markets will likely be afflicted by bouts of volatility in the near term. An end to the US-China trade spat seems as elusive as ever, while slowing growth continues to cast doubt over the outlook for commodities and some regional economies. Political risks remain high, as evidenced by the ongoing protests in Hong Kong. How central banks and governments respond to these developments will also drive equity markets.

It is also worth remembering that market swings present excellent buying opportunities. Many smaller businesses today are nimble and innovative, operating in interesting niche areas and filling gaps left by their larger peers. Their prospects are underpinned by ongoing structural shifts, including a burgeoning consumer class and increasing adoption of disruptive technologies.

.....

Vinay Agarwal and Scott McNab, managers of Scottish Oriental Smaller Companies:

During the year ending 31 August 2019, Asian equity markets' performance was weak. Performance seems better when measured in sterling, but was flattered by the depreciating pound. The US-China trade war was the biggest driver of stock market performance, with share prices falling sharply in October, May and August as heightened tensions impacted investor sentiment. Following the October and May falls, markets recovered on hopes of improving relations only for the cycle to repeat.

Expectations for global growth weakened over the period. Correspondingly, earnings forecasts for Asian companies have been reduced, particularly in sectors exposed to trade. Asian stock markets were mixed. Pakistan was by far the weakest market with its prime minister forced to ask the IMF for another bailout as the country's foreign reserves dwindled. South Korea also fell sharply with its export dependent economy impacted by the global slowdown in trade. South East Asia was relatively strong with Indonesia, the Philippines and Thailand being the three best performing stock markets as these nations are perceived as being relatively insulated from any trade downturn.

Surprisingly, given the trade war, Chinese companies performed in line with the broader Asian market with domestic consumption holding up relatively well. By contrast the Indian consumer became increasingly cautious which led to poor performance from consumer companies.

Smaller companies underperformed their larger counterparts over the year with this underperformance most pronounced in Hong Kong, India, Indonesia, South Korea and Sri Lanka.

Outlook

We have become used to picking up the newspaper and alternately reading that Presidents Trump and Xi are increasing tariffs on billions of dollars of each other's goods, or that there are hopes for a rapprochement at the next global summit. This has served well to distract from what else has been going on in the world. Growth continues to slow and attempts in the West to commence "normalising" interest rates appear to have failed. The US yield curve is now inverted which is an indicator of pending recession. Exports from Asia are at best stalling, and at worst falling, which is unsurprising given weakening US and European economies. We do not know whether central banks will again resort to money printing in the face of this new slowdown or hold back and take the medicine that should have been administered a decade back, but indications are in favour of more money printing. In Asia, interest rate cuts have started with the most aggressive central bank being that of India. The Indian economy is suffering a hangover from its non-banking financial corporation crisis. Too much wholesale-funded money was lent too cheaply to too many people and the default by a major player spelled the end to this largesse, which acted as a sharp brake on the economy with both liquidity and confidence badly dented. We have heard numerous times from friends and contacts in India that they do not remember the economy being so weak. We have not heard such reports from China but both countries have seen a marked slowdown in GDP growth. This has flowed through to more modest growth expectations for companies. South Korea has suffered from its own trade spat with Japan which has further hurt its export-dependent economy. Prospects for South East Asia's economies appear better. Domestic economies, in the main, are in decent shape and we are increasingly hearing of Chinese companies moving manufacturing to South East Asia to circumvent trade tariffs.

Despite the difficulties facing India, its companies continue to represent by far Scottish Oriental's largest source of investment ideas. The economy and its companies have managed to grow through thick and thin in the past and the long term outlook for the country remains unchanged, driven by attractive demographics, a vibrant democracy and an increasing middle class. Share price weakness amongst smaller companies has allowed us to initiate a number of new positions where we believe the future is bright and also to add to existing holdings with a similarly strong outlook. India is relatively uncorrelated with the rest of Asia given its large domestic economy. The recent slowdown the country has experienced was of its own making but the typical Indian consumer still carries relatively low levels of debt. As has happened in the past, India will recover and its best companies will prosper whilst its weaker ones will fade.

Scottish Oriental also has a large weighting in companies in Indonesia and the Philippines. Like India, both countries have sizeable domestic economies, attractive demographics and an underleveraged consumer.

Despite the above examples, we have struggled to fully invest Scottish Oriental's funds over the past year and the cash position has risen. Every holding in the portfolio is weighted based upon our conviction in a company's prospects, as well as its valuation. The cash position is a residual. As investors, we like companies which have net cash balance sheets. It could be argued that this is an inefficient use of capital from time to time, but we back management teams who will use this strength in periods of crisis - when the most attractive opportunities arise - and create long-term value for shareholders. Our aim is to preserve capital and grow it sensibly. Cash gives us the tremendous option to do this.

.....

Susan Platts-Martin, chair of Witan Pacific:

Market background

After the falls in late 2018, global equities generally recovered strongly in the period under review. US stocks led the way and rose to a record high as the Federal Reserve effectively ruled out interest rate hikes in 2019. Global growth expectations, which had declined over the course of 2018, have stabilised this year, albeit at generally lower levels. This led to growing expectations of a US interest rate cut, which materialised in late July. This more accommodative stance was mirrored by several Asian central banks (including India, South Korea, Indonesia, Malaysia, Philippines, Australia and New Zealand) to counteract signs of slowing economic activity.

Trade tensions between China and the US continued to dominate newsflow during the period. Markets in Asia remain highly sensitive to any change in stance. The rally in equity markets to the end of July more than recouped the 5.4% decline our benchmark experienced in our last financial year.

The major country components of our benchmark posted positive returns over the period, with the exception of Korea. As is often the case, there was significant country divergence in the region, with Korea the regional laggard falling by 4.9% and Taiwan (the strongest performer) rising by 20.7% and setting a new high in the process. The Korean economy, which is seen as being particularly sensitive to global trade concerns, slowed markedly and the Korean Won depreciated accordingly relative to the US Dollar. Taiwan, which has over 50% of its stock market capitalisation in technology companies, was boosted by strong demand for smartphone semiconductors driven by speedier 5G adoption. A notable performer was Taiwan Semiconductor Manufacturing Corporation, which is owned by three of our four managers and is the company's largest holding.

The other two strong markets were Australia and the China A Share market. Australia benefited from an election result perceived positively by the market, lower interest rates (the first rate cut since 2016) and strong performance in the mining and financial sectors, which together make up approximately 50% of its stock market.

In China, mainland stock prices recovered following the sell-off they suffered in the latter half of 2018 as Chinese authorities unveiled various stimulus measures to spur domestic demand and to fast-track certain infrastructure projects.

Our managers all have the opportunity to invest in the China A Share market and collectively have 8% invested in this market, either directly or via shares which are dual-listed in Hong Kong. The company's total Chinese exposure, including all Chinese companies wherever they are listed, is now 32% and is therefore the largest geographic weighting in the portfolio. This represents an overweight position versus China's 25% benchmark weight.

Indian shares, which rose 15%, recovered from a particularly turbulent period in the autumn of 2018 when the market was impacted by a default in the shadow banking sector. The market reacted positively to Narendra Modi's BJP Party general election win in May, further increasing its substantial majority. However, the post-election rally was short-lived, as valuations became stretched and trade tensions resurfaced.

As Japan's economy continues to grow at one of the slowest rates in the developed world, let alone relative to its Asian peers, it remains one of the cheapest markets globally, despite being home to a significant number of world-class global businesses. Amongst these, our managers have identified a number of attractive opportunities. Most are international businesses so have not been immune to the uncertainties surrounding global trade of the last few months which is reflected in disappointing performance for

many of our Japanese holdings. The broader Japanese market gained 9.5% and therefore marginally underperformed the rest of the region over the period.

With Brexit remaining unresolved and the route to a successful outcome becoming ever more convoluted, it is hardly surprising that Asian currencies performed very strongly relative to the beleaguered Pound. Indeed, even the Korean Won, which declined by 6% versus the US Dollar over the six months, appreciated versus Sterling. The major ASEAN currencies (Philippines, Indonesia, Thailand and Malaysia) appreciated between 7% and 10% while the Japanese Yen and Indian Rupee also made significant gains of 8% and 11% respectively.

Outlook

The Asia Pacific region includes many of the world's most dynamic economies. Their increasingly affluent and better-educated populations are likely to fuel demand across various sectors providing good stock picking opportunities for our managers. In the short term, sentiment in the region will continue to be dominated by US/China tensions and affected by the protests in Hong Kong. Currency volatility (especially versus Sterling) is likely to be a factor which impacts short-term returns, especially as the next Brexit deadline approaches. The prospects for the rest of this year will depend on whether easier monetary policy sits alongside economic stability, allowing good quality companies to benefit from a benign environment and grow earnings as they have done in recent years. The question of whether cyclical 'value' stocks will at last start to outperform defensive or higher growth stocks is moot. This largely depends on whether investors continue to value the perception dependability (at a high price) over the possibility of higher returns offered by some increasingly undervalued opportunities.

.....

James Williams, chairman of Pacific Assets:

We face a combination of challenging economic and political circumstances in 2019 and beyond.

After a flirtation with the withdrawal of quantitative easing, monetary policy is once again being loosened as Central Banks respond to signals of declining economic activity. This creates a mixed picture, on the one hand risk assets always appreciate easier liquidity conditions and low interest rates, on the other hand businesses are more prone to setbacks as anticipated demand fails to materialise. While the balance so far in 2019 has been helpful to equity markets, the message delivered by large parts of the global bond market offering negative interest rates remains disturbing. Behind the generally positive indices there have been notable setbacks of some sectors and stocks.

We do not believe that political trends are generally the primary influence in the long-term direction of asset prices. However, the escalation of global trade tension from rhetoric to action risks undermining the global supply chains that have been such a contributor to non-inflationary economic growth over the last 30 years. Asia, as is well known, has had a major part to play in the integration of global economies. However Asian businesses have weathered all manner of politically induced shocks over the years, and it would be unwise to underestimate their in-built resilience now.

We must keep in mind that many of companies the trust invests in are focused on serving their large domestic audiences. The theme of an emerging middle class in countries as large as India and China means that providers of consumer products or financial services will continue to be well placed whatever disturbing geo-politics may unfold.

Outlook

We believe that we have moved into a period of downward adjustment of investment returns, exemplified by the paltry or even negative interest rates on fixed income assets. This suggests that risks are being priced towards a deflationary environment, rather than a return to higher inflation. In a more challenging world possibly for some time to come, it is important that investors lower their sights of expected returns.

We note that Asian 'emerging markets' have in recent years shown less vulnerability to a rising dollar, rising interest rates, and rising trade tensions, than in previous such episodes.

.....

Global emerging markets

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

Omar Negyal, Jeffrey Roskell and Amit Mehta, managers of JPMorgan Global Emerging Markets Income:

For the first half of the review period, markets were turbulent, amidst signals of weakening global growth and elevated geopolitical uncertainty, not least surrounding the simmering trade tensions between the world's two largest economies, the United States and China. These concerns did not evaporate in the second half of the year and the trade tussles continued; by the end of the period, this damaging dispute appeared no closer to resolution than it had been a year earlier. Nevertheless, emerging market equities were able to make progress in the second half of the company's year and market sentiment improved, largely as a result of the US Federal Reserve adopting a dovish monetary policy, cutting interest rates in an effort to reduce market volatility and stave off recession. A number of central banks around the world, including in emerging markets, followed suit.

Outlook

We remain in uncertain economic, market and political territory. Stock markets have recovered strongly since the beginning of 2019 but remain vulnerable to negative news flow, while economic growth indicators have stumbled and global manufacturing output is weaker than it has been for several years.

We continue to believe that, going forward, the most important short-term risks to progress are global growth remaining sluggish, a stubbornly-strong US dollar and, of course, the trade collisions between the US and China - which are far from resolved.

These all weigh heavily on the prospects for a global economy already in the doldrums and are reflected in weakening corporate performance across emerging markets. Central banks around the world have stepped in with monetary easing measures and, in the US, rates look much more likely to fall than rise for the remainder of the year. Such intervention may soften the landing for global economies, but to varying degrees.

Investors are fearful that a global recession could be on the horizon and certain 'end of cycle' signals in the United States and other developed nations support this opinion. If it does happen, emerging market economies will not be immune to a global slowdown. A so-called 'Goldilocks Scenario' ('not too hot, not too cold') for the US would be the ideal economic outcome for emerging markets. But even if that does not ensue, we take solace from the fact that emerging markets economies face fewer imbalances now than they did during previous economic slowdowns.

Following the slowest growth in China's modern era, we are yet to see Chinese authorities really step up their efforts to support domestic demand through targeted fiscal measures and monetary easing by the People's Bank of China. Given that China has been cited as one of the primary sources of the global slowdown, such policy measures could boost growth not just domestically but around the world.

Although the investing backdrop looks more challenging, we have a positive view about the long-term prospects for dividend generation from the stocks held in the portfolio. However, whilst we are positive about long-term prospects we remind shareholders that the company receives dividends in local currencies and US dollars but pays dividends in sterling (which could be volatile depending on, for example, developments around Brexit). As such, movements in sterling will have an impact on the value of dividend payments.

.....

Austin Forey, manager of JPMorgan Emerging Markets:

The past year in markets

As always, there have been plenty of ups and downs; this year, more of them than usual can be ascribed to politics. Several emerging markets have been through their own political cycles: the election of a new president in Brazil in the autumn of 2018 at least brought some resolution to the uncertainty that had dogged that market in the months leading up to the election, and instilled some hope that Brazil's dire economic performance of recent years might be improved by some economic reforms. The stock market responded enthusiastically, though the old adage about it being better to travel hopefully than to arrive should not be set aside yet. Elsewhere in Latin America, a new president in Mexico surprised markets by actually doing some of the things promised during the election campaign. Meanwhile, although it is not a country we invest in, it is worth mentioning Venezuela: a rich country brought to penury by a combination of populism, autocracy and incompetence in government. It should serve as a salutary reminder of the value of good institutions and effective democratic processes, and of their fragility.

Other notable political developments include the re-election in the spring of this year of the Indian prime minister (in the world's largest exercise in democracy), and also the confirmation of a new president in South Africa. Both have much to do. While it has been a busy year in politics simply because of local electoral cycles, the other recurrent theme has been the ongoing trade dispute between the USA and China which has resulted in rising tariffs on an increasing number of products. Most economists see this as unambiguously bad, and probably as bad politics too; stocks market reactions over the year would suggest that most investors share this view. If anything, markets may eventually become desensitised by the incessant gyrations of politicians, but a lot of volatility has resulted in the last twelve months, bringing share prices in China down significantly in late 2018, and leading to an equally strong rebound in the opening months of 2019.

Political risks are not going away, as the current protests in Hong Kong remind us. But other longer term forces are also playing a part in equity markets. Global bond markets are beginning to warn of recessionary risks, and it seems likely that interest rates and inflation will remain low. I can see two big reasons for this. The first is demographics; as populations age, the impact is naturally deflationary, as the Japanese experience shows. All other things being equal, this implies that interest rates will be low. But to this we need to add the policy of low rates itself, put in place after the financial crisis a decade ago. Indirectly, this has led to the emergence of businesses with deflationary effects, like Uber: investors have been prepared to fund such companies in the hope of a large profit far in the future; that profit, when discounted back to the present at very

low rates, is worth enough to justify participation. If discounted at the rates which applied before the financial crisis, the investment might look unappealing, funding might not be forthcoming, and the business might not develop in the same way; so paradoxically, low interest rates themselves may have reinforced the case for low interest rates. That was probably not what central banks intended a decade ago.

This produces challenges for financial markets, as mentioned above. Emerging markets, though, are probably further removed from this than other areas. While some countries in Asia are now facing subdued growth and very low inflation, most emerging markets remain quite inflationary, and have interest rates which reflect that. Of course, this means that their currencies will tend to weaken over the long run, but it does make economic policy a lot easier to pursue in conventional ways, and it also makes businesses easier to manage. We spend a considerable amount of time exploring "what if" scenarios for the companies in the portfolio, especially those financial companies whose business models are sensitive to the interest rate environment, and we mustn't become complacent about the extent to which economic conditions can change. Again, a set of investments in companies with enduring competitive advantages is likely to be as good a place to be as any, in my opinion.

.....

Vietnam

(compare country specialist: Asia Pacific ex Japan funds [here](#))

Andy Ho, investment officer of VinaCapital Vietnam Opportunity:

Market overview

The financial year, which ended 30 June 2019, was a volatile one, with markets whipsawed by a combination of an escalation, de-escalation and re-escalation of trade tensions between the US and China, an uncertain outlook for global growth, and the dramatic easing of monetary policy around the world. On the domestic front, Vietnam had to grapple with concerns including the government's crackdown on corruption and improper land transfers related to real estate projects.

While not immune to the extraneous forces, Vietnam's economy and capital markets demonstrated a level of resiliency because of the strength of its domestic economy and robust macroeconomic fundamentals, including; lower than expected inflation; a stable local currency against the US Dollar, coupled with strong flows from foreign direct investment (FDI); and foreign indirect investments (FII).

During the financial year, we saw the US - China trade war worsen. This dispute - at least for the time being - seems to be positive for Vietnam and the country has been a net beneficiary of the diversion of trade and investment away from China.

Many multi-nationals, including Chinese exporters, have diverted resources towards Vietnam in order to produce goods for export to the US. Typically, these businesses would place additional orders for goods made in Vietnam and have them directly shipped to the US; however there is an issue of scale and capacity as most Vietnamese businesses are already operating at full capacity and are reluctant to expand production fearing that this trade dispute may only be short-term and therefore lead to idle capacity once these orders revert back to Chinese manufacturers should an eventual peace be declared in this trade war.

Having said that, even before the onset of the trade war in early 2018, we had already witnessed global manufacturers shift production to Vietnam in order to take advantage

of the country's low manufacturing wages and electricity prices, improving infrastructure, supply-chain proximity to China and the region, and accommodative business environment.

The trade war has only accelerated a migration of production to Vietnam. This in turn has increased demand for industrial land and labour, both of which have seen significant increases in value and cost.

During the first half of 2019 we saw many signs of further reductions in interest rates from central banks around the world. We have heard numerous arguments that central banks, including the US, are reducing interest rates (many into negative territory) in order to devalue their currencies in an effort to protect their export-driven industries. Since Donald Trump's presidency, the US trade deficit has reached a record level, possibly because the US Dollar has strengthened significantly against major currencies including the Chinese Yuan (CNY), which in August 2019 surpassed the optically significant CNY7.0 exchange rate to the USD. Historically (such as in 2015) when the CNY materially devalued, the Vietnam Dong (VND) also depreciated. However, the CNY's recent weakness has not led to downward pressure on the VND because Vietnam's USD reserves have grown significantly and currently represent about four months' worth of import value and Vietnam is currently enjoying a trade surplus. These issues are further discussed in the economic section of this report.

Over the past 18 months, the Vietnamese government has been aggressive in rooting out improper transfers of real estate properties. As a result, several listed companies were caught up in the review, which placed intense scrutiny over land purchases and transfers. Many real estate development projects are still awaiting government approval and there appears to be a reluctance to push forward on such approvals until some clarity is reached on the land sale and auction process. As such, many real estate companies found it challenging to raise capital in late 2018 and into 2019. This created an opportunity for our investment team to structure several deals to address such risks and concerns. We discuss in more detail one such deal later in this report.

During the first half of 2019, the government issued almost USD4.5bn worth of bonds and corporates issued USD4bn of bonds, allowing the bond market to circulate and trade approximately USD24bn worth of debt papers as at 30 June 2019.

Proceeds of government bond issuances typically go towards funding public infrastructure projects, but with the significant slowdown in project approvals due to the ongoing anti-corruption campaign, a lot of cash remains idle and deposited in State Owned Commercial banks (SOCB) like Vietcombank, BIDV and Vietinbank. As a result, these SOCBs are flush with capital and given the cap on credit growth of 14%, many of these banks are re-deploying the capital into government bonds, driving yields down significantly (to 3.5% to 4.5% for 5- and 10-year tenors). At the same time, private banks do not have access to this capital due to more stringent and prudent measures and therefore find themselves having to attract deposits by offering 7.5% to 8.5% annual interest rates.

Capital markets review

If one were to look at the Vietnam Index (VN Index) at 30 June 2018 and again at 30 June 2019, one would see a very stable market which lost about 1% in local currency terms during the twelve months to end at 950 points (or down by 2.6% in USD terms). However, during this financial year, the VN Index was actually quite volatile, hitting a high of 1,024 points in October 2018 and subsequently declining to a low of 881 points in January 2019, and then trading range-bound to end at 950 points at the end of the financial year, with an average trailing twelve month Price to Equity ratio (TTM P/E) of 16.5x (Source: Bloomberg).

During FY2019, Vietnam's stock market was primarily driven by foreign inflows and outflows. Since the market does not have any pension or endowment funds as anchors to give the market depth and breadth, these foreign flows have created a significant amount of volatility. During the financial year, Vietnam enjoyed a net foreign inflow of USD2.2bn, including several large off market transactions that were primarily led by South Korean investors, including SK Group which invested USD1.0bn into Vingroup (HOSE: VIC) (USD250m in secondary shares, and USD750m of new shares issued), and USD430m invested into Masan. In fact, during 1H2019 foreign indirect investment net inflows reached an impressive USD1.3bn, following USD930m invested during 2H2018, and a record USD3.7bn invested over 1H2018. If we exclude the inflows from off market transactions (e.g., IPOs, secondary and primary issuances), then the net inflow from foreign buying directly on the stock exchange was a paltry USD4.0m for the entire financial year! This shows the difficulty of accessing the market and the importance that off market and put-through transactions have on market liquidity.

The effects of foreign inflows were also amplified as foreign investors' options were generally limited to a handful of blue-chip stocks that had available foreign ownership room. Consequently, with such large volumes of money chasing so few public equity opportunities, the valuations of some blue-chip stocks have also been amplified and are currently beyond what we would deem as fair value based on their growth potential. Furthermore, as a consequence of a number of mega IPOs that took place during the first part of calendar year 2018, which saw significant foreign interest and led to record valuation levels that appear unjustified, many (if not most) of the 2018 IPOs are currently below their initial offering prices, leaving many investors nursing large losses. We have seen a dearth of IPO and equitisation activities over the past 12 months as valuations have retreated, and both companies and government have been reluctant to take the path of IPO and privatisation in the current environment of uncertainty.

As at 30 June 2019, the market had 748 companies listed on the Ho Chi Minh Stock Exchange (HOSE) and the Hanoi Stock Exchange (HNX), with a total market capitalisation of approximately USD145bn or 60% of 2018 GDP. The UPCoM Exchange (Unlisted Public Companies Market), which is a junior exchange of HNX, has an additional 839 listed companies with a total market capitalisation of USD43bn. Vietnam is currently part of the MSCI Frontier Market Index, and there is a hope that it will graduate into the MSCI Emerging Market Index at some point in the next two years.

The VN Index as at 30 June 2019 traded at an average TTM P/E of 16.5x according to Bloomberg. A survey of local analysts, including those within VinaCapital's research team, forecast year-on-year earnings per share (EPS) growth of between 10% to 15% for 2019. If we compare these figures against Vietnam's neighbours, on an earnings basis, Vietnam continues to do well. The market trades at a P/E ratio that is 17% below regional peers, which average 19.8x as at 30 June, while EPS growth is generally higher.

It is pertinent to pause and focus our lens on the effect that certain large, blue-chip companies have on the current market and index performance. Most noticeable, with possibly the largest impact on the market volatility and performance, are the Vingroup group of companies, which include three large, publicly listed companies: holding company, Vingroup (HOSE: VIC); real estate development company, Vinhomes (HOSE: VHM); and retail mall operator, Vincom Retail (HOSE: VRE). These companies enjoy the benefit of large blocks of foreign ownership room available to foreigners (VIC 17.2%, VHM 15.1% and VRE 32.3% available, respectively).

According to Bloomberg, these three publicly listed companies have a combined market capitalisation of approximately USD32bn as at 30 June 2019 and make up about 23.2% of the VN Index. The level of cross holdings between VIC, which is the holding company, and VHM and VRE is significant, in excess of 66% on average for each

company. Furthermore, they trade at valuations that are outsized compared to the market and their peers. For example, VIC trades at a TTM P/E of 83.0x, while VHM trades at a P/E of 16.6x and a price-to-book (P/B) ratio of 6.1x, while VRE trades at a TTM P/E of 31.5x and P/B of 2.8x as at 30 June 2019 (Source: Bloomberg). If we were to remove these three companies from the VN Index, the index would trade at a P/E of approximately 14.0x rather than 16.5x.

During the financial year, we witnessed periods when large fluctuations in the share prices of the Vingroup of companies caused large movements in the overall index. Naturally, if investors hold any, or all, of the Vingroup of companies, they will be exposed to its volatility. Over the course of the financial year, we have seen the share price of VIC increase by 7.6%, VHM decrease by 11.8%, and VRE increase by 9.9% in local currency, while the VN Index decreased by 1.1% in VND terms over the same period.

However, there are many active fund managers that have taken an underweight exposure to this group of companies due to factors that may include opinions on high valuations, low liquidity, or other fundamental concerns.

Equitisations of State-Owned Enterprises (SOEs)

Pulling back the lens to look at the overall IPO and privatisation (or "equitisation" as it is known in Vietnam) activities over the past 12 months, the dearth of opportunities of meaningful size has made this less appealing for our strategy. Furthermore, many investors did not do so well participating in the IPOs that occurred in 2018 and therefore have shown little interest in 2019, especially not at the valuations which many sponsors and their sell-side advisors were expecting.

While we do have a list of State-Owned Enterprises (SOEs) that plan to equitise in the coming year, the timing remains unclear. The significant slowdown in equitisations has been caused by several key issues that the government must still resolve, including the value and transfer of land holdings owned by the SOEs. As mentioned in last year's Annual Report, we postulated that the pace of equitisation of SOEs was expected to decline significantly but we did not expect it to stop completely.

Although market conditions have improved somewhat for smaller equitisation opportunities, large equitisations remain stymied as Vietnam's current anti-corruption campaign appears to have significantly delayed the approval process for equitisations, due to causes that we have mentioned above.

In the meantime, the government continues to divest shares in companies that have already equitised. During FY2019, the government divested additional shares in Viglacera (HOSE: VGC), and Danang Rubber Company (HOSE: DRC):

VGC is the largest glass producer in Vietnam. They produce window-panes for office buildings and for industrial use. DRC owns large rubber plantations and is one the largest producers of radial and bias tires in Vietnam.

.....

Michael Kokalari, chief economist of VinaCapital Vietnam Opportunity Fund:

Economic and Investment environment

Vietnam's macro economy was stable throughout 2018, a trend that has continued into 2019, as evidenced by modest inflation, a relatively stable Vietnam Dong (VND) exchange rate, and steady interest rates. This stability, coupled with robust yet sustainable GDP growth, supported Vietnamese stock, bond, and real estate prices

during VOF's FY2019, and we are sanguine about the prospects for continued price appreciation during VOF's coming financial year.

GDP growth driven by consumption and manufacturing

Vietnam's GDP grew by 7.1% in 2018, and we expect the country's economy to grow at a slightly slower - although still robust - pace in 2019, driven by domestic consumption and the continued expansion of the country's manufacturing output. The economy grew by 6.8% y-o-y from 1H18 to 1H19, and we expect that GDP growth for 2019 will be slightly above 6.5%.

Household consumption accounts for nearly two thirds of Vietnam's economy. It grew by approximately 9.4% in 2018, and at an estimated 8.7% y-o-y pace in 1H19. This robust growth contributed over 5% to Vietnam's overall GDP growth rate and was supported by a record high level of consumer confidence. Vietnam's consumers were the world's third most confident in early 2019, according to market research firm Nielsen.

Manufacturing accounts for nearly 20% of Vietnam's economy, and grew by 13% in 2018, and at an 11.2% y-o-y pace in 1H19. The robust growth of Vietnam's manufacturing sector contributed about 2% to Vietnam's overall GDP growth rate, and was reflected in a near-record high reading of Vietnam's Purchasing Managers' Index (PMI) of 52.5 at end-1H19, making Vietnam one of only a handful of countries in the world with PMI readings above the '50' expansion-contraction threshold at that time.

Manufacturing growth was supported by a 9% growth of Foreign Direct Investment (FDI) in 2018 to USD19bn and 8% y-o-y growth in 1H19, because the majority of Vietnam's FDI inflows are deployed into increasing the country's productive capacity. That said, the global "Peak Smartphone" phenomenon started weighing on manufacturing output growth in 2018. Note that we estimate that mobile phone production accounts for over 10% of Vietnam's manufacturing output, and that production fell by about 10% y-o-y in 1H19, after being flat in 2018, resulting in the slight dip in Vietnam's GDP growth from 1H18 to 1H19.

Finally, the decline of China's GDP growth to a reported 27-year low at end-1H19 is also weighing on Vietnam's growth to some extent. Tangible evidence includes plunges in:

- The number of Chinese tourists visiting Vietnam (a 3% y-o-y drop in 1H19, comparable to what Thailand also experienced, but far from the 49% growth in 2017 to 24% in 2018), who account for about one third of all tourist arrivals.
- The growth in exports to China, which is the third-largest destination for Vietnam's exports; in 2017 exports to China grew by 61%, 17% in 2018, and were flat in 1H19, although this compares favourably with a 17% y-o-y drop in South Korea's exports to China in 1H19.

Macro-economic stability, inflation and interest rates

Vietnam's policy makers continue to prioritise macro-economic stability, and those efforts were supported by a circa 20% drop in world oil prices from end-1H18 to end-1H19, which helped to reduce Vietnam's headline Consumer Price Index (CPI) inflation from 4.7% y-o-y to 2.2% over that time.

We estimate that the decline in oil prices, albeit in highly volatile market conditions during VOF's FY2019, reduced Vietnam's inflation by about one percentage point. Meanwhile, the drop in food price inflation from 5.1% y-o-y at end-1H18 to 2.4% at end-1H19 reduced the headline CPI inflation rate by an estimated one percentage point, and that a plunge in the growth rate in medical prices from 13% to 0% reduced CPI

inflation by 0.8 of a percentage point. The drop in medical price inflation was attributable to the curtailment of the government's administrative price hikes for medical services, while the lower rise in food prices, which contribute 36% of the CPI basket, occurred as a result of African Swine Fever (ASF).

That last point is counterintuitive because global pork prices surged by nearly 20% in 1H19, but ASF first spread to Vietnam in February 2019, about six months after its initial outbreak in China. ASF actually depressed the price of pork in Vietnam by circa 25% y-o-y at end-1H19 because farmers aggressively sold their healthy pigs on to the market before those swine had a chance to become infected with ASF. However, over 10% of Vietnam's pig population has now been culled, so the price of pork, which contributes about 6% of Vietnam's CPI basket, will certainly soar by the end of the year. Note that pork prices in China soared by over 30% y-o-y as of end-1H19, which explains why China's 8% food price inflation at end-1H19 was so much higher than Vietnam's.

Despite the plunge in Vietnam's inflation rate during FY2019, deposit and lending interest rates at local banks were more-or-less unchanged at circa 5-6% for short term deposits on average (although some smaller banks paid interest rates of over 8% p.a. to attract 1-year deposits), circa 8% lending rates for short term loans, and 10-11% lending rates for loans with a one-year maturity.

Furthermore, interbank interest rates and the yields on Vietnam Government Bonds (VGBs) remained very low. Short-term interbank rates averaged below 4%, so 10-year VGB yields ended FY2019 nearly unchanged at 4.7%, which is much lower than Indonesia (7.4%), and also lower than the Philippines (5.1%), which both have similar inflation rates to Vietnam, and which both have investment grade credit ratings, versus Vietnam's BB rating.

The surprisingly low level of interbank interest rates was partly a by-product of Vietnam's central bank's accumulation of nearly USD6bn of FX reserves in 2018, and over USD8bn of reserves in 1H19 - which increased the State Bank of Vietnam's (SBV's) total FX reserves to nearly USD68bn or over 25% of Vietnam's GDP at end-1H19. Those purchases of USD by the SBV were only partly "sterilised" by the issuance of T-Bills that drained excess liquidity from the money market, so much of the residual liquidity generated by the SBV's FX reserve accumulations flowed into the nation's commercial banks.

Finally, the surprisingly low level of VGB yields was partly due to the Government's slow progress on infrastructure construction. In 1H19, the Government only achieved about one quarter of its planned expenditure on the development of ports, highways, and airports, so the net issuance of VGBs (i.e., gross issuance of government bonds minus maturing bonds), plunged by 75% y-o-y.

That said, we have recently seen signs of a pick-up in infrastructure construction, so this specific tailwind for the bond market is unlikely to persist, but with global central banks clearly signalling their intention to embark on a new round of monetary easing in 2H19, we believe that it is very unlikely that interest rates in Vietnam will increase substantially over the coming financial year.

Macro-economic stability and the Vietnamese Dong

In addition to the modest decline in world oil prices during VOF's FY2019, the relative stability of the value of the US Dollar over the financial year also aided Vietnam's government's efforts to maintain a stable macroeconomic environment during that time.

The value of the USD, measured through the US Dollar Index (DXY) index increased by less than 2% from end-1H18 to end-1H19, and the unofficial value of the VND depreciated by less than 2% over that time, so that the value of Vietnam's currency was

essentially stable, or even appreciated somewhat against some of the world's other major currencies. Specifically, Vietnam's Nominal Effective Exchange Rate (NEER) against a trade-weighted basket of Vietnam's trading partners was essentially flat in FY2019.

This stability was reflected in the fact that the unofficial value of the USD-VND exchange rate traded in close proximity to the official rate, as can be seen in the chart above. Furthermore, the price of gold in Vietnam traded in close proximity to world gold prices in 1H19, and even often traded below world gold prices during that time.

Market participants view the premium (or discount) of gold prices in Vietnam to world gold prices as an important sentiment indicator that demonstrates the willingness of locals to hold VND, because the import of gold is strictly controlled by the Vietnamese government. In times of low confidence in the VND, such as during the brief, rumour-ridden episode at the end of 2016 when India's government demonetised its large currency notes, the gold price premium in Vietnam soared from its typical 6-7% to over 15%. During FY2019, the gold price premium in Vietnam fell from 6% to -1%.

Two factors have supported the stability of the VND:

Vietnam enjoyed current account surpluses averaging over 4% of GDP for each of the past seven years. Also, we estimate that Vietnam's net imports of oil and refined petroleum products equate to about 1-2% of GDP, which contrasts to India, Thailand and China, who import about 45-75% of the oil that they consume (although Thailand enjoys an 8% of GDP current account surplus, thanks to its huge tourism industry).

The central bank's public commitment to intervene in the currency market if the VND depreciates by more than 2%, the credibility of which is backed-up by the SBV's increase in Vietnam's FX reserves to about four months' worth of imports at end-1H19. That said, although the International Monetary Fund (IMF), World Bank and others recommend emerging markets (EMs) to maintain a minimum of three months' worth of FX reserves, according to the IMF's alternate, more sophisticated metric, Vietnam still needs to accumulate another USD20bn worth of FX reserves to meet its minimum safety threshold.

Finally, it appears that the government is targeting FX rate stability versus the USD, in order to encourage capital inflows from foreign investors, which helps to explain why the VND has been much more stable against the USD in recent years than have the currencies of Vietnam's EM ASEAN peers.

China followed this strategy in the wake of the 1997 Asian Financial Crisis, when it spent copiously to support the Chinese Yuan at a time when the currencies of other Asian countries plummeted. The confidence that this strategy engendered in foreign investors was one factor that helped to encourage an enormous wave of foreign investment into China in the 2000's.

The US-China Trade War

Perhaps the most high-profile issue affecting Vietnam over the past year has been the degree to which it might benefit from the US-China trade war. We were among the earliest to espouse the view that Vietnam is the country that will benefit the most from this dispute, for a number of reasons:

- 1. Approximately 60% of the high-tech products (i.e., mobile phones, computers, TVs, etc.) that the US imports are currently made in China, and about half of China's exports to the US are of high-tech products, versus 20% for Vietnam. On the other hand, only about one-third of Vietnam's overall exports are of high-tech products, and nearly half of Vietnam's exports to the US are still garments and footwear. All of this implies a significant increase in

Vietnam's electronics production if a protracted trade war prompts the relocation of production from China to Vietnam.

- 2. The primary impact of the US-China trade war is the acceleration of the existing trend of manufacturers moving their production facilities from China to Vietnam, motivated by the anticipated ~20% cost savings entailed, according to a recent survey of Chinese manufacturers by Standard Chartered Bank.

Those cost savings are primarily attributable to a two-thirds wage differential for factory wages between China and Vietnam (i.e., Vietnam's factory wages are two-thirds below China's).

All of that said, we believe that the trade war presents three risks for Vietnam:

- 1. The Chinese could devalue the USD-CNY exchange rate past the widely watched '7' level, which would damage sentiment in Vietnam's stock market. We believe that the impact of a depreciation of the CNY on Vietnam's economy would be minimal, but the impact on investor sentiment would be significant. In 2015, the 5% depreciation of the CNY against the USD prompted a similar magnitude depreciation of the VND, even though Vietnam was running a current account surplus at that time, inflation was under 1%, and GDP growth was very robust.

Furthermore, the sudden depreciation of the CNY in August 2015 triggered an almost immediate 15% sell-off in Vietnam's stock market, driven partly by concerns that the selloff of China's currency would pressure Vietnamese policy makers to depreciate the VND, in order to maintain the country's export competitiveness with China. We believe that such concerns are unfounded because, as mentioned above, wages in Vietnam are only one-third of those in China, and Chinese 5% wage inflation is comparable to Vietnam's 6-7% annual wage increases, so a modest depreciation of the CNY is unlikely to impact Vietnam's export competitiveness.

Some local analysts are also worried that a depreciation of the CNY would widen Vietnam's 10% of GDP trade deficit with China in 2019, which would degrade Vietnam's overall trade balance. However, we also believe this concern is unfounded, partly because most of the products that Vietnam imports from China are production materials and intermediate goods, rather than consumer goods.

- 2. Firms attempting to evade tariffs on US imports from China appear to have aggressively "re-exported" products to the US via Vietnam in 1H19, which spawned concerns by US officials, and even by President Trump, who lamented what he perceives as trade abuses by Vietnam in a television interview in June 2019. In 1H19 Vietnam's exports to the US soared by 27% y-o-y, which increased Vietnam's trade surplus with the US from USD16bn in 1H18 to USD21bn in 1H19. At the same time, imports from China surged by 18% y-o-y, so Vietnam ran an almost identical mirror trade deficit of USD19bn in 1H19. This statistical evidence seems to substantiate anecdotal evidence that some firms have been importing products from China, and then doing a minimal amount of processing and value-add to those products before exporting the finished goods to the US as products that were "Made in Vietnam".

In our view, the possibility that this phenomenon instigates retribution from the US trade authorities poses the biggest risk to Vietnam from the trade war. For that reason, we are encouraged that the Vietnamese government recently took solid steps to clamp down on this practice, and we believe that such steps will be sufficient to appease the US authorities, especially in light of our view that

the US has a strong vested interest in maintaining good relations with Vietnam for geopolitical reasons, given China's growing influence with the governments of several of Vietnam's regional peers.

- 3. Concerns that the acceleration of the movement of production facilities from China to Vietnam is depleting the supply of available skilled workers and straining the country's physical infrastructure. A few reports in the international media suggested that "Vietnam is Full" to new FDI because of the deluge of new trade war related investment, including a four-fold surge in newly registered FDI from China (albeit from a low base) to USD1.7bn.

We published a research report titled "Is Vietnam Full to New FDI?" in which we came to the conclusion that Vietnam actually has reasonable spare labour/industrial land/logistics capacity to absorb FDI inflows over the next few years (for example, less than 10% of the workforce is currently employed by FDI companies, and over 40% still works in agriculture). However, if a deluge of FDI equivalent to 5% of China's existing FDI stock were to relocate to Vietnam, we would expect wage inflation to rapidly increase from 7% to 12%, and both the country's stock of industrial land and its logistics capacity would need urgently to be increased.

Structural growth drivers: Emerging middle class and industrialisation

Vietnam's impressive long-term growth prospects are supported by the FDI-funded expansion of the country's manufacturing base, which is driving export growth and supporting the emergence of a vibrant middle class. We estimate that just over 20% of Vietnam's citizens are currently in the middle class. The Boston Consulting Group, market-research firm Nielsen, and others expect that proportion to rise to one-third within the next few years, making Vietnam's middle class one of the fast-growing in the world.

The two primary drivers of the emergence of Vietnam's middle class are industrialisation and the country's 3% urbanisation rate. Only about 36% of Vietnam's citizens live in the country's major cities, versus 59% in China, and Vietnamese urban incomes are nearly double rural ones, according to the General Statistics Office of Vietnam (GSO).

Industrialisation is a major growth driver because manufacturing still only contributes less than 20% of Vietnam's GDP. Manufacturing peaked at circa 30% of GDP in each of the "Asian Tiger" economies, so industrialisation is likely to be a major Vietnam growth driver for years to come.

The banking sector

The system-wide credit growth of Vietnam's commercial banks fell from 17% in 2017 to 14% in 2018 but rebounded from 6.1% year-to-date (YTD) in 1H18 to 7.3% YTD in 1H19, although the SBV set a system-wide credit growth target of 14% for 2019.

Loan growth continues to be driven by the extension of consumer loans, which grew by an estimated 28% y-o-y at end-1H19. Consumer loans account for about 20% of banks' total outstanding loans, or circa 26% of GDP, which is comparable to the consumer credit to GDP ratios of Vietnam's EM peers. Mortgages account for about half of consumer loans, so banks' lending to homebuyers also supported Vietnam's real estate market.

The deceleration in the pace of Vietnam's loan growth from 2017 to 2018 and 2019 was motivated by the SBV's efforts to support the government's macro-economic stability objectives and was manifest by a plunge in consumer credit growth from 65% in 2017 to 30% in 2018.

The SBV's clamp-down on credit growth was also motivated by the desire to strengthen the health of the country's banks, given the IMF's recent assessment that "Vietnam's banking sector has long been the country's Achilles heel", and that banking sector fragility still poses risks to the country.

The IMF believes that rapid credit growth and the payment of cash dividends by State Owned Commercial Banks (SOCBs) to the government have depleted banks' capitalisation, while overly restrictive Foreign Ownership Limits (FOL) have impeded some banks' ability to raise new capital. Further to that last point, the IMF recommends the government to lift the FOL of some banks from the current statutory limit of 30% to above 50%, in order to attract qualified strategic investors, but the government may also need to inject public money into some systemically important SOCB's which need circa USD5bn of new capital.

Nine Vietnamese banks have already implemented the Basel II capital adequacy standard before the government's 2020 target, motivated in part by the SBV's willingness to assign higher credit growth quotas to those banks. Also, banks stepped up the resolution of legacy Non-Performing Loans (NPLs), although Vietnam's 6.5% system wide NPL ratio (including loans held by the Vietnam Asset Management Company) is still higher than the 4-5% NPLs that are typical of other emerging markets.

Rising real estate prices are helping banks to resolve NPLs, because the majority of those loans are backed by real estate collateral, but government implemented macro-prudential regulations that are weighing on the real estate sector somewhat, but that are aimed at both preventing the emergence of another real estate bubble, are bolstering the health of the banking sector.

In 2018, the government raised the risk weighting on real estate loans from 150% to 200% for the purpose of calculating banks' Capital Adequacy Ratios (CAR), and in 2019 the SBV cracked down on certain loopholes by which this regulation was being circumvented. The government has also been steadily tightening Asset Liability Management (ALM) regulations in order to prevent duration mismatches, so some of the smaller banks in Vietnam that want to extend mortgages to homebuyers have started paying deposit rates of above 8% on 1-year deposits in order to comply with the new ALM regulations.

The net result is that mortgage rates in Vietnam increased by about 50-100 bps in 2018, but have been essentially flat in 1H19, which is weighing on the real estate market somewhat, but a much bigger issue for the real estate market in 2018, and especially in 2019, has been a government anti-corruption campaign (described below) that significantly slowed new project approvals in HCMC.

The property sector

In 2018, the prices of new apartments launched for sale (i.e., the "primary market") were essentially flat in each of the three main segments: high-end (over USD2,000 per square meter (/sqm)), mid-tier (USD1,000-2,000/sqm; total unit prices ~USD70,000), and affordable (~USD1,000/sqm). The combined, total number of units sold in Ho Chi Minh City and Hanoi, as well as the number of units launched for sale, both declined by about 10%, and then total unit sales plunged by nearly 40% from 1H18 to 1H19, although apartment prices increased by about 10% y-o-y in the first half of 2019.

The unusual plunge in the volume of sales, concurrent with a healthy increase in prices is attributable to a regulatory crack down on property developers in HCMC that limited the launch of new apartment units. Issues regarding land acquisition were subject to government review stemming from improprieties involving high-ranking government officials and senior banking executives. Additionally, the supply of new units in the Thu Thiem area of HCMC was constricted over land ownership disputes which delayed the

zoning permissions necessary for the launch of several new large and high-profile projects.

The restrictions on new supply inflated certain segments of the market and prompted a circa 10-20% increase in the price of existing apartments in the secondary market, thus more-or-less closing the gap between the prices in the secondary and primary markets. Unsurprisingly, there was also a fairly large differential between the increase in apartment prices from 1H18 to 1H19 in Hanoi (+3% y-o-y), and in supply-constrained HCMC (+14% y-o-y).

In 2020-21, a pent-up supply of new housing units is expected to be unleashed on the market as outstanding legal issues are resolved. The resulting surge in supply will put severe downward pressure on prices - especially in HCMC - but it is also likely that the government will make significant progress towards its long-term plan for the development of HCMC from now to 2030, which could help to stabilise prices somewhat.

The "2030 Construction Master Plan" covers topics such as planning for highways and railway lines out to geographic areas that will eventually become the suburbs of HCMC in years to come. This is likely to encourage speculators to bid up the prices of previously very cheap plots of land in areas identified for future growth, similar to the mini bubble in property prices that unfolded during 2018 in certain peripheral geographies of HCMC, such as District 9.

Finally, although the number of newly constructed apartments that are sold annually in HCMC and Hanoi doubled, from about 30,000 units in 2011 to about 60,000 units in 2018, the amount of housing being developed for middle-class workers is still insufficient, and the housing that is being developed for that segment is still affordable to those prospective homebuyers.

Risks

In our opinion, the primary risks to Vietnam's stock market and economy are external. We see little likelihood of past endogenous issues (e.g., reckless money supply growth) significantly perturbing Vietnam's macro-economic stability. The two biggest exogenous risks in our view are that a surge in the value of the USD will cause a contagion in EM currency markets and stock markets, and/or that a significant escalation of trade tensions will damage global investors' sentiment and lead to a steep depreciation in the value of China's currency as discussed above.

Finally, if an EM FX contagion were to unfold, we believe that Vietnam's exchange rate and stock market would probably outperform those of its EM peers, given the country's persistent current account surpluses.

.....

Manager's report for Vietnam Holding:

State of the economy

Vietnam's macro environment is on the whole stable: benign inflation and well-managed interest rates have so far supported Vietnamese consumer confidence as it reached a record high index level of 129 in Q1 2019, ranking third most optimistic globally, according to a Nielsen survey.

Vietnam is an increasingly open economy, with exports and imports each accounting for the equivalent of 100% of GDP, supported by numerous free trade agreements, including a recently signed bilateral trade treaty with the EU. Although there was a small trade deficit of USD 100m at the end of June, for most of the year there has been a

trade surplus. Vietnam is expected to remain the fastest-growing ASEAN economy in the near term with growth of 6.9%².

The Vietnamese Dong has been relatively stable, depreciating only by 2.1% against the United States Dollar during the year, and in-line with the trend of 2-3% per annum it has experienced over the last 25 years. The country has seen record levels of Foreign Direct Investment (FDI) and this has contributed to record levels of FX reserves, which reached USD 68bn as at 30 June 2019.

2019 outlook

Macro:

In last year's annual report, we talked about the prospects for a stronger US Dollar and the possibility of a lengthy trade war between the US and China. As anticipated, Vietnam has benefitted from the trade war so far, with record levels of Foreign Direct Investment (FDI), increased market share of exports to the US, and net inflows of foreign funds to its domestic capital markets.

Although the outlook for the global economy remains mixed, the growth in the domestic Vietnam economy supports the Fund's investment themes, and the portfolio has been rebalanced to benefit from this in the medium term. FDI inflows are expected to remain strong for the rest of the year (USD 18bn, equivalent to 6.1% of GDP is forecast for 2019). The fears of a weaker Vietnam Dong have been kept in the cupboard for much of the last year and core inflation is currently below 2%. With these relatively modest levels of inflation, there is some room for maneuver for the State Bank of Vietnam (SBV) to remain accommodative to support growth.

Market:

During the year Vietnam remained as a 'Frontier Market' in the MSCI classification, now accounting for almost 18% of the MSCI Frontier Market Index. The much-talked-about upgrade to MSCI 'Emerging Market' status is still some time away, and dependent on continued market reforms. During the year there were several innovations in the equity markets, the biggest being the introduction of covered warrants on major stocks, but the key obstacle to inclusion in the MSCI Emerging Market Index is the existing foreign ownership limits (FOLs) that apply to certain sectors. Foreign investors are already a source of net inflows into Vietnam, and it is estimated that 20% of emerging market funds already have some Vietnam exposure. In the future if Vietnam does 'move up a league' it would be expected to see even more significant flows of foreign capital into its stock markets.

.....

Thailand

(compare country specialist: Asia Pacific ex Japan funds [here](#))

Nicholas Smith, chairman of Aberdeen New Thai Investment:

Overview

It was mainly domestic politics that influenced the direction of Thailand's equity market, over the company's half-year reporting period to 31 August 2019.

In March, Thailand held its first general election in almost five years. The initial outcome was unclear, as neither of the two leading parties could secure a lower-house majority. The ensuing political gridlock unnerved investors and caused a net outflow of capital.

Eventually, the junta-backed Palang Pracharat Party, led by incumbent Prime Minister General Prayuth Chan-ocha, managed to form a coalition government with support from the Democrat and Bhumjaithai Parties. General Chan-ocha was subsequently re-elected as Prime Minister by the 500 members of the House of Representatives and 250 senators. The stock market responded well to the formation of the government and rallied in June. The semblance of stability in the country wooed back investors who expected market-friendly policies to continue.

On the global front, the US-China trade dispute remained unresolved and Brexit continued to dominate headlines in Europe. Washington and Beijing exacted tit-for-tat tariffs on a widening range of goods, while the trade war that ensued had far reaching effects on economies linked to China via its supply chain. While at the time of writing, China and the US were taking steps to reduce trade tension, an effective solution is unlikely to be found soon. The prolonged nature of the dispute has taken its toll on a global scale - China's second-quarter 'official' growth, at 6.2%, was its slowest in almost three decades and the International Monetary Fund cut its global growth forecasts for the world economy for this year. In Thailand, GDP growth for 2019 was similarly downgraded after the economy logged its weakest figure in five years in the second quarter due to subdued demand at home and abroad. To counter this, the government approved a new stimulus package worth over 300bn baht, which it hopes will boost household consumption.

On the policy front, low inflation and a healthy current account allowed the Bank of Thailand (BoT) to hold its benchmark interest rate at 1.75%. It finally cut rates for the first time in over four years in August, driven in part by the inversion of the US-Treasury bond yield curve, usually a harbinger of recession, and the Fed's first rate cut in over a decade in July. The latter prompted major central banks to follow suit. The BoT signalled that its next cut would likely take place in early 2020.

Against this backdrop, volatility in the SET Index over the review period was benign compared to its Southeast Asian peers, as well as the broader emerging markets. This was helped by the robust fundamentals of the companies listed and their resilience in the face of external market pressures. Their good relative performance was also underscored by the baht's strength against the US dollar and sterling. The latter's weakness was due partly to ongoing Brexit concerns. In contrast, the baht has been the best performing currency in emerging Asia since 2018, reaching a six-year high this year. Foreign-exchange reserves stood at a record of over US\$220bn in August.

Outlook

Looking ahead, the escalation of US-China trade tensions is likely to cloud the outlook for Thai markets. The simmering trade war will also compound worries about the

economy, with the central bank recently lowering its growth forecasts. This could dampen corporate earnings outlooks and compel companies to hold back on capital spending or shareholder returns. In addition, tourism, one of Thailand's twin economic pillars, has suffered from reduced visitor numbers. Given that a third of all foreign travellers hail from China, a sustained downturn on the mainland will impact Thailand's GDP growth.

That said, with post-election political uncertainty removed, the manager believes the government's policies will remain broadly supportive of the economy, with a focus on consumption and public investment while the energy sector and tourism-related businesses should continue to fare well. Private investment should also benefit from the relocation of some manufacturing facilities to Thailand from China, and from renewed government spending on public-private infrastructure projects. At the same

time, improving sentiment towards emerging markets, following the Fed's less hawkish stance, also bodes well.

.....

Biotech and healthcare

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

Carl Harald Janson, Ailsa Craig and Marek Poszepczynski, managers of International Biotechnology Trust:

Outlook: Q&A with the managers

How has the sector changed over the past 12 months?

It has certainly been an interesting 12 months for the sector! There have been a number of large mergers & acquisitions (M&A) transactions, some high-profile failures, but also a large number of successful drug approvals and drug launches. The long-term outlook remains positive but the debates between Democratic presidential nominees have dragged healthcare spending back into the spotlight. We expect it will remain a topical issue going into the US election next autumn and it is one of the key reasons why the sector is currently out of favour. But we believe the chances of any government implementing industry-damaging reforms are low - while Medicare-for-all sounds like a great idea, there is no viable plan for rolling it out.

Do you think Brexit will impact the sector at all?

The majority of our portfolio companies are US companies with products marketed all over the world, so in that respect we expect the impact to be minimal.

What about the longer-term outlook?

The underlying drivers are as strong as ever. Over 55s account for 55% of US healthcare spend. Globally, the number of over 55s is set to double in the next thirty years, so spending on the treatments and drugs must increase too.

Will companies in the biotechnology sector be able to meet this increasing demand

Yes, absolutely. Luckily for all of us, the unstoppable force of scientific innovation continues to churn out better treatments to help people overcome disease and live longer. Last year the FDA approved a record 59 new drugs whilst a record number of clinical trials were registered, almost double the number ten years ago. We expect this direction of travel to continue over the next decade and a half as supply keeps pace with demand.

Where is the most exciting part of the market, in terms of drug development?

Oncology and rare diseases are both exciting areas. In oncology, treatment options have multiplied beyond imagination over the last 20 years, yet each year we continue to see better, more-targeted therapies. The treatment of rare diseases is an area that has progressed so much in recent years. A significantly increased understanding of the biology of complex diseases coupled with the pricing power of these unique and innovative treatments means that diseases that once killed can now be cured. This rapid rate of development shows no sign of slowing.

Do you position the portfolio to take advantage of this?

Oncology and rare diseases are our top therapeutic categories but that's because we have analysed these companies and believe in their long-term growth potential. Our stock selection process is bottom up, but the higher weightings of these sub-sectors in our portfolio is reflective of the value we think they represent.

You mentioned the M&A transactions this year, do you think this will continue?

M&A is a hallmark of biotechnology and pharmaceuticals. As large companies struggle to maintain earnings growth, small companies are busy discovering and developing the next new innovative treatment. The problem is that small companies don't have the platforms from which to launch that treatment. That's why two-thirds of drug development takes place in small companies, but two-thirds of distribution takes place in large companies. Eight of the stocks in the company's portfolio were acquired in the last 18 months, with investors repeatedly benefitting from the premium paid by acquiring companies.

Environmental, Social and Governance factors are increasingly important considerations for many investors. How does biotechnology lend itself to responsible investing?

Over the last five years there has been a revolution in responsible investing, with a growing number of investors embedding this approach into their portfolios. While it's quite straightforward to select companies with a good environmental and governance record, selecting those with a strong social agenda is more difficult. The healthcare sector has a unique contract with policy makers and consumers. Periods of patent exclusivity incentivises the industry to find new drugs which treat unmet needs. Once those patents expire, however, these new therapies are often available for cents in the dollar in perpetuity.

.....

Debt

(compare debt funds [here](#))

Ian "Franco" Francis, manager of CQS New City High Yield:

Another year, another Brexit dominated news agenda in the UK. Despite losing any number of Westminster votes on her Brexit deal, Theresa May managed to cling onto power until finally resigning as leader of the Conservative party in May 2019. We now have a new Prime Minister in the shape of Boris Johnson to try and steer the country ahead with an impending EU exit date of 31 October.

The UK economy has been very weak for most of the last 12 months. There was a pick-up in manufacturing activity in the first quarter of 2019 as companies stockpiled ahead of the earlier end of March Brexit date, but as that tide has gone out, the economy has become more exposed to the uncertainties caused by Brexit and global trade wars. Manufacturing, Construction, the Service Industry and Consumers desperately want some certainty to plan ahead. Sterling has continued to weaken against major currencies and the retail and consumer sectors continue to have a tough time.

In Europe, the steady growth we have seen in previous years has been replaced by slowing or no growth and companies have been cutting back on hiring as a sense of

pessimism grips the Continent. The traditional powerhouses of Europe are all experiencing problems with low growth and falling manufacturing orders sitting alongside political uncertainty and the US /China trade war, with the associated risk that President Trump gets tough on European trade, further hitting, in particular, the German manufacturers. Towards the end of our financial year there was a changing of the guard at the European commission with new Commission, Council and ECB Presidents being appointed. They have the onerous task of stimulating growth and dealing with the recalcitrant UK.

Although the United States continued to power ahead economically over the last 12 months (despite the US Government being shut for a record 35 days at the start of the year), we have seen some recent signs that the US economy may be starting to cool down. Trade wars in the shape of actual and implied tariffs against China appear to be having real effects on the US economy and the threat of slowing growth has prompted the Federal Reserve to start cutting US interest rates. President Trump has continued to lambast the Fed for (in his opinion) raising rates too soon and then not cutting them swiftly enough. In our opinion he is trying to deflect the real reason behind the slowdown, the trade war with China.

Shareholders may have read that almost a third of all bonds in the world are now trading at negative interest rates. This is caused by many investors being worried about falls in global growth leading to recession and opting to stay extremely safe by investing in mainly highly rated Government debt and happy to take the small loss implied by such rates. It is a worrying sign as inverted yield curves have been the forerunner of most recessions. Another risk is that without higher interest rates to drive investment in real assets, both Europe and the USA might enter a "liquidity trap" environment, like Japan, whereby it becomes very difficult to stimulate growth.

Your portfolio is mainly invested in the High Yield Corporate Bond market. This was negatively affected by the weakness we saw in global equity markets at the end of 2018, but has since recovered and is offering attractive opportunities to investors.

The number of portfolio companies seeking to repay their higher yielding bonds and replace them with lower yielding paper has declined this year, with the result that investment activity has been muted as we have remained invested in our favoured companies. New holdings in the top ten over the year were Euronav, (last year's number 11 holding) the largest quoted tanker company in the world, and Wittur International, a manufacturer of lift equipment.

As always we continue to maintain a diversified portfolio across a range of sectors and have a good proportion of the portfolio in non-sterling currencies which can act as a hedge against a possible Brexit Sterling collapse. We also favour shorter duration bonds; that is bonds that will repay within a two to three year timetable as we try to hedge against possible interest rate rises.

.....

Private equity

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

Manager's report for HarbourVest Global Private Equity:

Market Environment

Supported by a strong fundraising environment, record dry powder, and buoyant debt markets continuing to underpin asset valuations, the global private equity market

maintained its momentum during the first half of the year. Signals indicating moderation in Europe and Asia were offset by strong year-on-year metrics in the US, providing an overall generally positive outlook across private markets.

Despite high purchase price multiples, investment activity remained stable in the US and Europe, respectively. Valuations in these regions are now above their pre-crisis levels ten years ago, requiring managers to be disciplined in selection. Many have favoured participation in follow-on rounds or bolt-on acquisitions, which continued to represent a substantial portion of first half deal count. Take-privates, or public-to-privates (P2Ps), continued to increase deal flow; with the recent P2P announcements in Q2, this is expected to be a record year. Investment volumes in Asia Pacific were significantly lower year-on-year, largely due to a sharp decline in China resulting from a slowdown in large late-stage technology financing rounds.

Strong exit activity in the US was countered by weaker levels in other regions. In Europe, despite a good second quarter, the first half of the year had a 7% decline in exit value and 30% less exit activity compared with the same period last year. The difference between these figures was a result of larger average transaction sizes, primarily attributable to several closed mega deals worth a total of €26bn over the first half of the year. Exit levels in Asia were moderate following a very strong 2018. The US was more consistent and remained robust, particularly across venture and growth equity, given the notable IPO registrations during the period.

.....

Hedge funds

(compare hedge funds [here](#))

Manager's report for Gabelli Merger Plus+:

Global deal activity

Global merger and acquisition activity (M&A) totalled \$2trn during the first half of 2019. While this was a year over year decrease of 12%, it was the third largest first half year on record. Deal making picked up in the second quarter, which recorded a 10% increase quarter over quarter and surpassed \$1.0trn in activity for only the tenth time since 1980. This was largely driven by "mega deals"-those with a value of over \$5bn-which accounted for 50% of announced M&A in the half.

Cross border M&A activity totalled \$509bn during the first half, a decline of 45% and the weakest start to a year since 2013. On the other hand, private equity-backed buyouts saw the highest first half total since before the financial crisis, accounting for over 13% of total M&A activity.

M&A was driven again by deal volume in the United States, which had its strongest start to a year on record. U.S. targets saw \$1.1trn in deal activity through 30 June, an increase of 19% year over year. European M&A fell to a six year low, tallying only \$305bn of transactions over the same period, a decrease of 56%. Asia Pacific and Japan saw declines of 27% and 24%, respectively.

The Healthcare sector was the biggest contributor to merger activity during the first half, totalling \$363bn, an increase of 17% compared to 2018 levels. This accounted for nearly 18% of total announced deal volume. The Energy and Technology sectors were

also large contributors, accounting for 15% and 12% of overall M&A activity, respectively.

Year in review

After suffering its worst quarter in nearly a decade at the end of 2018, the U.S. equity market bounced back in the first half of 2019, marking a 10-year bull run. Markets got off to a hot start in January on the back of dovish commentary by Federal Reserve Chairman Jerome Powell, who stressed his willingness to use every tool at his disposal in the event of an economic downturn. The Fed provided further dovish fodder for the market following their January meeting, as it removed all references to rate hikes from its meeting policy statement. This momentum carried throughout the spring, as U.S. equities hit new all-time highs in April.

Economic data were fairly mixed in the first quarter of 2019. GDP and average hourly pay grew at a fairly robust pace of 3.1% and 3.2%, respectively, while the unemployment rate held steady at below 4%. However, trade tensions have somewhat stymied business activity, as U.S. manufacturing PMI recorded only 50.6 in May, the lowest level since 2009. Equities sold off sharply in May on the back of trade concerns, as President Trump threatened to impose tariffs on Mexican imports and extend those that already targeted China.

Since May, headlines of progress on trade talks and signals of easing monetary policy have driven markets once again to new highs. Yet, over the same period, the yield curve has inverted. This has been a precursor to every recession for the last 50 years.

While there is no shortage of macro risks in the market, we continue to expect that robust balance sheets, growing cash reserves, and open debt markets will act as a driver of corporate merger activity in the near term, as companies use M&A as a means to stimulate growth.

.....

Property – rest of the world

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

Manager's report for Macau Property Opportunities:

Property market overview

Residential property slower off the blocks but picks up pace in Q2

This year saw a slow start to residential real estate sales, with transactions declining 78% YoY in the first two months - due mainly to a bumper 2018, when buyers rushed to purchase property ahead of the introduction of government anti-speculation measures early in the year.

Since March, however, the market has gathered momentum on the back of new launches in the affordable segment of the residential sector. A total of 2,623 residential units were sold in Q2 2019, which was 13% less than the same period last year but represented an increase of 102% quarter on quarter.

In the first half of 2019, the number of residential transactions totalled 3,920, a drop of 42% YoY.

Luxury residential segment still subdued

Although the residential property market continues to be dominated by first-time buyers seeking homes priced under MOP8m (approximately US\$1m), who accounted for more than 83% of all transactions in H1 2019, at the other end of the spectrum, at which MPO operates, the secondary market for high-end properties remains subdued.

Capital controls imposed by Beijing, restricting the outflow of yuan from mainland China, have impacted luxury property purchases by Chinese investors in Macau, as well as other investment destinations. In Macau, this has been compounded by anti-speculation measures that have made mortgage terms more restrictive and driven up property purchase costs for investors. Coupled with broader uncertainties, these have prompted reluctance among potential buyers to make new investments and commitments involving large sums.

Commercial property market holding steady

In the commercial sector, the market for office properties held steady. In H1 2019, the overall office vacancy rate was maintained at 7%. Rental values in the overall office market were up 3.1% at the end of June 2019 compared to December 2018, while rentals of Grade A offices were stable. The market for retail properties also remained steady during the same period, with overall rental values stable in H1 2019 compared to the end of 2018, while overall retail capital values fell slightly by 0.4%.

Neighbouring Greater Bay Area markets offer opportunities

In Hong Kong, protests against a controversial extradition bill have affected local businesses and tourism, and have spilled over to impact sentiment in Hong Kong's mass residential market, with slower capital value growth in July. Office leasing momentum remained weak, with rents falling 0.1% month on month in July.

In contrast, Zhuhai's property market remained healthy after the easing of housing regulations in May. In July, sales of residential units increased 181.6% YoY, based on data from real estate agent Centaline Macau.

In Hengqin, the real estate market received a boost from the easing of restrictions on sales of property to Hong Kong and Macau residents, and the completion of major infrastructure in the GBA. With a slew of tourist attractions progressively opening in Hengqin, the property sector will receive a continued boost from increased tourist arrivals. Residential sales transactions reflected this dynamic, totalling 428 in July, a record high not seen since September 2016.

Looking ahead

The economic outlook for Macau's luxury property segment is both challenging and uncertain. Growth in mainland China's economy is at its lowest level since economic opening began several decades ago, and the US-China trade dispute shows few signs of abating. The ongoing unrest in Hong Kong may also have a temporary negative impact on Macau's economy and property market.

Yet encouraging signs remain.

China's central bank has cut its required reserve ratio and Beijing has announced tax and fee cuts to boost the economy. The central bank also recently indicated a willingness to continue to introduce monetary easing measures, as required, to maintain growth.

With improved connectivity and infrastructure in place, Macau's economy can be expected to grow and diversify, cementing the territory's appeal as an international

investment, business and tourism destination. This should ultimately lead to a resurgence in demand for mid-range and high-end residential properties, providing a boost to the Company's divestment programme.

.....

Commodities and natural resources

(compare commodity and natural resource funds [here](#))

Ian "Franco" Francis, Keith Watson and Rob Crayford, managers of CQS Natural Resources Growth And Income:

Outlook

Beyond the headlines of trade wars and central banks reducing interest rates globally, again addressed in more detail later on, the underlying simple fundamentals of supply and demand continue to look constructive. The valuations of the underlying producers look favourable versus historic levels and especially against other sectors. This discount is even more extreme when looking at smaller companies (<\$1bn) with many of our names trading at 0.5x & 0.6x P/NAV for gold and base metal miners, due to an additional discount by virtue of not meeting liquidity requirements for large funds and passive ETF's.

Against this geopolitical events have also weighed on the sector raising demand concerns, deferring the broader sector recovery we expect. Put simply, commodities and mining especially have been out of favour for over 5 years, this has led to a greater focus on capital discipline which has resulted in a dearth of new capacity additions now and for the next few years.

Against this background of muted supply growth even a low level of demand growth would tighten the market and support higher pricing. The key question is therefore demand, with increasingly negative sentiment resulting from the prolonged US-China trade war. We believe this sentiment has overshot to the downside, with a greater risk that any improvement or resolution could lead to a recovery in demand growth and a scenario where the world is in supply deficit for many commodities, an environment that would lead to better pricing. China still looks to grow by 5-6% per year, and though stimulus has been thus far limited we believe a slowing beyond this could prompt more action.

We have no crystal ball as to how the trade war will develop, in part due an unpredictable US president. We have opted to position for this backdrop with a large weighting to precious metal miners as useful portfolio insurance. We are comfortable with this weighting as gold equities have recently shown their ability to act with a negative correlation to the broader market, thus offering protection against weakness, but also because we believe they are attractively valued, even at a gold price lower than the \$1520/oz we see today (24.9.19), so can perform well under either scenario.

Geopolitics

The most significant of these is the US/China trade war, with commodity markets driven by daily tweets from US President Donald Trump. There is a strong argument to suggest President Trump may become more amenable to negotiating given the slew of negative global growth data that is now having knock on impacts on US domestic growth. This is especially poignant coming in to 2020 as an election year. The US continues to see a trade deficit despite the tariffs, with the deficit at \$55.2Bn in June, or

\$662Bn annualised, which compares to \$621Bn in 2018. It is notable that \$419Bn was with China in 2018, which is why President Trump is so focused on it, although it could be easily reduced via major agricultural and energy imports, which will likely form part of any solution.

If the current uncertainty extends materially leading to continued negative global growth data, China will likely respond to any domestic slow down through a pickup in stimulus. This is a fine balance for China, as reducing rates would act to lower the Yuan relative to the USD, a key focus of President Trump, risking an escalation of a currency war.

US sanctions curtailed supply in Iran and Venezuela which initially supported the oil price. This was further compounded by tensions as Iran impounded a UK flagged oil tanker and threatened to shut down the key shipping route of the strait of Hormuz. Whilst their threat is unlikely it highlights the potential for an escalation of the wider Middle East region, a key supplier of oil globally. In the second half of the financial year oil has pulled back on demand concerns from fall out from trade conflicts on global growth and more recently the expectation of growth in US oil supplies, which we have well flagged and a key reason for our low weighting to energy producers. On the 14th September we saw an attack on a major Saudi oil facility, impacting 5M barrels per day of oil supply, with Iran the most likely perpetrator. In the days that followed Saudi reported being able to add back much of this production with the intention of returning to full production by the end of the month. The relatively muted response in oil prices, ending the week up by 7% highlights the spare capacity within the global oil system. We remain cautious on the oil price, but are increasingly less so, noting that US production growth is slowing and increasing Middle East tensions add to the potential for supply shocks. We will gradually look to add to our current low level of energy weighting within the fund. Brexit also remains a key uncertainty and whilst significant to us in the UK, its impact is limited on the wider commodity market.

Precious Metals

Gold and silver have been the notable out performers in the commodity space. The performance of the fund has been a key beneficiary given the circa 25% weighting to precious metals. The declining interest rate outlook has been the main cause of improved sentiment, leading to \$16trn of negative yielding bonds, but this has been caused by slowing global data due to the trade war between the US and China.

President Trump's enforcement of sanctions and tariffs on countries which he wishes to exert leverage upon has elevated the risk for many to rely on the US dollar as a settlement mechanism. This has led to strong Central Bank buying, adding 374t in the first half of 2019, the largest addition in the 19 years of the World Gold Councils' data series. This is encouraging for the sake of gold and precious metals, as it suggests we will see continued purchases for the foreseeable future from a number of very large and sticky buyers. The physical ETF's for comparison have shown meaningful physical additions, but they also present a risk if these typically faster money acquirers were to switch to selling.

Base Metals

Base metals were weaker on global demand concerns due to the US/China trade war. The fund has a meaningful exposure which has weighed on performance. We had not expected trade talks to be so protracted and lead to such a negative impact on global growth. President Trump is now very motivated to strike a deal as it has started to impact US equity performance, on which he partially grades himself. The true knock on implications are now being felt with warnings from the likes of Apple as to their reliance on parts delivery. At the time of writing President Trump had just extended the period which US companies are allowed to trade with Huawei. This trade war has offset what

we had believed was a positive fundamental backdrop of constrained supply, following a 5 year period of minimal capex on new projects and thus there is a lack of new supply. Base metal prices today are implying a very bearish outlook for demand which we believe is too negative, although this is clearly dependent on trade war developments. The uncertainty that has come from the present situation has extended this period of reduced development activity, with very few new projects being sanctioned. If we do see anything better than a very bearish outcome it could lead to a strong rebound in the underlying metals and equities.

Oil

Oil was very weak over the period. The initial weakness came from demand concerns on slowing global growth, but this latterly became more focused in increasing US production. We have repeatedly referred to this risk as the US adds new pipeline capacity, with the Permian basin adding 1-2M barrels per day of capacity over the next few months, which is why we maintained minimal exposure.

Shipping

The Fund's shipping exposure is partly to gain exposure to the energy themes we see. As shale oil is increasingly exported from the US to Asia, the longer shipping routes increase utilisation for the entire fleet. Propane [*is transported*], again primarily from the US to Asia. Propane is produced as a by-product of shale production, so the increased production will increase flows and the spread between pricing which supports higher day rates for vessels.

Additionally all shipping looks likely to benefit from a new ruling, IMO 2020, requiring shipping vessels to use less sulphur in their shipping fuel. The impact of this is to elevate the fuel price which is worn by the customer, but therefore encourages slower steaming to increase efficiency. This will act to increase the utilisation across the sector overall, benefitting day rates. At normal day rates all of the shipping names held in the fund would pay meaningful double digit dividends.

.....

QuotedData

QuotedData is a trading name of Marten & Co, which is authorised and regulated by the Financial Conduct Authority
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)

IMPORTANT INFORMATION

This note was prepared by Marten & Co (which is authorised and regulated by the Financial Conduct Authority).

This note is for information purposes only and is not intended to encourage the reader to deal in the security or securities mentioned within it.

Marten & Co is not authorised to give advice to retail clients. The analysis does not have regard to the specific investment objectives, financial situation and needs of any specific person who may receive it.

This note has been compiled from publicly

available information. This note is not directed at any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the publication or availability of this note is prohibited.

Accuracy of Content: Whilst Marten & Co uses reasonable efforts to obtain information from sources which we believe to be reliable and to ensure that the information in this note is up to date and accurate, we make no representation or warranty that the information contained in this note is accurate, reliable or complete. The information contained in this note is provided by Marten & Co for personal use and information purposes generally. You are solely liable for any use you may make of this information. The information is inherently subject to change without notice and may become outdated. You, therefore, should verify any information obtained from this note before you use it.

No Advice: Nothing contained in this note constitutes or should be construed to constitute investment, legal, tax or other advice.

No Representation or Warranty: No representation, warranty or guarantee of any kind, express or implied is given by Marten & Co in respect of any information contained on this note.

Exclusion of Liability: To the fullest extent allowed by law, Marten & Co shall not be liable for any direct or indirect losses, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note. In no circumstance shall Marten & Co and its employees have any liability for consequential or special damages.

Governing Law and Jurisdiction: These terms and conditions and all matters connected with them, are governed by the laws of England and Wales and shall be subject to the exclusive jurisdiction of the English courts. If you access this note from outside the UK, you are responsible for ensuring compliance with any local laws relating to access.

No information contained in this note shall form the basis of, or be relied upon in connection with, any offer or commitment whatsoever in any jurisdiction.

Investment Performance Information: Please remember that past performance is not necessarily a guide to the future and that the value of shares and the income from them can go down as well as up. Exchange rates may also cause the value of underlying overseas investments to go down as well as up. Marten & Co may write on companies that use gearing in a number of forms that can increase volatility and, in some cases, to a complete loss of an investment.