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Monthly summary | Investment companies

January 2020

Economic & Political Roundup

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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

Global stocks ended 2019 on the front-foot, to complete their best yearly advance since 2009. A return to interest rate cutting by the Fed, the US central bank, is prolonging the bull market. Elsewhere over December, progress in US / China trade relations and a Conservative Party victory with a clear majority in the UK general election affected sentiment positively.

Global

Cheap money catalyst should not disguise lingering uncertainty

Blue Planet's manager, Kenneth Murray, believes conditions are rife for another financial crisis as debt levels soar. In the event of a crisis, he believes central banks would have far fewer options to intervene this time around. Nick Train, manager of Lindsell Train, explains why the trust focuses on 'running its winners.' James Will, chairman of Scottish Investment Trust, reflects on the spread of negative yielding government bonds. He says that It is uncertain if this more mainstream adoption of negative interest rates will prove transient or become the norm and that its long-term implications are not well understood.

UK

Cautious optimism following election

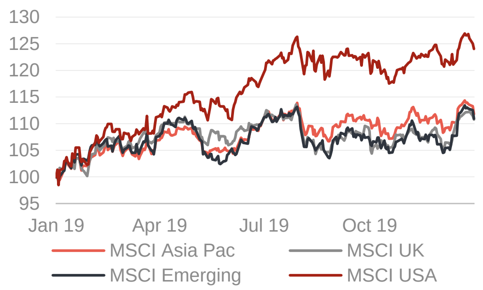
Artemis Alpha's managers, John Dodd and Kartik Kumar, say there is compelling value in fundamentally strong businesses. They expect the December general election outcome to allow investors to investors to resume concentrating on companies, rather than political matters…

Exchange Rate	31/12/19	Change on month %
GBP / USD	1.3113	+1.5
USD / EUR	0.893	(1.6)
USD / JPY	108.88	(0.6)
USD / CHF	0.9694	(3.1)
USD / CNY	6.984	(0.7)

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/01/2019 to 31/12/2019



Source: Bloomberg, Marten & Co

	31/12/19	Change on month %
Oil (Brent)	68.44	+9.6
Gold	1515.16	+3.5
US Tsy 10 yr yield	1.8788	+5.8
UK Gilt 10 yr yield	0.867	+24.4
Bund 10 yr yield	-0.188	(48.1)

Source: Bloomberg, Marten & Co

UK (continued)

…Steven Bates, chairman of BMO Capital & Income, believes that low interest rates are hiding a multitude of sins, which is keeping poorly managed companies in business. He expects rates to remain low for a long time and questions the outlook for future productivity and growth as lingering uncertainty depresses capital investment. Steven is of the view that central banks do not believe that the global economy is robust enough to withstand higher rates and there is too much debt in the system to allow a significant slowdown or recession.

In the view of Blackrock Income & Growth's chairman, Jonathan Cartwright, as the dust settles on the general election outcome, it remains to be seen whether a comprehensive trade deal with the EU can be negotiated by the deadline of the end of 2020. BMO UK High Income's chairman, John Evans, says the recent increase in UK corporate activity could be a good sign that value exists and is encouraged that a wider range of investors appear to share this view. Chelverton UK Dividend's manager's report says there are signs that UK growth will be maintained and might, next year, start to gently accelerate. The trust is also re-assured by the fact that many of their underlying companies continue to increase dividends, with many balance sheets in good shape.

Mark Barnett and James Goldstone, managers of Edinburgh, reflect on the substantial differential between highly rated global non-cyclical stocks and depressed domestic economically sensitive shares. This differential sits at a multi-year high and offers the most glaring opportunities within the UK stock market, in their view. The managers believe the extent of this mispricing is highlighted by the spread between dividend yields and corporate bond yields over the past ten years. Over this period, dividend yields have remained broadly flat, whilst corporate bond yields have declined markedly. Mark and James also discuss the pick-up in M&A activity in the UK.

James Henderson and Laura Foll, managers of Lowland, note that companies in aggregate, are reporting results in line with modestly reduced expectations. This suggests the current slowdown in global economic activity is, at least to a degree, reflected in earnings forecasts. Andy Pomfret, chairman of Miton UK Microcap, believes that importantly and uniquely, the UK stock market contrasts with others in that it has retained a vibrant universe of quoted microcaps over the period of globalisation. He believes that UK microcaps themselves are overdue a period of major performance catch-up. Finally, the manager of Schroder UK Mid Cap touches on recent surveys indicating that UK consumer confidence remains stable and that UK consumers are more confident about their personal economic situation than about the country's general economic prospects.

Flexible investment

Germany has been a casualty of the trade war. It stands on the edge of a recession.

Mike Brooks and Tony Foster, managers of Aberdeen Diversified Income and Growth, expect listed equity returns to be lower than their long-term average. This is partly a function of subdued long-term economic growth expectations, but also due to cyclically-stretched profit margins, especially in the US. However, they do have some concerns about the outlook for the business cycle. While their base case is for the continuation of sluggish economic growth, there is a relatively high downside risk of a global recession. In fixed-income, they believe emerging market government bonds are a relatively attractive asset class - particularly the local currency variety. Yields are high, especially relative to developed market bonds, offering strong income returns.

Hansa's manager, Alec Letchfield, thinks that a casualty of the trade war has been Europe, especially Germany. With exports central to the German economy, particularly to China, he notes that Germany stands on the edge of recession. Alec's report goes on to discuss the following key themes:

- Inverted yield curves: Precursor to recession?
- Value vs growth: Will value investing reassert itself?
- Peak margins: A mean reverting factor?
- Peak valuations: Time to sell?

Elsewhere, JPMorgan Elect's chairman, Alan Hodson, says equities still appear fairly valued when compared to most other investment alternatives, particularly in the UK. He also discusses his view that, over the longer-term, events at Woodford Investment Management will prove beneficial to investment trusts generally. Finally, Seneca Global Income & Growth's say that after the 10-year bull-market, signs are that things will change. PMIs are falling, tensions remain high between the US and China, and in the UK, we will still have many more twists and turns before there is any resolution to Brexit.

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Asia Pacific

Growth in China fell to its lowest level since 2008

We hear from Aberdeen New Dawn, whose chairman, Donald Workman, reflects on the trust's six-month accounting period to 31 October 2019. The US-China trade dispute was crucial in shaping sentiment. The optimism that fuelled gains earlier in 2019 subsided after talks stalled and new tariffs were announced. Other emergent geopolitical issues – including the Japan-Korea dispute, the unrest in Hong Kong and events in the Middle East – also unsettled markets. Donald adds that continued monetary easing, from central banks globally, helped stocks avert deeper losses, as weak exports and lower factory output compounded worries about slowing global growth. As well as cutting interest rates, several governments turned to stimulus tools, such as tax cuts and extra spending, to offset the downturn. Touching on India, Donald noted that structural reforms and growth-friendly policies continue while a much-welcomed corporate tax cut could be a near-term fillip for business sentiment and the economy.

We also hear from the managers of JPMorgan Asian, who note that in China, economic growth went into reverse, falling to its lowest rate since the global financial crisis of 2008 and domestic demand softened. They go on to discuss thematic opportunities around Asia, noting that penetration rates of financial services remain low and favourable demographics, urbanisation shifts and growing middle class populations provide great growth potential for wealth, insurance and mortgage products, as well as for broad-based retail banking services. The managers' base case for 2020 is slower but still positive economic growth that should be supportive for Asian equities.

Elsewhere, Schroder AsiaPacific's belief is that earnings growth expectations look too sanguine for 2020, and this will feed through to dividend out-turns. The manager's report goes on to add that many pieces of the jigsaw for recovery might fall into place (trade truce, recovery in Western economies, re-stocking, a return of corporate confidence) but these are not their central expectation.

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Technology and media

Size of the addressable market for fintech could potentially be over $4 trillion.

Neil England, chairman of Augmentum Fintech, says the opportunity for fintech remains considerable and that the sectors the company is targeting have an addressable market of over $4 trillion. He notes that the penetration of digital disrupters remains small. Neil expects this to change over the next ten years as while many of the core financial systems and players remain fundamentally the same as they did 10 years ago, the next decade is likely to bring considerable change. We also hear from

Polar Capital Technology's manager, Ben Rogoff. He says that fundamental improvement was most apparent where it was least expected, with Apple and the smartphone supply-chain delivering some of the best returns over the trust's first half. Ben takes us on a tour-de-force of the global technology industry, including several anecdotes such as the fact that nowhere is the collision of virtual and real worlds more apparent today than in our selection of life partners with around 40% of people meeting online today as data and artificial intelligence disintermediate friendship.

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Infrastructure

Clean energy generation no longer seen as a purely defensive investment.

Jean-Hugues Lamaze, the manager of Ecofin Global Utilities and Infrastructure says that the adoption of climate change targets such as 'carbon neutrality' and 'zero emission' by an increasing number of countries and companies bodes well for an acceleration in the development in clean energy. Unlike in the past when the power generation sector was seen as purely defensive, the trust says the clean generation universe in particular has shifted to providing predictable growth, an attractive feature in uncertain times and a strong support for stock values. Economic infrastructure shares, in the manager's view, still look undervalued relative to the bond market, to their own solid fundamentals and growth prospects, and to the valuations that private equity operators are ready to pay for comparable assets.

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Royalties

Proven songs now a comparable or better alternate investment than gold and oil?

Hipgnosis Song's founder, Merck Mercuriadis, reflects on the latest results from results from Spotify and Apple, which continue to highlight how the world has changed the way it consumes music. Merck says that streaming growth, both in the Western world and emerging markets, is driving proven hit songs revenues and therefore drives values up. Most excitingly with forecasts of 2bn paid subscribers by 2030, we are only at the start. He goes on to say that the songwriter is more responsible than anyone for the success of an artist and the music industry in 2019 and they and their songs must be properly recognised. With investors needing uncorrelated assets more than ever, and proven songs producing reliable and predictable income, the new asset class of proven songs is, in Merck's view, now more investible than gold and oil.

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Other

In a bumper issue, we have also included comments on North America from Gabelli Value Plus+; Europe from JPMorgan European Smaller Companies and JPMorgan European; Japan from Atlantis Japan Growth and JPMorgan Japanese; China from JPMorgan Chinese; India from JPMorgan India; Brazil from JPMorgan Brazil; debt from Henderson Diversified Income; leasing from Amedeo Air Four Plus; biotech & healthcare from Polar Capital Global Healthcare; environmental from Jupiter Green; renewable energy infrastructure from Gore Street Energy Storage and SDCL Energy Efficiency Income; infrastructure from Infrastructure India and commodities and natural resources from Polo Resources.

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Polar Capital Global Healthcare Trust plc

Healthcare Disrupted

Greater efficiency is the catalyst for information technology to finally disrupt 20th century healthcare systems. Technology is transforming the way that healthcare is managed, delivered and paid for and so changing the competitive structure of the industry. This shifting landscape is creating investment opportunities that extend well beyond the familiar pharmaceutical companies.

Find out how the **Polar Capital Global Healthcare Trust** is seeking out and taking advantage of these investment opportunities.

London Stock Exchange Ticker: PCGH

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Global

(compare Global funds **here**)

Kenneth Murray, manager of Blue Planet:

Outlook

The current bull market is to a large extent the product of central bank monetary policies. Those policies have both financed and driven the bull market by flooding the banking system with excessive amounts of cheap liquidity, encouraged borrowing and discouraged saving. These are the same policies that led to the financial crisis of 2008/9, and of which we forewarned in 2007. They have also created enormous bubbles in bond, property and other markets. Meanwhile low and negative interest rates, flat yield curves and disastrous “money laundering” regulations, which have led to banks treating their customers as though they were criminals, have destroyed the unsurpassed levels of goodwill they once enjoyed with the public and left them as mere shadows of their former selves; weak and unable to withstand another major financial crisis. They may have higher capital ratios than they did in 2007/8 but they are simply insufficient to stop many of them from failing in another major financial crisis. Grossly irresponsible borrowing and spending have left governments in a similarly weak position.

Those policies have also trapped the central banks, whose options for manoeuvre are rapidly dwindling and soon they will have none. Another financial crisis is now inevitable as debt levels soar to nosebleed heights and it is likely to be significantly worse than the crisis of 2008/9. If anybody is any doubt as to the scale of these bubbles, they need only look to the negative interest rates currently prevailing on about one-quarter of all the bonds in the world and increasingly on bank deposits to see how detached from reality pricing has become. No sane person would or should lend money at negative interest rates. They would be far better off putting it in a safe, that way they avoid entirely the risk of default and the guaranteed loss that is implicit in negative interest rates. Negative interest rates, if left unchecked, will also ultimately lead to the banking system being starved of liquidity as rational investors choose not to deposit their money in banks but to retain it instead. Furthermore, as the risk of the wholesale collapse of banks rises, the incentive for savers to withdraw their money from the banking system will also rise and as banks are nearly always brought down by liquidity, rather than solvency problems, that is in itself concerning.

The bubbles that now exist in so many markets are almost certainly the largest that have ever existed and surpass those that led to the Wall Street crash of 1929 and the 2008/9 financial crisis and history tells us that they will burst with untold consequences. While the proverbial party may still be in full swing, as it always is ahead of a crash and the Fed’s volte-face has prolonged it for a bit longer, further interest rate cuts will only serve to make the problem even more intractable and its consequences even more dire.

Whilst there is nothing we can do to correct the mistakes made by central bankers and politicians, we can do our best to try and protect the fund against their consequences. In order to do that, we intend, over time, to re-allocate capital from growth to income stocks, shorten the average duration of our bond portfolio, reduce gearing and to short those markets that we see as being the most overvalued and therefore the most vulnerable to collapse

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Peter Ewins, manager of BMO Global Smaller Companies:

Market review

The period was marked by successive bouts of optimism and pessimism surrounding the state of talks on trade between the US and China. The general slowdown, most notably evidenced in industrial production and purchasing managers indices, fed through into lower bond market yields and growing expectations of policy response from Central Banks.

Over the six months the Federal Reserve Bank cut rates three times by 0.75% in response to the signs of slowdown and an absence of inflationary pressures in the US economy despite unemployment hitting new fifty-year lows. The Bank also signalled that it would again become a net buyer of Treasury bills. With economic data in mainland Europe notably weak, the European Central Bank moved its deposit rate further into negative territory to -0.5% and announced the recommencement of bond purchases from November 2019. Some of the larger Asian economies including India and Indonesia also reduced their interest rates in the period in response to a slowdown in growth and restrained inflation. Elsewhere, in China, the authorities announced a series of measures to support the local economy which has been buffeted by the impact of the US tariffs.

Sterling was weak over much of the period under review but rallied late on as the risk of a "no deal" Brexit sharp shock diminished. The UK economy stagnated through the summer with businesses unsurprisingly unwilling to commit to new investment with uncertainly remaining around the future trading relationship with Europe.

The environment of lower interest rates was supportive for the performance of certain rate sensitive sectors on global markets such as REITs and Utilities. Companies more exposed to cyclical markets, or those being impacted by the trade war within the Industrials and Energy sectors for example, tended to lag.

Asset allocation and outlook

We had pulled back our US exposure in early 2019 but the strength of performance in this market meant that we ended the first half overweight once again. Given the better near-term outlook for the US compared to other developed market economies, this seems sensible for now ahead of any definitive resolution to the trade issues. The political uncertainty in the UK and slowdown in Europe led us to become less optimistic in relation to exposure to these markets. We stayed overweight to Japan and retained a broadly neutral stance towards the Rest of the World.

As we look forward to the remainder of the year, geo-political issues continue to create uncertainties. We hope that some of these clear as time passes. A pause in trade hostilities would be particularly welcome given the risk of some countries falling back into technical recession in the absence of this. We expect near-term trading conditions to remain quite difficult for some of our companies, but low interest rates should continue to be supportive to equity market performance.

Henry CT Strutt, chairman of Edinburgh Worldwide:

For some investors, uncertainty regarding Brexit has resulted in risk aversion and a desire to withdraw exposure to equities. The reality for this portfolio is that should sterling weaken in aggregate against other currencies, then investor returns are likely to increase as the majority of assets within the portfolio are non-sterling denominated. Therefore, the converse holds true. Rather than focusing on macro-economic developments, the managers continue to direct their efforts to picking the best entrepreneurial, immature growth companies that create and exploit investment opportunities, and which exhibit excellent long-term growth prospects and the potential for positive long term returns wherever they are listed.

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Nick Train, manager of Lindsell Train:

We are often asked why we rarely or never sell any of our holdings. The questions get particularly pointed in relation to investments that have done particularly well over the years. Haven't such shares become expensive? Don't the big historic gains make them more risky? Surely there must be better value opportunities available elsewhere, especially in sectors that have done poorly?

Our answer to such questions boils down to an appeal to one of the oldest pieces of investment advice: RUN YOUR WINNERS.

As an investment principle running your winners is not infallible, because nothing is infallible in investment. But running winners brings some important benefits; benefits that, we believe, tilt the odds of being successful slightly more in your favour.

The thing about investing is that everything is so uncertain. This is especially so, in our view, when it comes to valuation. What makes an asset "cheap" or "expensive"? That's a problematic question because the validation for whether something is dear or good value depends on future developments that are by definition more or less unknowable - because if they were known they would already be in the price. What is abundantly clear is that not everything that goes down in price has become "cheap" and not everything that goes up becomes "expensive". And that acting on signals of such opacity is not wise.

By contrast, running winners brings two advantages. First, by resisting the temptation to trade in and out of holdings you certainly avoid accruing transaction costs which are universally acknowledged as a drag on investment performance. People are too confident in their ability to predict the unknowable future and this encourages them to trade more often than is good for their financial health.

But second and far more important. If you have invested in a winner - an asset that has appreciated meaningfully over a number of years - you have not only been fortunate, you are also in possession of a useful piece of information. This is that the company you own part of has been able to generate positive surprises over time, because it is only positive surprises that make company shares go up. And although there is no certainty that positive surprises will continue at least they have in the past - and that is already something. Many industries and even more individual companies most often just deliver serial disappointments.

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J William M Barlow, CEO of Majedie's manager:

In light of Global political worries, particularly the US/China Trade Wars, the US Political situation generally, riots in Hong Kong, the continued rise of populism and Brexit, the board feels that defensive positioning is justified. In economic and market terms the current cycle is one of the longest since 1946 with low unemployment, lack of spare capacity and rising wage inflation, particularly in the US. Markets remain buoyed by an about-turn on interest rates by Central Banks in January 2019, though with low or even negative interest rates, further scope is limited. Against such a background, the MAM funds are positioned to benefit from corporate self-help and independent drivers rather than overly depending on strong economic growth.

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Manager's report for Monks:

There are always reasons to be fearful and to worry about what might go wrong: 'but what about Brexit?', 'what about Trade Wars?', 'what about Politics?'. Rather than attempt to predict the unpredictable, the managers' approach focuses instead on the fundamental merits of companies. They believe that companies with enduring competitive advantages and skilled management teams are likely to deliver superior long-term (5 years or more) returns for investors.

Dramatic headlines and short-term equity market oscillations are of little importance to the managers. Instead they seek to understand long-term structural trends which provide opportunities for future growth. For example, the managers observe growing opportunities which are fuelled by increasing computing power, an explosion of data and improving global connectivity. These factors are increasingly impacting companies across the healthcare, financial and enterprise sectors, in addition to the more familiar consumer applications.

James Will, chairman of Scottish Investment Trust:

Broadly speaking, the uncertain issues outlined in my previous outlook statements remain unresolved.

However, a significant new development was that the US Federal Reserve, which sets the benchmark for the global cost of money, was forced to abandon efforts to 'normalise' interest rates.

The cost of money remains too low as policy makers continue to grapple with the ramifications of the financial crisis of more than a decade ago. In August, close to a quarter of the global stock of government bonds offered negative yields, meaning that, if purchased at the prevailing price and held to maturity, the investor was guaranteed to lose money. Around the same time, a Danish bank made headlines by offering the world's first negative interest rate mortgage. It is uncertain if this more mainstream adoption of negative interest rates will prove transient or become the norm. However, one thing that is abundantly clear is that the long-term implications are not well understood.

Cheap money has exacerbated wealth inequality and created a wider schism between the 'haves' and the 'have nots' in society. The Brexit vote and the election of Donald Trump were amongst the first salvos in a popular rebellion against the economic status quo and there seems to be an increasing number of these episodes of popular rage, as we have seen in France, Hong Kong, Spain and Chile. To appease this discontent, fiscal largesse is on the increase, with austerity on the wane.

Politics and political considerations will continue to have an impact on markets with the most notable being the Sino-US trade discussions, the 2020 US Presidential election and, as I write, the result of the UK general election and subsequent state of the Brexit negotiations. The potential impact of Brexit is reviewed regularly by the company. As a global investment trust with a diversified portfolio of international equities, it is unlikely that the company's business model or operations will be adversely impacted as a direct result of Brexit. Generally speaking, politicians seem motivated to resolve international disputes, but they obviously have to sell those solutions to their respective domestic audiences.

Mark Whitehead, manager of Securities Trust of Scotland:

Review

Trade tensions are a key drag on corporate confidence, capex and trade volumes. Global economic growth as measured by Purchasing Managers' Indexes (PMIs) has been weakening, and is now languishing at a three-year low. Global trade volumes are also weak, now at to their lowest levels since January 2012.

Corporate earnings growth expectations have also fallen and although we are not yet in an earnings recession, the threat of one is rising. Earnings per share (EPS) revisions have been in negative territory for most of the year, but encouragingly they appear to be showing some signs of improvement in the short term. First-half corporate results were better than consensus expectations and better than what the global PMI downtrend has been implying.

Over the six months, in terms of regions, North America made the strongest absolute contribution to the company's performance. Meanwhile Emerging Markets - perhaps the world's biggest potential victims of the trade war - lagged, although were still positive for returns. By sector, technology, utilities and materials fared the best for the company, while energy and - to a lesser extent - consumer discretionary, suffered. It is somewhat unusual to have utilities, a defensive sector by nature, at the top of the leaderboard alongside technology, a growth sector.

Defensive sectors have performed better as lower bond yields have reduced funding costs for debt-laden business models and allowed analysts to find more intrinsic value in them. Investors have also sought shelter in companies that provide less earnings variability.

Throughout the last year, we have focused a material proportion of our research on governance and sustainability, as part of our bottom-up research process. We find this approach to be an important competitive advantage, given that it further increases our understanding of the companies we invest in, while ensuring we engage with companies on the most important issues that could have a material impact on their future performance.

Outlook

With weakening macroeconomic data worldwide, investors continue to concern themselves with the increasing probability that we are slipping into a global recession. Bond markets are certainly offering the investor cause for anxiety as an early signal that a recession is imminent. The yield curve offers a good indicator for the combined impact of central bank policy action and growth. Of late, the US 2year/10year curve has flattened, even though expectations that the Federal Reserve (Fed) will cut interest rates further have risen sharply. This is concerning as a steeper yield curve would indicate that the bond market was becoming more confident that near-term monetary easing will lead to better long-term outcomes. This would give equities a platform to move higher from.

The best signal for a potential recovery in earnings growth would be an indication that global industrial activity has bottomed. An improved trade war outcome would also be supportive. Here, a de-escalation is possible, and equities have responded positively when there have been better news headlines in recent months. It remains to be seen though, how much long-term damage has already been done to globalisation.

If economic data deteriorates from here, we can also expect a more aggressive central bank policy response. In Europe - particularly in Germany, where growth has completely collapsed due to its high reliance on the manufacturing industry - we could expect a fiscal package to help stimulate activity. The Fed is likely to become more aggressive with its easing monetary response too.

However, this may not necessarily stimulate equities to move higher. The last five inter-meeting Fed interest rate cuts all saw equities trade lower over the following six months. So, we need growth to improve rather than stimulus.

One positive is that valuations are looking more supportive. The S&P 500 index is trading back at long-term p/e averages (20-year averages). The S&P 500 dividend yield has moved higher than both the 10-Year Treasury yield and now the 30-Year Treasury Yield. The last time this happened was in March 2009 (the low point of the financial crisis) so, this could be a sign that investors have become far too pessimistic and that equities can find a base to move higher from here.

The UK is now looking very likely to exit the EU at the end of January with a withdrawal deal in place. However, there is the wrinkle of a general election hurdle first which could still cause some volatility in UK and European stocks. But, as we edge closer to the end of January and an orderly withdrawal looks the most likely outcome, sterling should strengthen and with it those stocks that have a high correlation to the currency. Sectors such as autos, insurance and industrials could do well for the portfolio as a result.

All these points lead us to remain cautious; we are happy to be positioned fairly conservatively, with an overweight to more defensive sectors, as opposed to lower-quality cyclicals that currently look optically cheap. Lower interest rates do not bode well for banks, an important component of the equity market offering 'value' - so we would like to see higher long-term bond yields as a signal to add capital to high-quality cyclicals.

Careful assessment of risk-reward in choosing stocks, considered portfolio construction and constant risk monitoring are all integral components of the investment process for the company. We believe that favouring attractively priced, high-quality companies that exhibit financial strength, combined with the ability to pay sustainable dividends through the business cycle, is the best way to position the Trust in the current uncertain market environment.

Flexible investment

(compare flexible investment funds **here**)

Mike Brooks and Tony Foster, managers of Aberdeen Diversified Income And Growth:

The investment background over the year to 30 September 2019 can be best characterised by a combination of weak global economic growth, unruly political discourse and accommodative monetary policy. The investment performance of the mainstream asset classes was driven, to a large extent, by the interaction of these parameters. Government bonds were viewed as a safe haven amid a worsening growth outlook and the period ended with UK 10 year gilt yields at less than 0.5%, close to a record low. This level of "risk-free" interest rates fed through to increased demand for investment grade corporate bonds and some longer term assets such as physical infrastructure. Further up the risk curve, emerging market bonds also fared well. Global equities, on the other hand, made very little progress. Equity indices fell sharply at the end of 2018 - ostensibly in response to a weakening corporate earnings outlook and also to rising trade tensions between the US, China and Europe - before embarking on a steady recovery as policy makers signalled clearly that they were no longer looking to raise interest rates. Indeed, by the end of our reporting period, the US Federal Reserve had eased monetary policy twice.

Our portfolio allocation approach is underpinned by the medium term return prospects for each asset class. The factors highlighted above are typical of the main drivers of short term returns, but, over a more sensible time frame, valuation - the price paid for an asset - plays an important role in determining the future return on an investment. In our view, mainstream assets - such as developed market government bonds, corporate credit and listed equities - appear fully valued and do not currently have attractive medium term return prospects. As at September 2019, the manager's published five year forecasts for sterling investors for these three asset classes were +0.2%, +0.6% and +3.5% p.a. respectively. This underpins our preference for alternative asset classes: we hold no developed market government bonds or investment grade credit and our listed equity allocation remains low compared to other multi-asset funds.

Outside of the natural evolution of the portfolio, dictated by the continued progression of our longer term investments, we made only a small number of changes to the portfolio structure over the year. Our allocation to infrastructure and also to special opportunities - which comprises smaller asset classes such as litigation finance and healthcare royalties - has increased as a result of our new deployments. Our allocation to emerging market bonds has risen as a result of the strong performance of our sub-portfolio of bonds. Very disappointingly, our exposure to insurance linked securities has reduced because of losses caused by storm and fire events since 2017. We report on these developments below.

Listed equity

We expect listed equity returns to be lower than their long-term average. This is partly a function of subdued long-term economic growth expectations, but also due to cyclically-stretched profit margins, especially in the US. However, we do have some concerns about the outlook for the business cycle. While our base case is for the continuation of sluggish economic growth, there is a relatively high downside risk of a global recession. Our forecasts are averages across scenarios so this downside risk skews our outlook over shorter term periods. Overall, we forecast an average return of 3.5% per annum for sterling investors over the next five years and, during the period, we made a modest reduction in our exposure to equities.

For the first eight months of 2019, the background of sluggish economic growth and low / falling interest rates and bond yields was reflected in a sharp re-rating of "growth" equities. Time will tell if the failed IPO of the short term office company, WeWork, has marked "peak growth" in the current market cycle.

Fixed Income & Credit

Emerging market government bonds are a relatively attractive asset class - particularly the local currency variety. Yields are high (typically 6% or more in the countries we find most attractive), especially relative to developed market bonds, offering strong income returns. With one or two exceptions, the emerging market economies covered by standard local currency bond indices are in good shape with solid growth, controlled inflation and low government debt levels. Currencies are on average near fair value which reduces currency risk.

In corporate credit, our preference is for less familiar forms of credit which we expect will deliver higher risk-adjusted returns than investment grade corporate bonds. For any given credit rating, asset backed securities (ABS) typically offer a higher risk premium of 2% or more than conventional credit investments. There is a similar story for direct corporate lending, real estate lending and other forms of private credit. Our credit-related investments - in funds investing in ABS and global loans - delivered attractive income returns over the period.

Alec Letchfield, manager of Hansa:

Global equity markets paused for breath towards the end of the company's half year at the end of September 2019, taking the total return for the period to 9.5%. Whilst suggesting greater stability, the backdrop remained anything but with a maelstrom of economic, policy and political uncertainty.

Rather counterintuitively, despite markets shifting from the view that recession was imminent at the start of the year, global growth continued to weaken through the half especially within the manufacturing sector. Underlying this weakness is the ongoing trade war between China and the US, which has coincided with a soft patch in Chinese growth. Although the impact on the US is less, being a more consumer driven economy, even here sentiment and investment plans are starting to deteriorate suggesting that its affect may be greater than first thought. In response to this slowing growth we saw further cuts in US interest rates and a number of policy measures implemented in China to mitigate the slowdown.

A casualty of this trade war has been Europe, especially Germany. With exports central to the German economy, particularly to China, Germany stands on the edge of recession. The European Central Bank has instigated a further round of monetary easing albeit, as discussed below, our view is that monetary policy is increasingly reaching the limits of its effectiveness and may actually be doing damage to the broader economy.

The geo-political backdrop is little better. Donald Trump, via Twitter, is waging war on multiple fronts. In addition to comments on China, Trump holds Iran responsible for the recent attacks on the oilfields in Saudi Arabia and is embroiled in numerous spats with the Democratic candidates as they prepare for next year's presidential election. This has coincided with the initiation of an impeachment inquiry into him. Outside of the US the UK's efforts to leave the European Union took a further knock with the Supreme Court ruling that Boris Johnson's decision to prorogue parliament was unlawful. With the departure date again deferred at the end of October the outcome looks uncertain and the possibility of a policy mistake is high.

Relating this back to markets, whilst the overall equity market performance was strong for the half this largely reflected the strength of the US market, which rose by 11.6% over the period. Other markets were more challenged. Emerging markets, reflecting their sensitivity to the trade war, lagged with a return of 1.8%, with China down some -3.3% and India 0.8%. Europe continued to underperform, rising 8.5% in H1, and the UK lagged at 4.0%.

Bond markets performed somewhat better. The combination of their defensive nature and interest rate cuts in both Europe and the US saw stronger prices across the board. Despite a significant proportion of global government bonds yielding less than zero, yields continue to fall, boosting the returns of US Treasuries which rose by 11.5%, while global investment grade was up 11.2% and UK index-linked bonds were up 9.8%.

Commodities experienced more contrasting fortunes. Gold, being a more defensive asset class, typically performing better when interest rates are low and falling, rose by 20.5%. Oil prices, despite strengthening in September following the attack on the Saudi field, actually fell for the half as a whole, reflecting lower global demand due to the softening economic backdrop.

Warning flags?

Normally we dedicate the second half of our Hansa House View to a particular theme. This time we thought we would do something different and mull over a number of key issues currently challenging markets. Largely these are standalone in nature with a notable exception, they all tend to be mean reverting and are often features of market tops. The issues we will cover are:

- Inverted yield curves: Precursor to recession?
- Value vs growth: Will value investing reassert itself?
- Peak margins: A mean reverting factor?
- Peak valuations: Time to sell?

Inverted yield curves: Precursor to recession?

One of the best predictors of recession historically has been that of an inverted yield curve. With the shorter end of the bond yield curve higher than the longer end, rather than the more normal upward sloping curve, the market is effectively indicating that future growth rates will be poor. Its success rate as a signal has been exceptional. Indeed if we look back over the last 60 years we find that the US yield curve has inverted prior to seven recessions.

So why then with the curve inverting earlier this year are we not running for the hills (and are we in danger of falling into the age old trap of believing it will be different this time)?

Well, first-off, on closer inspection we find that whilst the predictive power of an inverted yield curve may be good, its timing is less precise. Often the lag between the point of inversion and recession is a number of years, with three of the last ten instances not seeing a recession within two years. With the final stages of a bull market typically generating some of the strongest returns in a cycle, exiting equities at the point of inversion can prove extremely expensive.

Perhaps even more important in our eyes, and why we think the messaging power of the yield curve is currently diminished, is just how exceptional the interest rate and yield curve backdrop currently is. In more normal times using the yield curve to predict recession is entirely logical. Typically, towards the end of a stock market and economic cycle animal spirits are running high, capacity within the system is tight and inflation is starting to rear its ugly head. Central banks are then forced to step in, ratcheting up interest rates, pushing the short end of the curve upwards. Unfortunately, central bankers tend to overshoot, raising rates too aggressively which catalyses the next recession. Bond markets, being predictive in nature, anticipate this course of events forcing the long end of the yield curve down as the short end rises. Hence the inverted yield curve and why it has been an excellent predictor of a looming recession.

This time round things couldn't be more different. Post the Global Financial Crisis central banks were forced to step in and introduce exceptional monetary measures to counteract a potential collapse in the global banking system and economic depression. To a large degree these policy measures worked, saving the banking system (although the European banking system is still not out of the woods) and boosting economies. Unfortunately, like an addict, the system has become hooked on this medicine of ever lower rates and greater liquidity, to the point where its effectiveness is deteriorating. Our view is that the point has been reached where it is not a question of the supply of liquidity but rather an absence of demand for liquidity. Whether interest rates are 0.5%, 0% or, indeed, negative has limited impact on a company's or consumer's desire to borrow. Rather it is a question of subdued confidence that is preventing economies from achieving more normal levels of growth. Hence although the curve is inverted it is not due to short rates being high but rather long rates being exceptionally low.

Furthermore, it increasingly looks like this diet of ever lower rates may even be killing the patient. Unlike in more normal monetary conditions when higher interest rates lead to poor companies failing and capital being reallocated towards more efficient enterprises, the current low/negative rate environment has enabled these zombie companies to survive and stymied the normal, healthy Darwinian function of markets. This distorted backdrop has also impacted the banking sector, which is key to a healthy economy with inverted yield curves hindering the natural carry present from borrowing at cheaper short rates and lending at higher long rates.

Hence, we would argue that whilst certainly not ignoring the fact the yield curve is inverted, we would be less confident of its effectiveness as a messaging tool given the distortions present within the system. Indeed, we would go on to argue that now is the time to stop relying solely on monetary easing and instead look to other measures such as fiscal policy to take up the baton on kick-starting global economies from their current malaise.

Value vs growth: Will value investing reassert itself?

Through time one of the most successful investment strategies has been value investing. Reflecting investors' behavioural biases, the success of value investing lies in the ability to buy companies below their intrinsic value. Where companies have been oversold investors have wrongly extrapolated bad news ad infinitum. Extolled by such investment legends as Warren Buffett and Benjamin Graham, value investing has long proved its worth.

This cycle however has been characterised by growth outperforming value and significantly so in many cases. In the US the outperformance gap has been 96% and in Europe it has been even greater at 119%.

We believe there are two factors behind this underperformance of value versus growth. Firstly, it is due to the success of growth. Technology, which dominates the growth sector, has benefitted from many nascent technologies combining to create a network effect as companies such as Amazon utilised the internet to dominate retailing in a winner-takes-all strategy. This has been reinforced by capital being readily available to fund this growth and investors being prepared to value these future cash flows much more highly, as they applied lower discount rates to profits that are often not expected to occur for a number of years.

The second factor reflects the structural challenges faced by many value companies and sectors. The flip side to the success of the technology sector is that many incumbents have failed to adapt to the new competitive environment, sticking with business models that are increasingly outdated and expensive to maintain. Retailers have persisted with high street stores as shoppers shift to online shopping, banks maintain their costly branch networks in the face of online banking and the oil & gas sector has failed to shift rapidly enough from carbon fuels as consumers move to more sustainable forms of energy.

Naturally this raises the question as to when the tide will turn back in value's favour with many commentators arguing it is a question of when, not if, value reasserts itself. The problem we have is when we look at the fundamentals it is harder to make this argument with conviction. When assessing the outlook for many of the big growth names such as Microsoft, Apple and Facebook we find many of them look fairly valued versus their growth prospects. Potentially a radical shift in the regulation or taxation of some of the big tech names could be a catalyst for lower returns, but for now many appear to have created natural monopolies.

Likewise, when we look at the constituents of the value sector they appear to be dominated by a number of ex-growth industries. As highlighted above, banks, retailers and oil & gas sectors dominate the value index and it is hard to make strong investment cases for many of these, certainly at current interest rates. Our view is there will come a time when value comes back into favour, since the behavioural characteristics of humans inevitably lead to sectors and companies becoming oversold, but it may not be for some time and it will probably be linked to a shift from the current low interest rate environment.

Peak margins: A mean reverting factor?

Another feature of the current cycle is that of persistently high margins, especially in the US. This is both unusual, they are supposed to be mean reverting and central to whether stock markets are expensive or not, with any reversion to more normal margins likely to make the overall stock market look very expensive.

Conventional theory suggests when an industry or company generates super-normal margins and returns, capital is sucked in, competition increases and, in the process, margins and future returns are both reduced. So what has broken down this time round? Well, partly it is again linked to the rise of technology and partly due to regulation.

As discussed earlier, technology companies have pursued a winner-takes-all strategy facilitated by the shift to a digitalised, online world. Helped by the flood of capital from venture capitalists, companies such as Amazon and Google have rapidly created natural monopolies with persistently high margins that are difficult to disrupt.

Historically such power would have attracted the watchful eye of a regulator who would have either forced them to divest key assets or prevented any acquisitions which reinforced their dominance. However, now we find that regulators, who were set up to regulate a bricks and mortar world, are struggling to adapt to monopolies created in an online world. Importantly, a key test for most regulators is whether or not the consumer has been disadvantaged. Mostly this is not the case, with new technologies typically reducing the price paid by the consumer, albeit it has become increasingly apparent that the consumer may be being disadvantaged in other ways as was illustrated by the recent data scandal involving Facebook selling its data to Cambridge Analytica. At the same time regulators appear to be more amenable to mergers in some sectors of the economy that result in the combined firms having more pricing power.

Increasingly however there are signs that the situation may be changing. Both politicians and regulators have become more vocal on the excessive power tech companies have gathered, with some such as Democratic candidate, Elizabeth Warren, making the break-up of the tech sector central to their campaign policies.

Peak valuations: Time to sell?

A natural question to ask oneself at this point in what looks to be an increasingly protracted investment cycle is just how expensive are markets? Clearly there are pockets of what look to be excessively high valuations both at the sector and country level, with the US for example trading above most other countries.

Again though on closer inspection the picture is more nuanced. Prima facie the US looks fully valued rather than excessively valued unless, as discussed above, margins do revert to historic levels. Outside of the US many markets, such as Europe, Asia and Japan, look to be much more attractively valued standing significantly below historical peak valuations. If, however, we adjust for growth rates and by sector we find a very different picture. Then it is possible to argue the US doesn't look anywhere near as expensive and regions such as Europe are less attractive due to their lack of exposure to technology, instead being dominated by sectors and industries that are ex-growth and cyclical.

Overall, we wouldn't make the argument that valuations have reached levels we would regard as dangerous. Furthermore, if we compare across asset classes then equities arguably look attractive. In particular conventional bond/equity ratios suggest equities look extremely good value, albeit we would suggest this is more a case of bonds looking expensive rather than equities looking cheap. Nonetheless, it does support the view that if you aren't investing in equities there is very little else where one can invest one's money apart from cash which comes with significant opportunity costs over the long-term, particularly given current negative rates!

Alan Hodson, chairman of JPMorgan Elect:

For the time being, extraordinarily low interest rates have continued to outweigh the wide range of political and economic uncertainties. Equities still appear fairly valued when compared to most other investment alternatives, particularly in the UK. Against this backdrop, our Managed Growth portfolio is quite neutrally positioned and not strongly over or under committed in any geographic region. Our managed Income portfolio is positioned to benefit from a pick-up in domestic UK focused stocks and to continue to deliver a higher than market dividend yield.

Nick Greenwood and Charlotte Cuthbertson, managers of Miton Global Opportunities:

Superficially it appears that our interim period to 31 October 2019 was rather a quiet affair. In practice there were some tumultuous events. Most notable was the implosion of Woodford Investment Management which will reverberate around financial markets for some time to come. In response to this episode, wealth managers and institutions have become focused on the liquidity within their portfolios. In practice, many funds have become illiquid by virtue of their large size, often running to many billions. This has led to widespread selling of smaller companies and investment trusts. This has triggered a widening of discounts across our portfolio as managers attempt to demonstrate that they could manage a run of redemptions in their funds. We estimate that the real time discount of our largest twelve positions approaches 25%, a situation we have not seen for several years. In the circumstances our net asset value, which is calculated using the depressed market price rather than the value of its underlying portfolio, has held up well during a difficult period for our universe.

A more helpful development has been the broadening of markets. Until recently, we have endured a momentum or nothing phase. A narrow range of defensive growth stocks have driven the indices ever higher. Given that we articulate a deep value special situations strategy, it would cause alarm had we chosen to chase momentum. The breakdown of this phenomenon appears to have been triggered by a reversal in bond yields. It is interesting to note that in last year's interim report, we commented that the yield on US ten-year treasuries had risen to 3.2%. At the time of writing, they only offer 1.75%, having fallen as far as 1.45% at one point. The steady decline in yields was key in creating the momentum market.

The closed-end sector continues to evolve into a home for alternative asset classes; this category now exceeds equity funds for the first time. It is possible to create far more diversification using closed-end funds than their open-ended peers as a far wider range of asset classes are available. This partially explains the low correlation Miton Global Opportunities demonstrates when measured against mainstream equity indices.

Outlook

Whilst it certainly does not feel like it at the moment, events at Woodford Investment Management will, in the longer term, prove beneficial for both Miton Global Opportunities and investment trusts in general. The debacle has highlighted how valuable the protection from having to accommodate daily inflows and outflows, that the closed-ended capital structure offers, has been. There has been a general decline in trading liquidity. This makes it increasingly difficult for investors to buy and sell larger lines of stock making closed-end protection even more valuable to managers of investment trusts in the future.

Historically whenever discounts in our portfolio have been at the wider end of their range, this has proved a leading indicator of decent periods of progress for our portfolio. These have often proved short and sharp as they did in 2016 and 2017. There continue to be vast quantities of noise generated by issues such as Brexit and Trump's trade war with China. This has contributed to the widening discounts in smaller closed-end funds. Nevertheless, these funds control assets which have a fundamental value. The catalyst for many of our themes will be that the real world will buy the assets which have become undervalued by the City for internal structural reasons. In many cases, we will enjoy the benefit of the elimination of discounts at both portfolio and trust level.

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Manager's report for Seneca Global Income & Growth:

Investors currently inhabit a world full of extreme valuations and unusual economic conditions. These extremes are causing huge disparities whether they be between value and growth stocks, sterling and foreign currencies or UK domestic earnings versus international earnings. Our process is not designed to capture strong returns when these disparities are growing. It is designed to look through the short-term mindset, position the portfolio appropriately and patiently wait for extreme positions to normalise. Hence we are currently reducing our exposures to valuations that have become stretched as the herd instinct takes hold and moving that capital into the more neglected corners of the market. The extreme highs and lows in stock markets take a long time to build and usually form over a number of years but the reversals tend to be much quicker. We are and will remain prepared for such reversals.

Asset Allocation

We have continued with our road map of gradually reducing equity risk in the portfolio. The current bull market is now the longest in history and has taken many by surprise in its longevity. It is still not as successful in terms of returns as the 1990s bull market which saw the S&P 500 return 417%. We are getting close with S&P 500 returns at 382% from February 2009 to October 2019 in local currency. Therefore, we strongly believe that our focus now should be on taking profits and ensuring the portfolio is protected for the next phase of markets which will be a bear market and a recession. Valuations are stretched across many asset classes but there are pockets of value in each.

We reduced our equity allocation target in June by 1%. We took this from our European ex UK and Japanese allocations. This funded an increase in our exposure to gold.

We have left our UK equity allocation at 29.5% despite our focus on reducing equity exposure. This is because we feel the Brexit problems have created a real value opportunity in the UK. The overall market is fairly valued but there are broad valuation disparities within it that we seek to take advantage of. The UK stock market is a diverse range of domestic and global businesses. Prior to Brexit both groups of stocks traded on similar valuations. Since the Brexit vote the multiple paid for UK earnings has de-rated significantly whereas dollar earnings in the UK market have positively re-rated. The valuation gap between the two groups peaked in this period with average P/Es for dollar earners hitting 21x and sterling earners 8x as at the end of July. These types of valuation disparities do not persist forever. Our UK equity exposure is now heavily skewed towards domestic stocks and therefore we have protected our UK equity exposure from asset allocation reductions. We did not, therefore, follow our recent policy of quarterly equity reductions in the third calendar quarter and we left our allocations as they were. This is not a change in policy but more a pause as the cycle is persisting for much longer than anticipated when we began our reductions and barring exceptional changes to the environment we will continue to de-risk the portfolio in the coming months.

Outlook

We have enjoyed the fruits of a 10-year bull run in investment markets but the signs are there that things will change. One of the preferred recession indicators used by the

Federal Reserve is the 10 year/3-month yield curve which was inverted for the majority of the third calendar quarter. PMIs are falling, tensions remain high between the US and China and in the UK we will still have many more twists and turns before there is any resolution to Brexit.

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United Kingdom

(compare UK funds **here**)

John Dodd and Kartik Kumar, managers of Artemis Alpha:

Uncertainty over Brexit has impacted the UK stockmarket since 2016. This has created negative sentiment and in our view, compelling value in fundamentally strong businesses. Our positioning remains biased towards the UK with 50% of the portfolio on an underlying basis being exposed to domestic companies.

December's General Election appears to have led to a resolution in uncertainty. Although the actual terms of Brexit have yet to be agreed, a major concern for investors has been much reduced, if not removed, and we expect investors to resume concentrating on companies, rather than on political matters.

We aim to remain patient, unemotional and, most importantly, opportunistic.

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Jonathan Cartwright, chairman of Blackrock Income & Growth:

The result of the recent UK General Election has boosted UK equity markets. Sterling rallied against the US Dollar on the news and in the short term domestically focused UK equities have benefited from greater political certainty, the prospect of some fiscal stimulus and a generally improved growth outlook. The emergence of a comfortable working majority indicates that the UK will exit the EU by 31 January 2020. Nevertheless, it remains to be seen whether a comprehensive trade deal with the EU can be negotiated by the deadline of the end of 2020. At the same time, the UK will be free to negotiate trade deals with other countries which, although also a complex process, should be facilitated by the UK Government's ability to present a clear position which can deliver the backing of Parliament. Overall, the higher degree of political uncertainty should be positive for the UK economy.

Elsewhere in the world, the outlook for 2020 appears to be relatively benign, although a number of macroeconomic risks remain. The heightened volatility seen in 2019 is likely to continue to be a feature throughout the forthcoming financial year as the Brexit process plays out, although this should present opportunities.

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Steven Bates, chairman of BMO Capital & Income:

Markets are still supported by low interest rates, which hide a multitude of sins. Until the tide goes out in the shape of higher interest rates, even poorly run companies are able to stay afloat. In some industries, though, even cheap money is not enough. Most obviously (but not only) the retail sector, is being severely disrupted by new distribution channels. Add to this the uncertainty about the future, which is depressing capital investment. It is likely that future productivity and growth rates will be damaged by this lack of spending and all this points to interest rates remaining low for an extended period. The thinking in central banks is that the global economy is not robust enough to withstand higher rates and there is too much debt to allow a significant slowdown or recession. Furthermore, inflation remains unnaturally subdued, and policies designed to reignite it have failed, most notably in Japan. This combination, perhaps surprisingly, is not especially negative for equity markets, but nor are we off to the races. The most likely trajectory is that markets will grind higher, generating modest but positive returns. In this environment, skilled stock selection is more important than ever.

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John Evans, chairman of BMO UK High Income:

There has recently been an increase in the level of corporate activity in the UK which may be another indicator that good value exists in this asset class and it is encouraging that a wider range of investors appear to share this view.

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Manager's report for Chelverton UK Dividend:

The shares of the companies in which the fund is invested have experienced a tough 18 months as smaller companies that pay increasing dividends and are labelled "value shares" have fallen further out of favour. In the last few months there has been some improvement as it is hoped that the whole Brexit process will reach resolution. The underlying performance of most of the companies has generally been positive with associated dividend growth.

UK GDP growth has been very subdued for the past six months, although there are signs that UK growth will be maintained and might, next year, start to gently accelerate.

Reassuringly the dividends of the underlying companies continue to be increased and we believe that this will continue into 2020 with company balance sheets remaining in a strong state.

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Mark Barnett and James Goldstone, managers of Edinburgh:

The performance of the UK stock market is likely to be determined by the same macroeconomic and political forces which have dominated sentiment for the past few years. The political uncertainty in many regions has been especially difficult to navigate recently and has been a major headwind to portfolio performance given the extreme polarisation of company valuations that has emerged. It has been commented here previously that this differential between highly rated global non-cyclical stocks and depressed domestic economically sensitive shares is substantial. This differential sits at a multi-year high and offers the most glaring opportunities within the UK stock market. The portfolio is positioned to take advantage of this perceived mispricing and retains large portfolio weightings in insurance, real estate, retail and support services.

The extent of this mispricing is perhaps most clearly highlighted by the spread between dividend yields and corporate bond yields over the past ten years. Over this period, dividend yields have remained broadly flat, whilst corporate bond yields have declined markedly. A 650bp shift in the yield differential over the period is notable and represents another strong endorsement of the attraction of equities to an asset neutral investor at the moment. It is also very likely a significant factor behind the strong re-emergence of merger and acquisition activity in recent months. The range and breadth of deals witnessed from industrial and especially financial buyers is clear evidence that there is value available in UK listed companies financed by accessing the debt markets at very attractive yields.

In recent weeks sentiment within the market has been extremely volatile as perceptions around a political deal have shifted. This has resulted in a marked change in the composition of the stock and sector leadership. A sense of relief and clarity regarding the outcome of the negotiations with Brussels is clearly a benefit to the performance of the UK stock market. The level of pessimism which is discounted in the valuations of many holdings is anticipated to result in material revaluation opportunities from current levels as and when the political fog clears.

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Anthony Townsend, chairman of Finsbury Growth & Income:

The result of the recent general election in the UK has removed much of the political uncertainty that dominated the year under review although the Brexit process has yet to run its course.

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Ciaran Mallon, manager of Invesco Income Growth:

Market conditions have proven no less challenging than last year, despite the overall upward movement in the market and the portfolio's outperformance. Having slightly raised gearing towards the end of 2018, I have maintained this modest level. This reflects the balance between my enthusiasm for the potential of the companies in the portfolio against the somewhat uncertain and difficult economic and political backdrop we continue to face.

The US administration remains a belligerent participant in global trade talks, which is also unsettling to markets. China has been the engine of global growth for many years but seems now to be steadily slowing. For these and other reasons global economic growth is slowing. Because of these factors I think market conditions will remain volatile.

Given this assessment I continue to believe that it is sensible to remain conservative in my investment approach. Overall, I am cautiously optimistic in my outlook for the UK market as a whole.

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James Henderson and Laura Foll, managers of Lowland:

Background

Economic growth slowed during the period, just managing to avoid a quarter of contraction. This happened in spite of very low interest rates and weak sterling. The stimulus of low rates and cheap currency would normally cause growth to accelerate. The domestic impact was offset by the global economy: world growth slowed down as the trade war between the US and China intensified. At home, the looming possibility of a disorderly Brexit and political uncertainty compounded the scarcity of global growth. These factors combined to make companies more risk-averse: they have cut costs, and reduced capital expenditure, which in turn led to a stagnation in productivity growth.

It has been a difficult economic backdrop for many companies with predominantly UK operations. However, company results have been generally satisfactory. This is a testament to those companies who have excellent, differentiated products, a solid business model and good management discipline.

Outlook

Companies in aggregate, are reporting results in line with modestly reduced expectations. This suggests the current slowdown in global economic activity is, at least to a degree, reflected in earnings forecasts. The low valuation for much of the portfolio means that where companies are only meeting expectations (rather than surpassing them), shares are broadly responding positively. This backdrop of modest valuations and realistic earnings expectations within the portfolio is encouraging for the year ahead.

The last year has been strong for dividend growth but disappointing for capital growth. This means the dividend yield on the underlying portfolio has reached levels not seen in many years. This dividend yield (currently just under 5%) is particularly stark when viewed in the context of low government bond yields (at the time of writing the UK 10 year gilt yield is 0.75%). This would suggest one of two things is likely to occur: either the dividends being paid by companies are unsustainable and need to be reduced, or there will be a period of valuation 'catch up' (in other words yield compression) in the portfolio. We have begun forecasting dividends for the current financial year ending 30 September 2020 and based on current expectations think a healthy level of dividend growth will be achieved. There will always be isolated dividend cuts, but in aggregate dividend pay-out ratios are modest and balance sheets are conservative. This attractive, and in our view sustainable, dividend yield, in combination with the level of bid interest seen this year, are the clearest indicators to us of the underlying value within the portfolio.

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Andy Pomfret, chairman of Miton UK Microcap:

As a rule, larger companies find it hard to grow much faster than their host economies. So, when economic growth is unexceptional, the aggregate return on larger company indices tends to be unremarkable. One of the key features of the decades of globalisation has been the extra growth of large caps and consequent years of strong returns of the mainstream indices. Globalisation has also benefitted most of the electorate as it led to plentiful, low-cost, imports of clothing, food and electronics, an ongoing reduction in mortgage rates, together with productivity improvement and new job creation.

Following the crisis in 2008, however, the policy of quantitative easing introduced a period of major change. QE works by distorting market prices, and hence it's use and reuse has led to the persistent misallocation of capital over many years. This has led to stagnation in global productivity, disappointing wage growth, and a hardening of electoral attitudes. Over recent years the political agenda has changed, and globalisation has evolved into nationalism across the world.

As global growth falls back to pre-globalisation norms, we believe that a quoted microcap approach is advantageous. When economic conditions are challenging, the management agility that many microcaps demonstrate is important. Importantly, since acquisitions or mergers can turn out to be transformational, microcaps have a history of delivering much greater returns than those of the mainstream indices.

In summary, the growth prospects for the UK economy may be no better than others. Importantly and uniquely, the UK stock market contrasts with others in that it has retained a vibrant universe of quoted microcaps over the period of globalisation. Furthermore, we believe that UK microcaps themselves are overdue a period of major performance catch-up.

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Manager’s report for Schroder UK Mid Cap:

Recent surveys indicate that UK consumer confidence remains stable and that UK consumers are more confident about their personal economic situation than about the country's general economic prospects. It is perhaps not that surprising therefore that Brexit uncertainty has yet to have much of an impact on household spending. In fact, household spending (three quarters of all spending in the economy) rose by an estimated £52.5bn in 2018, following similar rises in prior years (source: Lazarus Economics). Recently released data shows that growth in household spend has continued in 2019 at a similar rate.

It would also appear that this growth is reasonably sustainable, underpinned by a strong jobs market, higher wages and tax changes. The unemployment rate is close to its lowest since the 1970s, and wages are growing at almost the fastest rate in a decade, continuing to outstrip inflation. There has historically been a close correlation between real wage growth and retail sales, and labour market data that the backdrop for wages remains supportive.

In the meantime, we are starting to see an increase in corporate activity as private acquirers take advantage of cheap sterling assets. It appears that valuations are such that acquirers are no longer waiting for a resolution to Brexit negotiations. We are also continuing to see companies using the low interest rates to make acquisitions to supplement organic growth, and it seems likely that this interest rate environment can endure.

We will continue to seek companies demonstrating organic growth and pricing power where possible and to avoid companies with too much debt. Disruption continues to be a feature for a lot of companies, putting pressure on earnings for a number of sectors, and we will therefore endeavour to identify and avoid these companies.

The UK political backdrop might be expected to have a positive effect, contrary to what we have seen over the past three years and more. In any case, the evidence from the UK consumer, driven by strong labour market forces, indicates that being underweight UK equities could be wrong. We therefore preserve a focus on what companies do every day, whether their customers still need and value them, and on the nuts and bolts of cash flow and valuation.

Asia Pacific

(compare Asia Pacific funds **here**)

Donald Workman, chairman of Aberdeen New Dawn:

The six month review period to 31 October 2019 was challenging for Asian stockmarkets as investors experienced mounting concerns over the macroeconomic outlook and political uncertainty. The US-China trade dispute was crucial in shaping sentiment. The optimism that fueled gains earlier in 2019 subsided after talks stalled and new tariffs were announced. For now, negotiations have resumed. Other emergent geopolitical issues, including the Japan-Korea dispute, the unrest in Hong Kong and events in the Middle East also unsettled markets.

Continued monetary easing from central banks in Europe and the US helped stocks avert deeper losses as weak exports and lower factory output compounded worries about slowing global economic growth. In addition, most major Asian central banks cut interest rates. At the same time, several governments turned to stimulus tools, such as tax cuts and extra spending, to offset the downturn. The tailwinds of benign inflation and relatively low debt levels should ensure that policymakers have room to support growth while maintaining fiscal prudence. China, for example, opted for targeted measures to spur demand in key consumer segments instead of the debt-financed investment of the past.

Market leaders in segments such as travel, food and beverage and healthcare, [*whose*] businesses [*are*] linked mainly to domestic demand, were largely insulated from the worst of the trade dispute, with earnings still growing at a decent rate.

It was a similar story in India, where the domestic benchmark was volatile due to persistent financial-sector worries and a poorly-received post-election Budget. Despite the present challenges, the re-election of Prime Minister Narendra Modi was seen as a positive over the long-term as it should ensure that structural reforms and growth-friendly policies continue. In addition, a much-welcomed corporate tax cut could be a near-term fillip for business sentiment and the economy.

Also making notable contributions to performance were the company's holdings in the technology sector which rebounded after a period of underperformance. Better than expected smartphone sales and hopes for a recovery in memory-chip prices sparked a rally in the sector, which also benefited from the expectation of faster adoption of 5G wireless technologies.

Towards the end of the period, events in Hong Kong attracted increasing attention as large-scale street protests turned violent. The prolonged unrest hurt important pillars of the economy, including tourism, retail and property. The company's overall exposure to Hong Kong has fallen, reflecting the manager's preference for more attractive options in the mainland.

Ayaz Ebrahim, Robert Lloyd and Richard Titherington, managers of JPMorgan Asian:

The slowing global economy has been a major headwind for the whole of the company's financial year to 30 September 2019. Factor in a plethora of other 'bad news' stories (including international trade friction, tightening liquidity and a collapse in corporate earnings growth globally) and it is fair to say that the performance of Asian and most global stock markets has exceeded expectations.

The first half of the company's year was particularly turbulent. Asian equities fell sharply in the final quarter of 2018, on the back of deteriorating US-China relations and moderating grown expectations in both countries. Export-sensitive north Asia underperformed and the oil price peaked at around US$85 in October only to then plummet as much as 40% due to persistent concerns over the prospects for the global economy and oversupply. Asian markets then rebounded in the first quarter of 2019, with sentiment recovering as the Chinese government implemented an economic stimulus package and the US Federal Reserve, the undisputed driver of global monetary policy, changed direction; the Fed cut interest rates to reduce market volatility and stave off recession. In China, measures included tax cuts for small and medium-sized businesses, whilst the People's Bank of China cut the amount of cash reserves that banks must hold, in order to improve liquidity.

There was less market turmoil in the second half of the year, although trade fears continued to cast their shadow. Many stocks seemed to be 'treading water' whilst markets remained susceptible to perceived progress (or lack thereof) on trade negotiations as well as the direction of travel being taken by central bank policy makers. Uncertainty continued to prevail, and investors' risk appetite was dampened by muted economic and earnings momentum within the region. By the end of the company's financial year, the geopolitical situation was just as fragile as it had been a year earlier with investors still weighing up the potential damage to corporate profits from the various headwinds at play.

In China, economic growth went into reverse, falling to its lowest rate since the global financial crisis of 2008 and domestic demand softened. The Chinese stock market had a dismal 2018 but recovered in early 2019.

In Hong Kong, months of anti-government protests and city-wide shutdowns dealt a significant blow to the economy. Visitor numbers plunged and retail sales weakened, weighing heavily.

Indian stocks had mixed fortunes over the year, reflecting a difficult macro environment with manufacturing, financial and real estate service sectors all hit hard. A year ago, we referenced woes in India's financial sector, specifically its Non-Bank Finance company (NBFC) entities, which began with the collapse of IL&FS (a large unlisted infrastructure finance company) and triggered a liquidity squeeze. NBFCs are a network of financial intermediaries that provide services akin to those of traditional banks but with less stringent regulation. These entities have been a leading source of finance for commercial vehicles, so the crisis hit the automobile sector hard.

Despite the economic slowdown across the region and globally, Asia remains the world's fastest growing equity market.

Despite the uncertainties created by the trade impasse with the United States, China's economy has continued to grow (albeit at a slower pace) and our investments are spread across multiple sectors, focusing on domestic consumption-oriented businesses with more limited exposure to Chinese exporters. Korea has looked extremely cheap. The Korean market is dominated by the fast-moving technology sector and cyclical stocks, so we will continue to invest there with due caution.

Our key sectoral overweight is in Financials. Asia's financial services infrastructure is not as well developed as it is in more mature economies and we continue to uncover financial stocks with attractive valuations and positive earnings outlooks. Penetration rates of financial services across Asia's growing economies remain low and favourable demographics, urbanisation shifts and growing middle class populations provide great growth potential for wealth, insurance and mortgage products, as well as for broad-based retail banking services. In India, we have largely been able to avoid financial names rocked by bad lending, fraud and default scandals over recent times. We have instead invested in institutions that are proven to be fundamentally sound and which we believe can continue gaining market share.

The reach and influence of the fast-moving Information Technology sector grows year-on-year and the technological revolution has already had a huge impact across the region - it is a disruptive force impacting all sectors of the economy.

China is our key country weighting. We continue to focus on structural growth opportunities in domestic consumption orientated businesses, such as e-commerce, financials, healthcare and properties.

Since the beginning of 2019, equities have been caught in a stalemate situation which is very challenging for investors. On the one hand, the deteriorating health of the global economy and growing geopolitical worries have taken centre stage and triggered a sharp fall in investor confidence. On the other, monetary easing from central banks has buoyed sentiment and propelled stock market indices higher. It has been an uneasy ride, with sentiment anchored to both positive and negative news flow on the latest developments. Meanwhile, fundamentals such as corporate results have yet to instil confidence.

Whilst it is impossible to predict the outcome of the current challenges, we continue to see heightened volatility around this ongoing tussle between nations on trade and other agendas. We share investors' concern that there are so many layers of uncertainty at present. It is an unhelpful backdrop for shareholders, yet these situations can also create pockets of opportunity which we will continue to pursue.

One notable observation from the summer was the converging direction of monetary and fiscal policies, with governments and central banks working together to stabilise their respective markets and economies. Within Asia, we have seen this in action in countries such as China and South Korea. India is the latest example, where a surprise rate cut was accompanied by a reduction in corporate tax rates. We expect such initiatives to continue and they should alleviate concerns over slowing growth and help to restore market confidence.

Outlook

We expect Asian equity earnings to be relatively weak in US dollar terms for the coming months, given global growth concerns and the persistent strength of the US dollar which puts pressure on Asian businesses, impacting growth and earnings. However, market expectations for earnings are sufficiently bearish and we do not see an immediate catalyst for this to change. Valuations are also well below the long-term averages; and, historically, at these valuation levels investors have been rewarded over the long-term.

Our base scenario for the coming year is slower but still positive economic growth that should be supportive for Asian equities. We continue to see value in sectors such as insurance, banking and consumer where growth trends in Asia remain strong. Technology is another sector of interest, given Asia is home to leading edge manufacturers in certain electronic components and equipment.

Reforms in Asia remain a key focus especially post-elections in countries such as India, Thailand and Indonesia. Specific to China, we are encouraged by government action to stimulate the economy which should help ease investor concerns of a more pronounced slowdown in Asia's largest economy. It is also worth noting that the company has relatively limited exposure to Chinese exporters which is a positive given the current lack of resolution on trade talks.

The most important risks to the Asian market remain further disappointment on the growth front, no trade deal between the US and China, and the persistent strength of the US dollar; these are all potential headwinds for the coming year.

We believe strongly that Asian economies continue to offer attractive potential and that the secular growth opportunities within Asian equities are still intact. Further, we expect the underlying fundamentals to pick up as and when the trade dispute noise abates. Valuations are still fair, with the index trading slightly below its 10-year averages, therefore we remain cautiously optimistic towards the region, in anticipation of the re-emergence of growth ahead.

Manager's report for Schroder AsiaPacific:

It is difficult to regard global macro and political developments over the summer as having been supportive of either equity markets or investor sentiment. Political developments have dominated the front pages in Asia, but have scarcely been absent closer to home. The broad threads to these tensions could be viewed as the nexus between populism and resentment at perceived widening of wealth disparities. Whether related or not, economic trends have softened, with retracement in global PMIs, soft private capital spending in a number of markets, and contraction in global trade.

The growth scare has been given further credence by the flattening/inversion of yield curves worldwide. The historic evidence linking this to inevitable recession is somewhat ambivalent, but increasingly desperate measures from Central Banks (at least outside the US) to support growth smack of panic that may do more harm than good. Albeit circumspectly, we do not sit in the recession camp, and indeed are inclined to feel that many cyclical growth sectors and stocks offer the most attractive medium-term prospects. In contrast, defensives and bond proxies seem inordinately rewarded for income generation and their perceived stability.

Softening global PMIs, sluggish trade volumes, and supply chain disruption are obvious impediments for Asian markets. Aside from the political noise, it would also be true to say that more domestic stimulus attempts have been pretty half-hearted. Mainland China remains notably disciplined despite excitements surrounding the recent National People's Congress meetings, and activity elsewhere is far short (mercifully?) of European-style policy panic. Short-term numbers are undoubtedly being distorted by inventory build ups/drawdowns surrounding tariff increases (and indeed cancellation/deferment thereof). It is also undoubtedly affecting investment decisions; bad news short-term, but it suggests that there is strong pent-up demand in industrial investment and related areas.

The situation in Hong Kong is obviously of concern as it remains a substantial exposure for the company, with real estate and financials particularly vulnerable should confidence in stability be permanently impaired. While we respect the political motivations behind the protests, there is also an economic angle as the squeezed middle classes articulate their dissatisfaction. The Hong Kong SAR administration has considerable fiscal fire power should it elect to use it, while strong corporate balance sheets should provide some reassurance as to shareholder returns.

As we have said before, Asian company valuations are generally well supported given strong cash flows, conservative capital spending intentions and strong balance sheets. More doubt surrounds the likely level of growth. Markets have, probably correctly, written off 2019, but earnings growth expectations look too sanguine for 2020, and this will feed through to dividend out-turns. Many pieces of the jigsaw for recovery might fall into place (trade truce, recovery in Western economies, re-stocking, a return of corporate confidence) but these are not our central expectation.

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Europe

(compare Europe funds **here**)

Edward Greaves and Francesco Conte, managers of JPMorgan European Smaller Companies:

Review

The six month period to 30th September 2019, saw difficult and volatile markets due to conflicting messages surrounding the US-China trade war. In May, President Trump unexpectedly escalated the dispute by announcing additional tariffs on Chinese products before de-escalating it following the June G20 summit where he agreed with President Xi to restart trade negotiations. With companies increasingly unwilling to invest in such an uncertain climate and with the Purchasing Managers Indices (PMIs) falling sharply around the world, central banks stepped in to support global growth by loosening monetary policy - effectively providing a supportive environment for financial markets.

The MSCI Europe (ex UK) Index rose by 10.2% during the period, outperforming the Euromoney Smaller European Companies (ex UK) Index which rose by 6.3%.

Outlook

While economies remain weak, due to elevated trade uncertainty, markets have been resilient believing that central banks' aggressive loosening of monetary policy should suffice to stem the increasingly negative economic newsflow. Whether this really turns out to be the case will only be evident next year, but for now the glass appears half full.

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Thomas Buckingham, Michael Barakos, Alexander Fitzalan Howard and Stephen Macklow-Smith, managers of JPMorgan European:

The company's half year to 30th September 2019, saw markets in Europe ex UK trade modestly higher in sterling terms. In many ways the investment background deteriorated: growth expectations were downgraded everywhere as trade suffered from the continuing trade tensions between the US and China. The slowdown was particularly acute in manufacturing, with confidence indicators reaching recessionary levels. The manufacturing sector is, though, less significant in developed markets, and services remained fairly buoyant, boosted by continued rises in overall employment and contained inflation helping increases in real incomes.

Central Banks have become unequivocally dovish, with the US Federal Reserve, having signalled higher rates at the end of 2018, changing tack and embarking on a new easing cycle. The European Central Bank unveiled a new programme of asset purchases, and also committed to ultra-low interest rates. Inflation has failed to lift off anywhere in this cycle, and there are few signs of inflationary pressure building.

The slowdown in economic growth had a negative impact on profits expectations, and whereas at the start of the year European equities were expected to see increases of around 8%, as of the time of writing this has been revised to less than 1% for 2019. Europe is not alone in seeing pressure on earnings, which are flat in the US, and falling in the UK, Japan, and Emerging Markets.

Dividend stocks came under pressure despite the generally low interest rate environment. Value stocks underperformed again as yield curves remained flat. This is because a flat yield curve is seen by bond markets as an indication that economic growth rates will be depressed, which is generally, not an environment that favours value stocks. The performance of value stocks has fallen since 2017, when they were achieving respectable levels of performance, but are now down to low levels not seen since the technology, media and telecoms bubble (dot.com bubble) at the turn of the millennium. We remain convinced that it is appropriate to have an exposure to value, since to our mind the market is excessively pessimistic about future economic expansion.

Outlook

Economic growth everywhere is expected to be low in 2020, with little or no recovery from 2019 levels. The dampening impact on confidence is coming from the political arena, whether that is trade tensions as the US flexes its global muscles, or more locally with continued uncertainty over Brexit. In contrast, monetary policy is supportive, and investors are facing a challenge as they try to generate returns in a world of zero or negative interest rates. In this environment equities which yield substantially more than cash have their attractions, and we think that they should be a core source of growth for investors.

Japan

(compare Japan funds **here**)

Manager's report for Atlantis Japan Growth:

Japan may be a bystander in the U.S.-China trade dispute but progress made in negotiations, or lack thereof, had a profound impact on the Tokyo equity market over the six month financial period ended 31 October 2019. Through the summer months, investor sentiment oscillated between risk-on and risk-off. A 50% short sell ratio and intense non-resident selling was testimony to the market's lack of conviction. Sluggish corporate profits announced for both quarter 1 and quarter 2 of the fiscal year ending March 2020 also kept investors on the side-lines. Eventually the market began to function as a discounting mechanism towards the end of the period. Positive catalysts in the form of a partial trade deal, a Federal Reserve rate cut, an extended Wall Street rally, and the return of non-resident investors combined to spark a rally that took TOPIX and the Nikkei 225 to calendar year 2019 highs. The recovery was paced by technology and cyclical stocks.

Given the challenging macro-environment, corporate guidance for the remainder of the fiscal year ending March 2020 is cautious.

We expect pre-tax profits in the current financial year to decline 7%-9% on a flat sales performance with a 4%-6% earnings rebound in the subsequent fiscal year based on the assumption of a 2% to 3% sales recovery. On these estimates the Tokyo equity market is carrying a 15.7x forward Price to Earnings ratio and 1.3x Price to Book Ratio; these valuations are below their long term average ranges.

It is worth highlighting that smaller to mid-sized companies are generally more exposed to the secular growth opportunities within the Tokyo equity market.

Over the long term, Japan will have to contend with the negative effects of depopulation, a sizable public sector financial deficit, heavier welfare expenditure commitments and numerous geopolitical risks in its northeast Asian corner. The Investment Adviser believes Japan has the resources to deal with these challenges. This will result in structural changes to the economy with new investment opportunities emerging in health care, technology, consultant services and capital goods.

Nicholas Weindling and Shoichi Mizusawa, managers of JPMorgan Japanese:

The company focuses on individual stocks rather than trying to predict the direction of the global economy. However, there have been important events during the year.

The Japanese market is more cyclical than other developed markets and can thus be commensurately more impacted by global economic developments, both positively and negatively. Over the last year concerns about the trade war between the US and China have continued, together with the effect this may have on corporate earnings. Indeed, companies have already lowered forecasts because of these concerns. In Japan, the ruling Liberal Democratic Party convincingly won the Upper House election in July while key economic and political measures, such as the lowest unemployment rate for twenty years, remain robust. In October 2019 the consumption tax rate was increased from 8% to 10%. We await to see the effect of this decision. The Rugby World Cup was highly successful in terms of impeccable organization, high attendance and boosting Japan's profile; and we can look forward to something similar with the Olympics in 2020.

North America

(compare North America funds **here**)

Peter Dicks, chairman of Gabelli Value Plus+:

As we enter the year 2020, we are conscious of the challenges and concerns faced. The US equity market has continued to move higher, although, at some point, it seems likely that a change in market momentum will result in renewed interest in value equities.

Manager’s report for Gabelli Value Plus+:

In a notable display of resiliency, U.S. stocks closed September 2019 near all-time highs against a very uncertain investment backdrop, finishing the month and the third quarter with a gain and with a double digit return for the first nine months of the year.

Stock prices whirled as they interfaced with diverse news headlines and world events. A partial list of topics includes the China/U.S. trade war, Brexit, the Saudi oil field drone attack, central bank easing, yield curve inversion, negative interest rates, U.S. recession concerns, and relatively slow growth in China and Europe.

The U.S. economy, though starting to show some trade war related stress in the industrial sector, is still expected to grow about two percent in the third quarter. Employment, housing, and a record $113.5 trillion household net worth are key drivers.

During the post Federal Open Market Committee (FOMC) statement press conference Q&A on 18 September 2019, chairman Powell asked a timely rhetorical question: "But why are long term rates low? There can be a signal about expectations about growth there for sure, but there can also just be low term premiums. For example, it can just be that there's this large quantity of negative yielding and very low yielding sovereign debt around the world, and inevitably that's exerting downward pressure on U.S. sovereign rates without really necessarily having an independent signal."

Corporate earnings, as measured by the S&P 500 Index, are currently projected to rise by 4.1% in the fourth quarter of 2019 and 11.2% in 2020 based on data from the Institutional Brokers' Estimate System (IBES).

The manager continues to research new investment opportunities in the North American equipment rental market for infrastructure replacement and new structures for highways, bridges, buildings, energy, and water. Public drinking water systems alone are projected to need significant upgrades and new systems over the next 25 years.

Brazil

(compare Latin America country specialists **here**)

Luis Carrillo and Sophie Bosch De Hood, managers of JPMorgan Brazil:

Despite the negative news during the period, including on tariffs, global stock market returns exceeded expectations, with Brazilian equities outshining most other markets. A policy about-turn by central banks lies behind markets' progress. The US Federal Reserve and the world's other central banks had been expected to raise interest rates this year, thereby tightening liquidity and normalising monetary policy. However, taking note of the perilous global economic outlook, the Fed held fire and went on to cut rates three times in 2019, with other global policy makers following suit. In Brazil, the Banco Central's rate-setting committee reduced rates to an all-time low of 5%, with expectations that they could fall further to 4.5%. This, coupled with low inflation and a more stable political backdrop, set a cautiously optimistic tone for Latin America's largest economy.

Domestically, public support of the Brazilian government boosted markets. We are now nearly one year into the Jair Bolsonaro presidential era, following the Social Liberal Party's victory in the elections of October 2018. The emphatic election result set an optimistic tone that a Bolsonaro government would be able to deliver on its commitment towards fiscal and structural reform, so pivotal to Brazil's future economic growth trajectory. Although an initial market rally was short-lived, Brazilian markets have maintained their upward momentum during the company's review period. Brazil's economic situation remains tepid, but market sentiment has been boosted by the passing of long-awaited pension reforms that had undergone a torturous journey of political deadlock and delay going back many years, together with signs of progress being made on social security and taxation reforms.

Outlook

Although our future expectations have improved, business sentiment remains fragile and we think it will take some time for the dust to settle. The most important risks in the short term remain slowing global growth, trade tensions and a stubbornly strong US dollar. Investors will need to remain patient until the global economic tide turns.

For many months, all eyes had been fixed on Brazil's pension reform bill. Its recent passing is a significant victory for the Bolsonaro administration and testament to a government committed to transforming the Brazilian economy through both macro and micro-economic reforms. The social security reform was finally approved in Congress after eight months of discussion. Now, expectations are building on the delivery of a set of government-led measures to contain spending as well as budget planning, administrative reforms and privatisations. Tax reform is also on the agenda; however, we are not too optimistic of achieving a very comprehensive reform due to the complexity of the debate. We are likely to see layers of tax reform achieved, but not an overhaul of the system.

Brazil's Central Bank has forecast economic growth of just 0.9% for 2019, adding that the outlook is subject to a 'high degree of uncertainty'. Nevertheless, at the operational level, Earnings Per Share (EPS) statistics have delivered growth this year and this should continue next year in double digits. Brazil has been one of the few emerging markets to deliver positive earnings figures and in the current environment where earnings are challenged, we will continue looking for stocks where we see the potential for earnings growth recovery.

There are positives: data on the Brazilian economy continues to show signs of recovery, albeit slowly. GDP growth in the third quarter of 2019 and Industrial Production figures in November have surpassed expectations. The economic slack in the economy and low inflation have allowed the Banco Central to cut interest rates and signal that more cuts will follow. Privatisations are planned for several state-owned entities and the Bolsonaro government's more pro-business stance should fuel growth. Unemployment has nudged downwards in recent months, having risen in the first quarter of 2019.

China

(compare country specialist: Asia Pacific ex Japan funds **here**)

Howard Wang and Rebecca Jiang, managers of JPMorgan Chinese:

The political and economic landscape for the year to 30th September 2019 has been challenging and uncertain for investors. The global economy has faltered, and China has seen more than its share of setbacks, with domestic economic data decidedly muted. The year has been dominated by the deepening - and still unresolved - trade wrangles between China and the United States which has not only contributed towards a considerable slowdown of the Chinese economy and hit investor sentiment but could go on to seriously hamper global supply chains. China's transition to a consumption-based economy and its unsustainable corporate debt levels have also contributed to the prevailing volatility.

Although trade fears cast their shadow over the year as a whole, the second half of the review period was less tumultuous than the first. Sentiment improved as the US Federal Reserve led other central banks in changing direction and cutting interest rates. In China, the mood was lightened by the Beijing government's economic stimulus plan which gained traction. The package comprised fiscal and monetary policies designed to support the Chinese economy and rebalance it more towards 'home-grown' domestic consumption and regional trade. Measures included VAT reforms and cuts to personal and corporate taxes whilst monetary policy was supportive, with the People's Bank of China lowering interbank funding costs and cutting the amount of cash reserves that banks must hold, in order to improve liquidity.

Although the geopolitical and economic landscape remains highly uncertain - and the trade disputes present an undeniable risk - we are confident that Chinese government initiatives can stimulate the country's cooling economy. We believe that Beijing's actions should ease concerns of a more pronounced slowdown and that it will continue to promote more coordinated pro-growth policies and deepen reform measures in order to deal with the cyclical (domestic) headwinds and structural (external) challenges. Nevertheless, the positive impact of such supportive policies will be dependent on the actual outcome of the China-U.S. trade negotiations as well as other external and domestic risks that could hold back progress from here.

We acknowledge that Chinese equity markets can be volatile and subject to external shocks, such as trade disputes and geopolitics. Nonetheless, we are reassured that foreign investors have continued to be attracted to China's domestic market, following the opening up of many of its onshore equity markets (including the financial sector) to foreign access.

We expect the Government's personal and corporate tax cuts, together with more market-oriented reforms, to support domestic demand and private sector productivity from here. Reassuringly, Chinese equity markets remain at a reasonable level for long-term investors, close to average valuations in both price-to-book and price-to-earnings terms, so we remain broadly optimistic about finding future stock opportunities.

Our research spotlight remains on "New China" companies and those sectors that are capitalising on the transition of the country to a more consumer-driven economy. Our strong focus on research capabilities and being on the ground in mainland China is a significant advantage for us in identifying suitable higher-quality businesses that can progress on the back of this transition and where we see such structural growth opportunities.

India

(compare country specialist: Asia Pacific ex Japan funds **here**)

Rukhshad Shroff and Rajendra Nair, managers of JPMorgan Indian:

The pace of annual GDP growth declined during the year, falling to a six-year low of 5% in the April-June 2019 quarter. The IMF estimates that growth could slip to 6.1% for calendar 2019, compared with 6.9% in 2018. This is before taking account of recent analysis of India's reporting of national output, which suggests that headline GDP numbers may significantly overstate underlying expansion of the economy.

Structural weaknesses in India's financial system had a major impact on the economy throughout the year under review. The collapse in August 2018 of the large non-bank finance company IL&FS severely aggravated a shortage of credit that had already arisen from the inability of public-sector banks to expand their balance sheets. Confidence in non-bank finance companies, an important source of credit for residential property and consumer durables, was damaged, and their funding sources were constrained. Government policy aimed at resolving the bottleneck in the financial system caused by the balance sheet weakness of the still dominant public sector banks, remained largely ineffective. Mergers proposed between public sector banks will not on their own resolve the public sector banks' legacy of high non-performing loans, weak management, and capital constraints caused by their own underperformance and the unwillingness of government to see its controlling share in the sector diluted.

Economic performance in the year to September 2019 demonstrated clearly that the political achievement of the BJP in securing a national majority in elections in 2014 and again in May 2019 has yet to deliver the policies required for a sustained high rate of economic growth. There are also costs, as well as benefits, from re-shaping the Indian economy, evidenced by the setback to the large informal sector from the implementation from 2017 of the much needed reform of tax on goods and services.

By the end of the year under review, business confidence in India was fragile, a situation that the government acknowledged in September by announcing a reduction in corporation tax from 30% to 22%. All sectors of the economy have felt the negative impact of declining economic growth, and private sector investment remains weak, disappointing long-standing hopes of an investment-led recovery.

Outlook

While there are pockets of growth and opportunity, economic growth has recently been disappointing by historical standards, and there are no immediate signs of a cyclical recovery.

India retains the potential for long-term rapid growth because it has untapped human resources. India has a relatively young population, with large numbers reaching working age each year, and it remains a mainly rural society, with great potential for productivity gains from migration off the land. Whether these resources can be effectively channelled into a rapidly growing economy depends on structural reforms of a scope that have often been beyond what the Indian federal and state governments can deliver.

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Biotech and healthcare

(compare biotech and healthcare funds **here**)

James Douglas & Gareth Powell Polar Capital Global Healthcare:

Healthcare experienced similar volatility to the broader market over the reporting period to 30 September 2019, although the sector did underperform by 3.89% (MSCI ACWI Health Care Index vs MSCI ACWI Index (both daily total return)). The late 2018 correction was followed by a rebound during the first quarter of 2019, buoyed early in the year by biotechnology company acquisitions by large pharmaceutical companies. As the year progressed however, the attention of markets pivoted away from fundamentals and started to focus more on the political environment in the US. That focus weighed heavily on sentiment, over-shadowing the industry's underlying operational progress.

The major political debates in the US were, and continue to be, drug pricing and the spectre of "Medicare For All". On the drug pricing side, there is bi-partisan support to address the issue, enhancing the odds of change. The precise details and mechanisms for change are yet to be determined, but the political will is undoubtedly there. In terms of "Medicare For All", the more progressive Democratic nominees are promoting a single-payer system in the US, something that could potentially disintermediate the US Managed Care industry.

There was a wide dispersion of returns from the healthcare sub-sectors. The life sciences and tools and medical equipment sub-sectors outperformed, but the managed healthcare and services sub-sectors had a difficult 12 months. Within therapeutics, pharmaceuticals were in modest positive territory, but the biotechnology sub-sector struggled.

Political rhetoric can create opportunities

The US is the most important end-market for global healthcare, so a watchful eye on the political environment is essential. The two key areas gaining most attention in the US are drug pricing and a potential move towards a single-payer, government-run healthcare system. Whilst the updates and posturing are in a constant state of flux, addressing the affordability of drugs is something that appears to have bi-partisan support. At the end of July 2019, a piece of legislation passed through the Senate Finance Committee with the basic premise of lowering out-of-pocket drug costs and controlling price inflation for US seniors. The timing of a potential resolution is hard to predict, but we do believe that clear progress could be a clearing event for the bio-pharmaceutical sector given the removal of uncertainty.

Importantly, if pharmaceutical and biotechnology companies can deliver high levels of innovation in areas such as oncology, rare diseases, gene therapy and blood disorders, the US market will remain an attractive one to generate returns. With drug pricing concerns affecting sentiment across bio-therapeutics, the opportunity for investors is to find those companies that are either insulated from the potential regulatory developments by nature of their product portfolios or which are developing innovative products to address hitherto unmet medical needs.

Rhetoric surrounding a single-payer system has been the key negative sentiment driver for healthcare. The impact has been quite marked on managed-care companies' valuations, yet the chances of a single-payer healthcare system in the US is very remote. Why? Disruption, complexity and cost. Switching to a single-payer system would be extremely complex due to a wide range of components and requirements. Yet to be answered questions might include eligibility and enrolment criteria, which services would be covered, what role the current system would play, what the payment rates would be and what role the Federal government would play. There are also the cost implications to consider, with some estimating that government health spending would increase by $32.6 trillion over 10 years (Source: Mercatus Center at George Mason University in Virginia). Given the implications for taxes, choice, flexibility and access to care, it would come as a huge surprise if the US were to adopt a single-payer, government-run, healthcare system.

Innovation to drive efficiencies

US healthcare spending was approximately $3.5 trillion in 2017, with an overall share of gross domestic product related to healthcare spending of 17.9%. Of that $3.5 trillion, 33% was spent on hospital care, 20% on physician and clinical services and just 10% was spent on retail prescription drugs. The desire to control the costs of prescription drugs is apparent, but to make the healthcare system truly more efficient we believe the system must align incentives, drive efficiencies without compromising quality of care and reduce, or avoid completely, the amount of time patients spend in hospital.

Some of the most tangible evidence for driving efficiencies in the system, we believe, can be found in the world of medical devices - devices that are minimally invasive, devices that yield faster recovery times with no compromise on quality or even devices that are designed to help patients manage their disease and avoid hospitalisation altogether.

Avoiding hospital altogether makes obvious well-being and commercial sense, with diabetes an excellent example of how technology is being used to engage consumers and shift the disease-management paradigm.

In a similar vein, US medical device peer Medtronic and healthcare insurance company UnitedHealthcare published some interesting analysis based on the concept of value-based care. Results from an analysis of over 6,000 members with diabetes on Medtronic's MiniMed 630G and previous generation insulin pumps demonstrated 27% fewer preventable hospital admissions compared to plan participants who are on multiple daily injections of insulin. The MiniMed 630G system is an insulin pump that is fully integrated with a glucose sensor, with the aim of enhanced diabetes control.

Healthcare companies responding to changes at the FDA

Over the last year, we have noticed many more healthcare companies beginning to talk about how they expect to use real world evidence (RWE). The most interesting example in the last year was the FDA approval of Pfizer's breast cancer drug, Ibrance, as a first-line treatment for male breast cancer, that was based entirely on RWE. Pfizer used real world data (RWD) from the Iqvia insurance database, Flatiron's Health Breast Cancer database and Pfizer's own global safety database. Historically, such an expansion of indication would have required a controlled clinical trial but in this case the FDA accepted the RWE to support the supplementary filing.

We expect the field of RWE to evolve quite rapidly now that the FDA is funding programmes to drive its use. Importantly, we have begun to change the way we think about the investment risk of product development companies. We used to focus more on the clinical risk of a new product candidate (i.e. would it get approved by the FDA?) but we now give greater weight to the potential commercialisation risk of a new product.

Clinical research organisations with the right capabilities look to be the near-term winners

From an investment perspective, we think that Clinical Research Organisations ('CROs') will be the biggest near-term beneficiaries of this burgeoning trend. While some pharmaceutical companies have made significant investments in this area, we think that most companies will look to out-source the analysis of RWD.

The CROs that have been quietly building analytical capabilities and making significant investments in RWD look well set to exploit new revenue opportunities from this new market segment.

Outlook

Fundamentals for the healthcare sector remain robust with good sales and earnings strength relative to other areas of the market (8% 2019 vs 2018 earnings growth in the MSCI ACWI Health Care Index vs 1% for MSCI ACWI Index (in local currency); Source: Citi Research and Factset Consensus Data, 29 November 2019. Please note these figures are estimates). Medical device companies continue to enjoy the benefits of a significant cycle of new products, whilst large capitalisation pharmaceutical companies are attractively valued, generating significant free cash flow and carrying high dividend yields. Life science tools and services companies are delivering strong growth, particularly those with exposure to biotechnology products as outsourcing trends continue. The biotechnology sector continues to innovate with new technologies such as gene and cell therapy creating exciting new platforms for growth. These fundamentals should persist over the years ahead, generating attractive returns for investors. M&A should also continue in an industry that remains highly fragmented and thus needs to consolidate to become more efficient.

The top-down outlook appears challenging for the global economy with leading indicators suggesting a negative short/mid-term outlook. Whilst trade wars have negatively impacted global growth, this economic cycle is now quite long in the tooth.

The challenging data is likely to persist in the near term, with employment figures remaining key. The outlook for the end of 2019 and into 2020 is supportive for large cap healthcare stocks based on their defensive growth profile, strong balance sheets and commitment to innovation.

Smaller healthcare companies relevant to the innovation portfolio, are more sensitive to the difficult macroeconomic backdrop. With a relatively conservative outlook for markets heading into 2020, the portfolio exposure to these types of companies is mid-range, waiting for further opportunities which should present themselves over the months ahead.

Despite the sound fundamentals, sentiment for the healthcare sector remains cautious. Healthcare and biotech exchange traded funds ('ETFs') flows have been persistently negative which offers a strong contrarian buy signal, while valuations relative to the market are in line with lows of previous episodes of fear around the sector. The reason for such negativity is the political outlook in the US. This issue becomes significant every four years, but concern is only really magnified when healthcare policy is an important part of the electoral debate. When this happens, sentiment becomes extreme like it did in 2008 and like it is at present.

Having experienced many of these sentiment cycles around politics, one needs to recall how fearful behaviour from investors can be a buying opportunity. The greatest fears never come to pass but more likely lead to changes in the healthcare system that create an environment for winners and losers from an investor perspective. This will likely be the same again, with the market appearing to discount worst-case risks and fears ahead for 2020. Anything that goes the sector's way over the next year will likely justify a significant positive re-rating for stocks sitting at significant discounts. Further, history would suggest that investors in healthcare who are willing to invest when others are fearful, could be handsomely rewarded in the medium-term.

Commodities & natural resources

(compare commodities and natural resources funds **here**)

Datuk Michael Tang, PJN, executive chairman of Polo Resources:

Heading into 2020, there will be both macro and micro value catalysts that will impact on Polo. Firstly, the conclusion of US-China trade talks is likely to feature as a positive development by investors that should filter down into creating positive market sentiment and thus lifting stock market valuations across the board.

Commodity Exposure and Value Catalysts:

Oil

For the period under review the price of oil (Brent Crude) has averaged circa USD62 a barrel and we see known market factors that could serve to hinder this price stability moving forward.

Lithium, Iron, Vanadium and Precious Metals

Lithium hydroxide, battery grade, CIF China, Japan and Korea prices have been dampened over the last 12 months from highs of USD21.00 per kg to USD12.00 per kg. Industry commentators believe the lithium market has now bottomed out and a recovery should begin to take place during 2020. Naturally the uptake of electric vehicles and off grid energy storage and electronics are key drivers for lithium. We see the desire by all governments to lower greenhouse gas emissions to be a geopolitical and policy factor that heading into the next ten years should see a transformational level of demand for lithium.

Iron Ore

The iron ore price hit USD120 a tonne in July 2019 but has since come off to USD88 a tonne. Once again, we see the result of trade talks between the US and China as being a catalyst to global economic growth where steel production can be considered a barometer by which to measure the health of the global economy.

Gold, Zinc and Phosphate

The gold price during the period traded above USD1,500 an ounce. There is widespread consensus that we are in the midst of a tightening of the market for Zinc, which has seen the price rise to USD3,000 a metric tonne and moving into 2020 the price of zinc is trading at over USD2,000 a metric tonne. Rock phosphate prices improved during the back end of 2018, with prices reaching just over USD100 a metric tonne but have since come off to circa USD77 a metric tonne in what has been a market that has seen quite a steep decline in pricing during 2019.

Environmental

(compare environmental funds **here**)

Michael Naylor, chairman of Jupiter Green:

Over the last six months, Charlie Thomas (the trust's manager) has detected an acceleration in the "velocity of change" in companies, markets and regulation. Maturing technologies and falling costs are at the centre of this process and are emboldening politicians to introduce new regulations and company management teams to modify their business models. For example, Europe's offshore wind market has doubled every three years throughout the last decade, with newer markets developing in places such as the US, Japan and South Korea. Notably, the increased use of offshore wind in the energy mix is largely being driven by technology and the favourable costs rather than politics. Nevertheless, regulation remains a key driver of change. In Europe, emboldened by rising electoral support for parties with a progressive approach to climate change, the European Commission has been pushing forward with the EU Sustainable Finance Action Plan, which should continue to underpin the further development of the circular economy and areas such as energy efficiency.

Against this backdrop, it is no surprise that interest in sustainable forms of investing - environmental, social and governance (ESG) investing - has been expanding rapidly as younger generations demand more responsible corporate behaviour. Some of the world's biggest institutional investors continue to lead the way by allocating more of their funds to companies that score well on ESG criteria. Sapling vehicles for ESG investment also continue to grow, including climate bonds (or green bonds), whose proceeds are earmarked for use on assets or projects that help in the fight against climate change.

At a time of heightened market volatility, Charlie and his team remain focused on the many opportunities for sustainable investing across a range of themes and continue to be alert to the possibility of buying long-term growth at advantageous valuations.

Technology & media

(compare technology & media funds **here**)

Neil England, chairman of Augmentum Fintech:

The opportunity for fintech remains considerable. The sectors we are targeting have an addressable market of over $4 trillion, yet the penetration of digital disruptors today remains small. Whilst many of the core financial systems and players remain fundamentally the same as they did 10 years ago, it is clear that the next 10 years will see considerable change.

. . . .

Ben Rogoff, manager of Polar Capital Technology:

The technology sector modestly outpaced the broader market during the half year, the Dow Jones World Technology Index advancing 4.6%, in sterling terms. As in prior years, this outperformance was aided by the sector's disproportionate exposure to the US. However, the dollar provided less of a tailwind as potential light at the end of the Brexit tunnel, in the form of a UK general election, saw sterling regain its poise, ending the period little changed against the dollar. The half year began with a continuation of returns concentrated in the software and payment subsectors, where growth remained impressive and relatively sheltered from trade war machinations. However, this trend reversed abruptly in July with early-cycle stocks responding to the first US interest rate cut since 2008, a move up in US 10-year treasury yields and hopes for a trade deal. The outperformance of value and cyclical groups continued, resulting in semiconductor stocks delivering the strongest subsector returns over the half year - the Philadelphia Semiconductor index rising 8.1%, in sterling terms - while the component and robotics-heavy Japanese market delivered the best geographic returns (6.5%). This outperformance was significantly divorced from fundamentals that remained mixed at best as the semiconductor industry remained mired in a prolonged downturn with revenues forecast to fall by nearly 13% in 2019. However, semiconductor (and other cyclical subgroups such as robotics) stocks shrugged this off as investors instead focused on pockets of improvement as well as hope for a better 2020 and a positive trade war outcome.

Fundamental improvement was most apparent where it was least expected, with Apple and the smartphone supply-chain delivering some of the best returns. Following earlier news in April that Qualcomm and Apple had settled all pending litigation between the two companies (suggesting a 5G iPhone might be released in 2020), Apple's stock price strength continued before and after the September launch of the iPhone 11. Against a backdrop of low expectations, the new smartphone (with a better camera and noticeably improved battery life) surprised to the upside. In addition, further progress in services and persistent strength in wearables (a $16bn run-rate business growing more than 50% propelled by AirPods) saw Apple (up 26%) again become the world's most valuable company as it added a remarkable $159bn to its market capitalisation during the half year. Another relative bright spot for chipmakers was 5G, despite Huawei-related uncertainty, as investors (ourselves included) became excited about the size of the addressable market and the deployment timeline. This was in contrast to weaker trends elsewhere, particularly in automotive (where China auto sales fell 12.4% during 1H19) and in data centre (reflecting slowing cloud capex). The latter weighed heavily on server, networking and CPU demand while spot DRAM prices fell more than 30% during the period.

Internet stocks also delivered returns in stark contrast to fundamentals as the group struggled with regulatory headwinds and an adverse narrative despite continued growth at most of the key platforms. In June, the US Federal government announced it was stepping up scrutiny of big technology companies with the Department of Justice and the Federal Trade Commission said to have struck a deal to divide oversight of Facebook, Amazon, Alphabet (Google) and Apple. In the same month, Senator Elizabeth Warren - a leading candidate in the race to win the Democrat nomination - further raised the ante when she announced she would "break up big tech" if she became President. In addition, Apple lost a Supreme Court ruling that will allow antitrust lawsuits against the App Store to proceed, while in August France passed a 3% digital tax on sales for large internet companies. Despite these adverse developments and headline risk, fundamentals at the leading platforms remained strong. Google and Facebook both delivered impressive top-line growth, while Facebook added two million daily active users in Q3 in both the US and Europe, once again confounding engagement concerns. Deceleration at AWS and the decision to invest in free one-day shipping as the default to all Prime customers saw Amazon shares trail its peers.

Next-generation software and payment stocks continued to deliver exceptional growth, but this was more than offset by an arguably overdue period of valuation compression, potentially triggered by limited evidence of macroeconomic uncertainty impacting earnings progress, while disappointing progress at Uber and the debacle at WeWork weighed on investor appetite for growth stocks. Having reduced our software exposure earlier in the year, we exited several more of our highfliers before beginning to modestly rebuild our sector exposure towards the end of the half year. A weaker than normal Q2 from PayPal hindered payment stocks which, like software, were also hampered by the rotation away from growth. Enterprise incumbents mostly struggled, as the shift towards the cloud continued to negatively impact organic growth at legacy vendors such as IBM and Oracle, as well as a number of IT services/outsourcing companies, including Cognizant and DXC Technologies.

Technology outlook

Twenty-five years ago, a new genre of fiction - cyberpunk - epitomised by William Gibson's Neuromancer, envisaged a dystopian future where real and virtual worlds collide. Around the same time, TCP/IP was introduced - the protocols used to interconnect devices on the internet, a network that now connects 4.4bn people who on average spend six hours and 42 minutes online every day. Everywhere we look, the collision of real and virtual is happening as the internet delivers on its promise as a so-called general-purpose technology around which nearly everything is being reordered. Today, 14% of retail sales are captured online as the likes of Amazon and Alibaba forever change the behaviour and expectations of consumers across the globe. Massive social media platforms like Facebook - boasting more than 30% of the world's population as customers - allow information to travel at a velocity previously thought impossible, enabled by billions of smartphones, arguably the most empowering and democratising technology of all time. Nowhere is the collision of virtual and real worlds more apparent today than in our selection of life partners with c40% of people meeting online today as data and artificial intelligence (AI) disintermediate friendship.

The pace of internet-fuelled disruption has been so furious that is easy to forget that (The) Facebook was only launched in 2004, that the first Google search happened just over 20 years ago or that Tim Berners-Lee invented the World Wide Web in 1989. It was only 50 years ago that the first online message was sent when two academics used the ARPANET (the precursor of the internet) to communicate. At the time, only four universities in the world had computers which were room-sized and required underfloor air conditioning. Leonard Kleinrock had intended to send the word 'login' but the system crashed as he typed in the second letter and 'lo' -a biblical word used as an expression of surprise - appropriately became the first online message and "served as a premonition of what was to become". Last year, 65bn messages were sent daily on WhatsApp alone.

A little more than two decades after the birth of the commercial internet, we are beginning to witness the first real efforts designed to slow its inexorable progress. In the aftermath of the Cambridge Analytica scandal, data privacy has become a hot topic with the EU adopting the General Data Protection Regulation (GDPR) in 2016 to replace a directive that was adopted in 1995 when the internet was in its infancy. The idea that a more innocent, decentralised internet has been transformed into one increasingly dominated by a handful of big technology companies has moved into the political mainstream with countries including France and Germany looking to introduce digital taxes. Cities are fighting back against the likes of Airbnb (apparently responsible for soaring long-term rents, rather than, say, soaring property prices and negative interest rates) and Uber has become a cause celebre with cities such as San Francisco looking to protect drivers rights that many appear comfortable waiving in order to be able to operate in the gig economy.

Senator Elizabeth Warren has significantly upped the ante with a progressive platform that includes the promise to "break up big tech" because "a handful of monopolists" should not "dominate our economy and our democracy". Her plan leans heavily on historical parallels with the Gilded Age and the monopolies associated with Carnegie, Ford, JP Morgan and Rockerfeller. Instead of robber barons, we are told that today's existential threat is posed by would-be data barons who have used people's private information for profit. As long-term investors in each of the internet winners "needing to be broken up" we would politely remind Senator Warren that at no point was the success of these platforms assured. Google's IPO was downsized, while arch-rival Yahoo! might have been a more formidable competitor had it accepted Microsoft's $45bn bid in 2008. Likewise, Facebook fell well below its IPO price once the risk associated with moving advertising from desktop to mobile became clear. While both Google and Facebook made some important acquisitions that have extended their reach and relevance, these transactions were considered controversial and expensive at the time. We will never know how much of the subsequent success of YouTube, Instagram or WhatsApp would have happened had they remained standalone companies.

Amazon's dominance of US e-commerce has also been hard won, requiring years of losses and the deep pockets of Jeff Bezos as the company built out 150mn square feet of space across more than 175 fulfilment centres across the world. While it is true that Amazon employs fewer people per revenue dollar than Walmart did when Sam Walton was crowned America's richest person in 1985, Amazon relies extensively on third-party parcel carriers and agency workers; UPS alone has added 100,000 jobs in the past 16 years. Amazon's success has also spawned AWS, the leading public cloud company today which has not only transformed Amazon's financials but has enabled much of the disruption witnessed this cycle by providing cheap and flexible computing and storage to the likes of Lyft, Netflix, Pinterest and Slack, to name a few. Apple - a poster child for American technology if ever there was one - also falls foul of Senator Warren who insists that it should not operate a marketplace and compete in it at the same time, turning a blind eye to how supermarkets sell private label alternatives to branded goods in their own stores. For the record, Apple had paid out $100bn to developers as of June 2018 while apps like Netflix, Spotify and Uber would have struggled to become ubiquitous without Apple (and Google) distribution. Even the 30% take-rate - an understandable focal point for the likes of Spotify - is only in line with what software companies have typically paid distributors.

The second Gilded Age argument is beguiling but ultimately fallacious; it is simply too easy to compare Google with 89% search market share with Standard Oil which enjoyed c90% of US refineries and pipelines in the early 1880s. The idea of breaking up the tech giants harks back to the Sherman Antitrust Act of 1890 which outlawed trusts - monopolies and cartels - and demonstrated that the age of unbridled corporate excess was coming to an end. However, this all-too-easy historical parallel makes no distinction between monopolistic practices and natural monopolies, nor does it consider the value being delivered to customers and society as a whole. Jimmy Wales (a co-founder of Wikipedia) is said to have dreamt of "a world in which every single person on the planet is given free access to the sum of all human knowledge". Well, today bns of people ask more than one trillion questions of Google every year, of which 15% have never been asked before, while more than half of YouTube users rely on the video service to learn how to do things they have never done before.

Rather than the robber barons, it is to another 19th century group - the Luddites - that we should instead turn as a guide. Used today as a derogatory term to describe people opposed to new technology, the Luddites were a radical faction of English textile workers which destroyed textile machinery as a form of protest. The movement emerged from the harsh economic climate of the Napoleonic Wars, which at least rhymes with the post-financial crisis experience and the present climate of machine mania and stagnating incomes. After six years of protest, the Luddites were suppressed, leading some to conclude that the movement had little to no global significance on technological progress. However, there are better conclusions to be drawn. Contrary to popular belief, the Luddites were not opposed to the new technology but wanted a more gradual take-up of the machinery to give them time to learn new trades. Put differently, they were objecting to transformative change with no regard for the consequences and the fact that the new technology enabled less-skilled, lower-wage labourers.

After two furious decades that have seen the internet radically rewiring how our societies work we may be overdue a period of consolidation and some recalibration. This is likely to take the form of greater regulatory oversight, increased costs associated with taking responsibility for content and localising global networks, the right to be forgotten and, probably, higher taxes. We continue to believe that breaking up big tech remains highly unlikely, not least because the US internet giants represent the vanguard of American efforts to stay ahead of the Chinese in critical domains such as cloud computing, AI and even quantum computing. In time, the stocking frame (a popular Luddite target) helped the British textile industry grow and created many more jobs while their protests marked the beginning, rather than the end of what Thomas Carlyle later called "a mechanical age".

As we embark on the second half of our financial year and look to 2020, there is much to be excited about. The technology sector remains uniquely positioned as both source of and solution to disruption - the zeitgeist of this cycle - which continues to create an appropriate sense of urgency across myriad industries for companies to reinvent themselves to avoid disintermediation, obsolescence and/or irrelevance. We believe we are still in the early to middle stages of this process with $1.7trn of enterprise IT spending up for grabs with much of it being reallocated to modern cloud software and AI. This view was once again reinforced by my annual trip to the Gartner Symposium in Barcelona (along with 7,500 other people) where the pace of technology disruption remains palpable. According to one Gartner survey, the most important CEO priority today after revenue growth, is improving business agility - critical at a time when technology change is resulting in heightened corporate obsolescence.

Earlier this month, venerable Mothercare announced it would close all its UK stores. While many will point to price transparency facilitated by the internet and the role played by Amazon, retail disruption is far more embedded than being simply due to pricing or fulfilment. An estimated 70% of new mums now turn to YouTube for help while 'mommy bloggers' are the first people that brands go to when they want to launch new products - both roles once enjoyed by Mothercare. This disruption is fast becoming the norm; 83% of board directors expect their respective industries to be disrupted significantly by the web giants over the next five years. Business agility is one way to guard against unforeseen disruption but requires companies to rethink how they operate, where they compute and to embrace hyper-automation, a term used by Gartner to describe the need to automate anything that can be automated.

Meanwhile, the tide continues to move ever further from enterprise compute and legacy technologies. Dampened IT budgets are expected to grow just 0.6% in 2019 (before recovering to 3.7% next year) and this has been felt disproportionately by incumbents. Even in the cloud, hopes for so-called hybrid computing (the combination of public and private clouds) are already giving way to the 'distributed cloud' where, according to Gartner, public cloud companies provide the on-premise compute and storage too. This has made it even less likely that we will invest in hybrid-cloud and infrastructure companies as workloads continue to gravitate towards the public cloud which today accounts for c20% of overall compute and storage. In contrast, our investments in the largest public clouds (Microsoft, Amazon, Google and Alibaba) are approaching a quarter of assets.

In addition, the software sector remains a firm favourite of ours as companies adopt next-generation software in order to transform themselves, improve the customer journey and automate decision-making. The cloud software market - worth $122bn in 2018 - is forecast to reach $550bn by 2025 which would see it grow 24% annually or 2x the broader software industry. However, this remarkable growth profile and heightened M&A activity led to a material re-rating of software assets and this has begun to unwind since July, driven by the growth-to-value rotation in the broader market as well as some macroeconomic-related uncertainty at the margin at a time when stretched valuations could least afford it. This has presaged a significant and painful derating process with many individual names falling more than 30% from recent highs (and some more). While we have drifted money back into selected positions (many of which we reduced earlier on valuation grounds), we continue to tread carefully as growth stocks continue to act poorly, evidenced by asymmetric reactions to good and bad results thus far during earnings season.

In contrast, semiconductor stocks have taken on the baton as investors better position themselves for the uptick in global growth expected once a trade deal is agreed. Having steadily increased our semiconductor weighting (primarily via preferred 5G beneficiaries) we are reluctant to chase them further from here, particularly when current strength beyond Apple and 5G may be partially explained by Huawei and other Chinese companies building inventory or, more likely, establishing secondary supply chains designed to reduce their reliance on US chips. As such, and unwilling to embrace value, we will continue to look for further opportunities to add to our favoured names and perhaps add a few new ones that have eluded us thus far. Until then, we are likely to retain above-average levels of cash (augmented by a small amount of out of the money NDX puts) designed to reduce the natural excess beta of our portfolio.

With the US IPO market on track this year to surpass the issuance record set in 2000 (at the height of dotcom mania), it is worth recalling that while technology valuations have expanded, they remain far from anything resembling a bubble. Today, the S&P technology sector trades at c20.6x forward earnings as compared to 18.9x at the start of our fiscal year, the c20% premium to the broader market (ignoring the sector's superior collective balance sheet) looking more than justified. We should also point out that our own portfolio remains highly liquid. According to internal risk team calculations, 95% of the combined portfolio of all three technology vehicles managed by Polar Capital could be liquidated in less than three days, assuming one third of daily traded volume. This is not a reaction to recent adverse industry developments; rather, we have long felt that the remarkable pace of technology change and associated obsolescence risk demanded sufficient liquidity to recalibrate the portfolio when necessary. While this may preclude us from investing in private companies, we are more than happy to trade a slightly smaller investment universe today (noting that most private companies will eventually come public) for best in class liquidity, particularly given the duration of this bull market.

Near term, the growth versus value debate is likely to be driven by the direction of risk-free rates and hopes of a trade deal. However, we remain hopeful that the current rotation is likely to prove a tremor rather than a seismic shift in investment style, particularly if the Japanese experience proves a useful guide. We have no desire to dust off our value playbook, nor hunt for value in washed-out enterprise tech, IT services companies and would-be turnarounds.

Debt

(compare debt funds **here**)

John Pattullo and Jenna Barnard, managers of Henderson Diversified Income:

The "slowdilocks" economy, meaning slow growth, low inflation, muted volatility, and low default rates, that we have described for years broadly played out. The significant pivot in rhetoric around interest rates by the Fed (Federal Reserve) in the late Spring set the scene for favourable returns to be achieved from bond investing. We documented this "point of realisation" on our twitter account in late March - that US rates had peaked at 2.4% this cycle versus 5.25% the prior cycle; that QE (Quantitative Easing) cannot be reversed; and, if the "stellar" US economy even with a late cycle fiscal boost, cannot normalise interest rate policy, then no other Central Bank can! There was some growing acceptance that the Fed may have over tightened interest rates on the false pretence that growth and inflation were going to break out from their malaise. A somewhat classic case of confusing a cyclical impulse against the long-term secular forces and a misreading of economic signals within a very orthodox economic framework, which is arguably no longer fit for purpose. The Fed has grudgingly conceded that the absence of inflation was more than a transitory phenomenon and was more structural in nature. Fed acceptance of this gave many Central Banks in both the developed and emerging markets "cloud" cover to follow suit, most notably Europe, Canada and Australia. Somewhat ironically, the Bank of England was last to fold!

The debate then shifted to whether the Fed could engineer the elusive soft landing. These are of course hard to achieve, given the well documented lags in monetary policy, amongst many other factors. The Fed did manage to cut interest rates 3 times over the period, which is an extraordinary turn of events, as many leading investment banks had pencilled in many hikes for this year. Many learned commentators rapidly cut their forecasts, conveniently blaming the trade wars. We would suggest the slowdown was due to the unnecessary last rate hike. Economic data certainly deteriorated due to the trade war. The bond market took fright given the lack of global activity and we experienced another deflation scare culminating with the US treasury yield plummeting close to record lows of 1.43% in early September. The "Japanification" of the western world, a theme we have discussed since 2013 now became the consensus view. Slowdilocks was heading to stall speed.

In the Summer European Central Bank (ECB) conference in Sintra (Portugal), President Draghi came to the rescue, hinting that there was more life in monetary policy and "QE had considerable headroom". He subsequently followed through later in the summer, with a new QE programme and an interest rate cut. Philip Lane, the new ECB Chief Economist also discussed a very dovish approach going forward. Towards the end of the period under review, President Draghi retired from his eight-year term of office. He highlighted the need for fiscal policy to work with monetary policy, along, of course, with structural reforms. We agree fiscal policy should have a much greater role in economic management but believe it is unlikely to achieve the levels of growth and inflation of prior decades. The Bank of England also accepted not all was well with the UK economy with Mark Carney's "sea change" speech in early July.

Bond yields rose from the September lows as it appeared the bond community may have become overly bearish. Economic data started to become "less worse", Brexit was postponed, and some progress was made on the trade wars. There was a partial "reflation" rotation in the equity markets away from expensive growth stocks towards deeply unloved, cheap and cyclical stocks. Cyclical reflation trades come and go - the duration and strength of this one is open to debate as is the endless debate on whether we are mid or late cycle and whether to expect a hard or soft landing, and where?

Asset allocation

We continue to run a barbell of reasonable quality long duration investment grade bonds with a shorter dated high yield bucket. We have nothing particularly against high yield bonds apart from the fact that they have quite short maturities. The problem with just being invested in high yield bonds is that these companies are constantly re-financing existing bonds with lower coupons. In contrast, we can achieve reasonable yields by investing further along the investment grade maturity spectrum, thereby locking in yields for much longer although these bonds are more volatile to changing interest rates. Given the significant shift downwards in bond yields, very good capital gains were made from these investment grade bonds, whereas reasonable capital was made in high yield. The bulk of the assets remain in American companies, predominantly denominated in dollars but hedged back into sterling on purchase. We find there are more, better quality, liquid opportunities available in the American bond markets, than the UK or Europe. Their yields are also higher than the European markets.

We increased our allocation to investment grade bonds and to a lesser extent to high yields bonds during the period. We continue to be wary of secured loans for a number of reasons. Firstly, given the modest peak in the interest rate cycle loans are less appealing. Secondly, we feel much of the late cycle, marginal leveraged finance supply has been taken down by the loan community, outcompeting the high yield investors. Finally, some cracks are appearing in the junior tranches of the CLO (Collateralized Loan Obligation) market, which are structured and levered plays on secured loans. Dispersion in credit risk is increasingly in loans and high yield in both Europe and America - we remain very choosey about which new credits enter the portfolio.

Outlook

We often look across capital markets to get corroborative or contradictory data to our bond views. It appears the optimistic equity market is looking for a mid-cycle, soft landing, whereas the pessimistic bond market is expecting a late cycle, harder landing. We could easily construct arguments to back either view. We remain open minded for now.

Infrastructure (now incorporating infrastructure securities)

(compare infrastructure funds **here**)

Manager's report for Ecofin Global Utilities and Infrastructure:

Economic review

The economic and political backdrop caused considerable equity market volatility during the year ended 30 September, 2019 but these episodes, usually caused by underwhelming economic data, deepening trade disputes or fears over the outlook for global growth, tended to be followed by gains and even new all-time highs for some equity markets. After a sharp decline during the fourth quarter of 2018 (-11.3%), the MSCI World Index rallied by 22.5% between 1 January and 30 September, 2019, amplified slightly by the weakness of Sterling against the U.S. dollar. Meanwhile, economic conditions justified rate reductions for many central banks by the middle of 2019, and the 10-year U.S. Treasury yield, which in late 2018 stood at over 3% and was widely predicted to rise to 4%, fell to 1.7% by 30 September, 2019. For the company's fiscal year, the MSCI World Index rose by 8.7% (2.4% in local currency). Unless indicated otherwise, all equity market and company returns are stated as total returns in Sterling.

As 2018's synchronised growth morphed into a global slowdown, our sectors continued to deliver generally better than anticipated earnings and guidance and share prices benefitted as more defensive, less economically sensitive, qualities were sought by investors. With the exception of a period of underperformance in the first calendar quarter of 2019, the MSCI World Utilities Index outpaced the MSCI World Index by a significant margin during the year and so did the S&P Global Infrastructure Index which is approximately 40% comprised of utilities with the balance in other economic infrastructure sectors (energy infrastructure and transportation).

Macroeconomics and geo-political tensions helped to raise the appeal of safe-haven assets during the year. The wholehearted change in sentiment about the path for interest rates and the flattening of yield curves was also helpful to the performance of utilities globally and the company's NAV. As a bonus, these companies were delivering on upgraded earnings forecasts in view of the improvement in power and carbon emission allowance prices. Strength was broadly based across regulated utilities, integrated names and yieldcos.

Performance was sluggish during the second half of calendar 2018 for the company's investments in energy infrastructure (pipelines) and transportation services due to a slowdown in air traffic and heightened concern for toll road concessions businesses further to the bridge collapse in Genoa. These sub-sectors regained favour this year on a relative value basis and the recovery in the oil price has helped the pipelines businesses. The return of M&A to our sectors is also highlighting the value in listed versus private infrastructure assets (water, renewables, airports).

Outlook

The investment needs for power (detailed above) are matched when we look more broadly at the network infrastructure - water, roads, airports, railways - required to support economic growth and to meet the UN's Sustainable Development Goals (SDGs). The yawning gap between investment requirements and current spending commitments will have to be addressed by governments and private sources and the latter will need to be adequately incentivised by regulators. The adoption of climate change targets such as 'carbon neutrality' and 'zero emission' by an increasing number of countries and companies bodes well for an acceleration in the development in clean energy, and this transformation represents a powerful growth driver for our investment universe. Unlike in the past when the power generation sector was seen as purely defensive, the clean generation universe in particular has shifted to providing predictable growth, an attractive feature in uncertain times and a strong support for stock values. Notwithstanding their strong performance over the last year, utilities and economic infrastructure shares, in our view, still look undervalued relative to the bond market, to their own solid fundamentals and growth prospects, and to the valuations that private equity operators are ready to pay for comparable assets.

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Tom Tribone and Sonny Lulla, chairman and chief executive of Infrastructure India:

The macro landscape during the period softened with declining growth momentum. The slowing growth of the Indian economy has been evident in the logistics sector which is exposed to key industrial and consumer markets. The Indian government is implementing a range of initiatives from tax cuts to infrastructure spending, alongside easing of monetary policy, to arrest the deceleration. Growth is largely expected to pick up during 2020.

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Leasing

(compare leasing funds **here**)

Manager’s report for Amedeo Air Four Plus:

In an update to what was reported in Q3 2019, Boeing continues to work towards re-certification of the 737 MAX aircraft. In mid-September at a Morgan Stanley investor conference, Boeing Chairman and CEO Dennis Muilenburg reiterated his projection that the 737 MAX would be certified to return to service in November 2019. However, EASA continues to question Boeing's plan with regard to Angle of Attack "integrity" issues, will send its own test pilots, and has indicated that it may not fall in step with an FAA approval timeline. Major operators are also hedging their bets with their fleet planning. American Airlines has removed the MAX from its schedule through December 3, 2019. Southwest Airlines has done the same through January 5, 2020. We now think that recertification may be a Q1 2020 event, but actual re-entry of the parked and undelivered fleet will take all of 2020. The relevance of the 737 MAX issues raises questions as to how Boeing will handle the production of other aircraft types, particularly the 777X. In August, Boeing announced that it would delay the entry into service of the -8 variant, which was previously slated for 2022. And in September, the -9 variant suffered a setback when the static test airframe failed at 1.48 times the expected maximum forces bending the wings, nearly at the 1.5x target, but still a shortcoming that will not inspire confidence at the FAA. In combination with still unresolved GE-9X engine issues, the -9 entry into service will be delayed. Boeing is still hoping to deliver the first aircraft to Emirates in 2020, but does now say that there are risks to that scenario. We think that the FAA, fresh off the 737 MAX controversy, will be inclined to review the 777X certification project with a more watchful eye. Our view is that the 777X will certainly be delivered, but there is no visibility as to when, and that makes forward fleet planning for airlines that ordered it, like Emirates, a challenge. If any of these factors cause entry-into-service delays, other widebody aircraft residuals may benefit and the appraisal community should be more confident in regard to the 777-300ER. It also remains to be seen how the ongoing work with 737 MAX and 777X programs will affect Boeing's progress on the New Midsized Aircraft (NMA).

While its difficulties have received less attention, Airbus has not escaped issues either. Reports indicate that Lufthansa and British Airways have been blocking the last row(s) of their A320neo aircraft as a result of recently discovered center-of-gravity issues. Such actions obviously reduce the profitability of operating these aircraft on an absolute basis, as well as relative to the 737 family.

Emirates President Tim Clark recently skewered all the Original Equipment Manufacturers (OEMs), engine manufacturers included, for general reliability issues. While he expressed complete confidence in aviation safety, he bemoaned the reliability of the Rolls-Royce engine family and criticized GE for the GE-9x engine issues mentioned above with respect to the 777-9X.

Industry Update: Emissions Reduction Dynamics

With the increased focus on climate change and greenhouse gas emissions, further focus has landed on the aviation industry and its emissions profile. The Air Transit Action Group (ATAG) reports that aircraft flights produced an estimated 895mn tons of carbon dioxide on an annual basis, or 2% of total "human-induced" carbon dioxide emissions. Among transport sources of carbon dioxide, aviation is responsible for just 12%, with road emissions comprising the vast majority at 74%.

Airbus offers the following claims with respect to its product line:

- A350 XWB - 25% fewer carbon dioxide emissions relative to "the previous generation of aircraft";
- A320neo - 20% fewer carbon dioxide emissions relative to the A320ceo;
- A220 - 20% fewer carbon dioxide emissions relative to "aircraft…in their class";
- A330neo - 14% fewer carbon dioxide emissions relative to the A330ceo; and
- A380 - 33% fewer carbon dioxide emissions relative to "its nearest competitor".

Boeing, in turn reports:

- 737 MAX - 20% reduction in carbon dioxide emissions relative to original Next Generation 737;
- 787 - 20 to 25% reduction in carbon dioxide emissions as compared to the 767-300ER;
- 777X - 20% reduction in carbon dioxide emissions relative to the 777-300ER; and
- 747-8 - 18% reduction in carbon dioxide emissions as compared to the 747-400.

These are impressive accomplishments, and when compounded by better airline management, fleet utilization, and higher load factors, jet aircraft are, according to ATAG, 80% more fuel efficient per seat kilometre than they were at the advent of jet engines.

We at Amedeo believe that aviation brings people together to solve problems like climate change, and without bringing people together we will fail in resolving this issue. Yes, there is an environmental cost to aviation, but the benefits to humanity, now and in the future, well outweigh the costs. This simple story has not been sufficiently articulated by the industry's leadership. IATA efforts to date have been laudable, but more visible individual advocacy action, particularly by airline CEOs, is needed.

IATA economic analysis

Growth in industry-wide revenue passenger kilometres (RPKs) continued to be positive for 2019 at the date of reporting, though somewhat below long-term trend. RPKs have risen by 4.7% on a year-to-date basis through the end of July. This increase represents a slower growth pace relative to a long-run average pace of approximately 5.5% and IATA 2019 estimates of 5%. July RPK growth was 3.6%, down from 5.1% in June. This soft start to the peak travel period is additional evidence of a trend toward slowing growth.

Available seat kilometres (ASKs) grew by 4.1% on a year-to-date basis through July, somewhat below RPK growth pace. As a result, load factors hit monthly and all-time highs in July at 85.7%. Load factors stand at 82.6% over the first seven months of 2019. North American load factors lead the world at 85.2% year-to-date through July, with Africa lagging behind at 71.4%. All regions outside of Africa and the Middle East experienced all-time high load factors during July.

European airlines continue to be the fastest growing overall relative to their peers in other regions - year-to-date growth hit 5.6% through July. The Middle East region was the clear laggard of the group, with year-to-date RPK growth of just 1.5%. Domestic Brazilian RPKs fell 6.1% on a year-over-year basis in July, and are down 0.4% year-to-date, reflecting the exit of Avianca Brasil. ASKs decreased a commensurate 6.9% in July, as the passenger market begins to recalibrate. Despite the Avianca Brasil failure, Latin America RPKs are up 5.2% on a year-to-date basis.

Renewable energy infrastructure

(compare renewable energy infrastructure funds here)

Manager's report for Gore Street Energy Storage:

Market Update

The energy storage market has the capacity to support delivery of stacked or multiple services to the grid and to commercial/industrial partners. While the company's operational assets currently provide firm frequency response (FFR), capacity market services and Triad services, it is anticipated that beginning as early as next year, the suite of services available at market will expand to include Balancing Mechanism, Wholesale/Trading, and Black Start.

Energy Storage in Great Britain

Regulatory changes in the GB storage market are trending towards a push for increased use of energy storage both as a renewables enabler and as a component for electricity system flexibility.

With the increase in distributed generation and renewable energy, the regulator for electricity and gas in GB, Ofgem, has been reviewing electricity charging arrangements to ensure that they continue to be fit for purpose. Ofgem will commence implementation of legislation by year-end 2019 to enable more cost reflective pricing, removal of barriers to market participants and more effective ancillary markets.

A blackout event in August 2019 led to a greater procurement of FFR volumes, resulting in a positive short-term market drive for the storage market. The blackout may have also reinvigorated the overall systems review by the National Grid and Ofgem. In addition, Government legislation implemented on 28 of June 2019 is targeting net zero emissions by 2050.

These events have potential to positively impact the energy storage sector with potential for the energy storage market in GB to grow from 2.9 GW in 2017 to between 5.9 GW to 9 GW by 2030.

Energy Storage in Ireland

Since the last report, the manager has announced the successful participation in the Irish fixed-term auctions for system services. This auction occurred under the multi-year DS3 programme (Delivering a Secure, Sustainable Electricity System). The aim is to meet the challenge of operating the all-Ireland electricity system in a secure manner while achieving the 2020 renewable electricity target (40% by 2020; a 70% target for 2030 was announced by the Irish Minister Richard Bruton in March 2019). A key focus of DS3 is the procurement of services needed to operate the system following the increasing prevalence of renewables. The Irish Governments' commitment to such progress, combined with the Republic of Ireland's high growth economy, makes it a particularly attractive market from a renewables perspective.

There are two main procurement routes for system services under the DS3: (a) a 'volume uncapped' route offering contracts but with no pre-set terms or timeframes for those contracts, and (b) the 'volume capped' route with competitive tendering for 6-year fixed term contracts. The company has majority ownership of, and a preferred return from the two assets under the uncapped regime in Northern Ireland.

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Tony Roper, chairman of SDCL Energy Efficiency Income:

Energy efficiency continues to play a crucial and growing role in balancing global energy supply and demand and in the energy transition to a lower carbon economy. The need for decarbonisation is translating into a larger pool of potential investment opportunities.

In the short to medium term, the manager anticipates that investment outside of the UK will continue to offer the largest source of opportunities for the company by scale and value.

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Royalties

(compare royalties funds **here**)

Merck Mercuriadis, founder of Hipgnosis Songs:

The latest results from Spotify and Apple continue to show unbelievable growth in premium streaming as the world changes the way it consumes music. Streaming growth, both in the Western world and emerging markets, is driving proven hit Songs revenues and therefore drives values up. Most excitingly with forecasts of 2bn paid subscribers by 2030, we are only at the start.

One step at a time, we are amassing the leverage and the support necessary to bring positive change to where the songwriter sits in the economic equation. The songwriter is more responsible than anyone for the success of an artist and the music industry in 2019 and they and their songs must be properly recognized. Important steps have been taken by the copyright board and with the Music Modernisation Act to acknowledge this but this is just the tip of the iceberg. We will use our leverage and support to positively impact where the songwriter sits which is not only important for the creative community but is in total alignment with the best interest of our investors.

With investors needing uncorrelated assets more than ever, and proven songs producing reliable and predictable income, the new asset class of proven songs is, in our view, now more investible than gold and oil.

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QuotedData

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