

Economic & Political Roundup

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

Roundup

March 2020 will be remembered as the month covid-19 progressed from mainly disrupting China to the most severe global pandemic in a century.

For stock markets, the problem was compounded by the collapse in the oil price following a falling out between Saudi Arabia and Russia. Bond yields have been quite volatile but most developed world government bond yields have fallen.

Covid-19 briefings

These exceptional times have compelled many investment companies to release RNS updates on the impact of covid-19 on their business. This month's roundup has been expanded to integrate these updates, with the date of release also included, given how fast the situation has been changing.

The usual collation of commentary from full-year and interim results released over the month follows this section. Content from the results section that specifically focuses on covid-19 has been brought forward to this 'briefings' section.

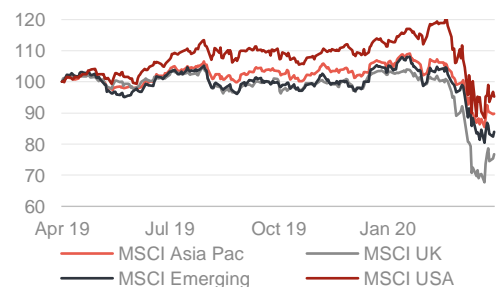
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Exchange Rate	31/03/20	Change on month %
GBP / USD	1.2414	(3.2)
USD / EUR	0.9053	(0.2)
USD / JPY	107.76	(0.1)
USD / CHF	0.9583	(0.7)
USD / CNY	7.0999	+1.5

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/04/2019 to 31/03/2020



Source: Bloomberg, Marten & Co

	31/03/20	Change on month %
Oil (Brent)	22.76	(54.9)
Gold	1622.51	+2.3
US Tsy 10 yr yield	0.7264	(36.8)
UK Gilt 10 yr yield	0.336	(24.0)
Bund 10 yr yield	(0.495)	(18.7)

Source: Bloomberg, Marten & Co

Biotechnology and healthcare

Paul Major and Brett Darke, managers of BB healthcare – 20 March:

‘Facts are your friend, fear is your enemy’

BBH: “ *It is vitally important that we all remember this disease has a limited impact on the vast majority of people. It appears more lethal than seasonal flu, but we would argue it is currently impossible to say with any confidence how much worse it is due to the patchy nature of testing.*”

Most of the content of the January and February factsheets has been devoted to the ongoing covid-19 outbreak. That early reads on its biological properties have played out largely as anticipated is of no comfort, nor has it helped overmuch with respect to our navigation of the market reaction to it, which has been devastating and, in some ways, abstruse. It is vitally important that we all remember this disease has a limited impact on the vast majority of people, who will experience only mildly debilitating symptoms and will then recover without long-term health consequences. It appears more lethal than seasonal flu, but we would argue it is currently impossible to say with any confidence how much worse it is due to the patchy nature of testing. A fraction without a correct denominator is just a random number...

You are all probably fed up of charts, particularly the ones in newspapers that extrapolate early trends far into the future to generate massive numbers of mortality and hospitalisations. Scenario planning is well and good, but we struggle to see an obvious path to claims like eight million UK hospitalisations and hundreds of thousands of deaths, as some media outlets have chosen to focus on. These really are worst possible world extrapolations and, in our opinion, the outbreaks in Spain and France for example are tracking at the lower end of scenario models that we have seen. As a tonic to sensationalism, we offer another chart from the WHO (click on [this](#) link to access BBH’s report in PDF form), which shows a consistent pattern of infection tapering 2-3 months into an outbreak. It is worth pointing out that Hong Kong and Japan have not imposed draconian measures on the populace, but rather people have themselves taken precautions to stem the spread, as people and companies are now doing here in the UK. In all cases though, extrapolation of early trends is probably unwarranted. Italy does stand out as “Wuhan-like” to some extent, but we shall return to that topic later.

‘What has happened?’

Paranoia and panic are sound evolutionary strategies to avoid death in the unfriendly world humanity was born into. In today’s safe and highly connected world though, they become the driver of the self-fulfilling prophecy. It does not really matter anymore what the course of this pandemic looks like; consumer behaviour (either voluntarily or by government edict) has changed and the economic carnage that will follow may prove short-lived, but it will feel very real to those who are impacted. Make no mistake; that impact is profound and we are already seeing it play out here in the UK, with two high street names now having closed their doors and many of the small businesses local to us struggling.

The scale of the economic challenge is significant. For instance, we can all envisage layoffs in the tourism sector as hotels, bars, restaurants, airlines, cruise lines etc. adjust to lower volumes when their costs are painfully fixed. This notion is thrown into starker relief though when one considers that the tourism industry directly employs >300m people globally. A 10% cut in employment is thus equivalent to making the entire population of Malaysia unemployed. In turn, these people cannot spend as before and so the economic contagion spreads even faster than the virus causing it.

How has the market reacted? The halcyon days of new year optimism saw the MSCI world healthcare index rise >5% in the year to 12th February. It then retreated ~1%, only to recover its peak by 19th February, despite the burgeoning headlines around the virus, which was declared a global emergency by the WHO on 30th January.

And then the sell-off began, as the epidemic took hold in Korea and Iran. Why was this the trigger, when so much had already happened over the prior three weeks? We will never really know, but the Korean and Iranian outbreaks were the first where there was not a clear person-to-person link back to China and the original outbreak in Hubei. Considering facts such as those above, a material market correction from levels where economic growth is robust and employment generally full seems a reasonable response. But how much is 'enough'?

As ever in these situations, the jolt downward has been interspersed with short-lived and sometimes violent recoveries (the perished cat carom). As of 19th March, the MSCI world healthcare index has declined 12.1% from its peak. The healthcare sector has exhibited defensive characteristics; its 7.3% year-to-date fall contrasts with a 17.5% decline for the parent MSCI World Index.

As noted above, the wider market sell-off has gathered pace as investors became concerned and frustrated at the lack of synchronous government action to mitigate firstly the infection's spread and impact and secondly the inevitable economic fallout arising from changes in consumer behaviour (and government edicts). Let us leave the market to one side for a moment, and return to the epidemiology. We reiterate our view that all the current data about the prevalence of the virus and the incidence of severe clinical effects needs to be interpreted with caution; there will be a direct correlation with the amount of testing being carried out and the apparent speed and extent of spread. Under-testing makes the spread look "peakier" and the severity worse; it hits like a tsunami because the earlier mild cases are effectively not recognised as such.

BBH: "One town in Italy (called Vo) tested its entire population in late February and found a 3% positivity rate, with 50% of the positives being asymptomatic. This would imply there are >2.5m cases in the country as a whole."

For example, one town in Italy (called Vo) tested its entire population in late February and found a 3% positivity rate, with 50% of the positives being asymptomatic. This is a possibly unique and interesting dataset. Across Italy, non-random testing positivity has been >4%, so we can probably conclude Vo's 3% is a reasonable proxy for the prevalence of the disease. This would imply there are >2.5m cases in the country as a whole. When seen in this context, its 3,500-odd deaths are more comprehensible. We will return to the mortality data below.

Fear is peaking, what might make it begin to subside? It is probably only evidence of declining new cases. On a less positive note, we would argue that declining new case reports is not prima facie evidence of containment or peak prevalence given the limitations of testing (which become greater as the number infected climbs); the best proxy we will have for now regarding impact is hospitalisation data and even there, the worst-hit regions will be struggling to admit all the needy patients. We also urge caution on the apparent wonder of containment by edict; it will curtail spread but the infection can recur if there is a ready reservoir of the unexposed to infect once restrictions are lifted. This will be another tricky journey for societies to manage, and one for which there is no historical precedence to guide us.

The most commonly asked question from investors in recent days has been why Italy of all places (renowned for the quality of its healthcare outcomes in a European context) is seemingly suffering so much, in terms of the rapidity of spread and severity of outcomes (mortality etc.). We remain of the view that this is an artefact born of slow testing in the early phase, compounded with multiple socio-cultural factors. Italy is a very sociable place, with lots of close contact (cheek kissing etc.) in normal life and a lot of elderly people (second only to Japan), with many living closely to younger relatives who, per the Vo data, might not even realise that they are infected.

As we went to press, there are now ~41,000 live cases in Italy and ~7,850 closed cases. 43% of these have ended in deaths. Open cases is now ~33,000 and 92% of these are considered to be mild. For Spain, its 94% and 43% for closed cases that ended in death. When these resolve, things should begin to look different. For Spain, another socio-culturally similar country, 94% of open cases are deemed mild and 33% of closed cases

ended in death. It remains the case globally that mortality in the 0-50 age group is around 0.2%, but again this will be impacted by the testing rate in each country.

The demographics of the mortality in Italy are also interesting (per the Lancet paper from 13th March), with a median age of 79 for men and 83 for women, 2/3 with pre-existing conditions and 74% over the age of 70 and 83% over 60. The under 50s have made up only 3% of deaths but account for ~65% of the population. This latter point is simply not correlative with the levels of anxiety being expressed by the general public about their own personal risk and that of their families (particularly children) and we hope that it will put some of our reader's minds at rest as well. We are not saying this disease poses no risk to younger people, nor seeking to trivialise its impact on those impacted. We are merely trying to emphasise that the data has consistently shown that the probability of a young, healthy person (i.e. the vast majority of humanity) suffering adversely is very low. It is vital to keep this in mind. Nonetheless, this anxiety and the behaviour changes in response to it, lead the managers to believe that a global recession is likely inevitable.

We would also reiterate our view that healthcare stands apart from the wider economy. If there is a global downturn, it will have little impact on the industry's demand side as a whole, although the close correlation in the all-important US market between having a job and having access to medical insurance that adequately covers medical treatment for non-life threatening conditions should not be ignored in the event of a material increase in unemployment. In that sense then, healthcare's defensive attributes in these sorts of market sell-offs are well deserved.

'The anatomy of panic'

It is a truism that the market is not an efficient aggregator of data in the short term. Within the market, various structural trends (passive strategies, ETFs, algorithmic trading) are widely believed to have exacerbated volatility in recent years, particularly during times of market stress. As such, it is not reasonable to think that short-term share price reactions in times like these will be rational; the two phases of a crash are "sell what you can", followed by "sell everything".

It increasingly feels that we have entered this second (and final) phase. Unfortunately, history tells us there is no easy way to accurately call the bottom. We are all acutely aware how painful this can be to one's wallet and for some people, the consequences to their very livelihoods will be profound.

On the other hand, though, volatility also creates opportunity and there will be many a baby thrown out with the bathwater. If we think about the past few weeks and empirical observations of other economic shocks, there are a number of qualitative conclusions one might reasonably draw about the market's behaviour within the healthcare sphere:

- Managed care should do well: Bernie Sanders primary campaign is on the ropes and, whilst US hospitals may fill with elderly patients suffering pneumonia, elective procedures will be postponed and these are costs that the insurance company would be on the hook for. Medical costs for treating patients may thus improve through Q1/Q2, especially for those insurers less exposed to the elderly Medicare population. The opposite is true for hospitals (Facilities); the profits are made in caring for the mildly unwell via elective procedures. Margins are thin and capex and debt levels generally high, so profits will be hit hard. Maybe the US government will help though.
- Pharma, Spec Pharma and Biotech should be a safe place to hide: prescriptions are generally necessary and people are no more likely to forget to take their meds now than before. This is presumably even more true for specialty drugs treating severe conditions; thus, patients and doctors are more motivated to ensure ongoing compliance.

- Patient-centric Med-Tech could underperform near-term as elective surgical volumes decline. Bigger ticket items could also suffer as hospital capex projects are delayed with leadership focused on other, more pressing matters. Critical care equipment providers may see a bolus of demand if production can be ramped in a reasonable timeframe. Diagnostics providers exposed to respiratory testing could see increased placements and a bolus of testing volumes.
- Dental may struggle as patients defer visits through social distancing and then, longer-term, consumers may seek to reduce out of pocket or discretionary expenditures in the event that they are directly impacted by the economic fallout.
- The same goes for hearing aid suppliers, which are quasi retail companies serving an elderly population. They could suffer greatly in the short-term. Pharmacies make money on wellness and beauty and happen to serve prescriptions. They probably won't fare as well as you might imagine, but pharmaceutical wholesalers (Distributors) should fare okay as they operate largely on a fee-for-service basis.

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Global

Simon Barnard, manager of Smithson – 30 March:

The portfolio has held up well in relative terms during this challenging period. Although we own one travel related company which has been hit hard by the reduction in flights and hotel stays, we also own several healthcare related companies, including a company which makes respiratory equipment, which have benefited from an increase in demand related to covid-19. The high quality of the companies which we own, including the very low levels of debt within these companies, means that they should exit this crisis in a strong position.

We continue to have confidence in the long-term outlook for the companies in the portfolio and have used the opportunity of recent share price falls to selectively purchase more shares in those companies using the cash we had available."

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UK

James Goldstone, manager of Keystone – 27 March:

The last three weeks have seen volatility in markets and indiscriminate selling of equities of historic proportions. Whilst there remains considerable uncertainty, concerted action is being taken to mitigate the impact of the covid-19 pandemic on corporate earnings and balance sheets. Significant value has now emerged in many shares and attractive investment opportunities exist for those with a long-term horizon.

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JPMorgan Smaller Companies – 25 March:

Post the election and parliamentary approval of a withdrawal agreement from the EU, we believe the political outlook for the UK is clearer than it has been for several years. We now have a pro-growth, pro investment Government in place and have already seen Government spending accelerating at its fastest pace in 15 years. The recent budget confirmed this. Low interest rates, low inflation and very low unemployment all add to the more positive picture.

KIT: "Significant value has now emerged in many shares and attractive investment opportunities exist for those with a long-term horizon"

JMI: *“If, however, the rest of the world does not recover from the covid-19 impact at the rate that China appears to have, then all markets, including the UK, will continue to struggle.”*

There are two caveats. First, this positive view is dependent on the outcome of the EU withdrawal negotiations this year, and also the progress of trade talks with the USA, Japan and other countries. Second, and clearly dominant, is the threat to the global economy from covid-19. If this pandemic is contained in a timely manner then, given the extraordinary measures of support we have seen from the Government, we would expect a very strong bounce back in markets, and the UK, and in particular the harder hit smaller companies, should participate. If, however, the rest of the world does not recover from the covid-19 impact at the rate that China appears to have, then all markets, including the UK, will continue to struggle.

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Financials

Polar Capital Global Financials – 31 March:

PCFT: *“Today the banking sector is significantly better capitalised than it was in the years leading to the global financial crisis and regularly stress tested by its regulators to ensure it can withstand significant shocks.”*

Today the banking sector is significantly better capitalised than it was in the years leading to the global financial crisis and regularly stress tested by its regulators to ensure it can withstand significant shocks. Furthermore, the recent extraordinary steps that central banks and governments worldwide have announced will significantly dampen the downturn and while there remains significant uncertainty in the short-term, the investment manager believes that current valuations significantly undervalue the long-term prospects of the sector.

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Debt

Dawn Kendall, manager director of SQN Secured Income’s manager – 31 March:

In light of the fluidity of the covid-19 pandemic, we continue to assess its potential effect on the portfolio. At the time of the publication of this report, the manager has not observed any material negative impact on the valuation of loans nor have we had any requests for payment holidays. The manager and the board are monitoring the situation closely for any potential impact on the portfolio on an ongoing basis. We expect that our direct loan exposure might be subject to maturity extensions of up to 12 months and are preparing documentation for our counterparties to reflect this. This will give them the space to concentrate on the wellbeing of their staff and their economic health. We consider there is a heightened risk to the dwindling peer to peer exposures with potential for them to become moribund. We have taken the decision to commence further impairment of the Spanish and US exposures and this will be reflected in the IFRS9 data published during Q1. This is a prudent decision based on our experience of past crises and the nature of the counterparties involved.

We shall continue to pay dividends at 7p per share for as long as we remain confident that our borrowers can meet their financial obligations. Recent updates from our borrower base have been encouraging and we have had no cause to impair any loans underwritten under our robust process and together with our security packages, we are confident that these businesses will ride the current storm. Our core strategy to lend to non-cyclical, non-retail companies has made this risk assessment an easier task than it may have been for other alternative lenders. We have enough cash at hand to stand by these commitments in the medium term and have deferred any further commitment of capital to new borrowers until we have greater clarity as to the extent and the timescale for this emergency to pass and until the future of the company has been decided.

We are confident that loan origination opportunities will be very attractive by the end of this calendar year as bank loans granted under government schemes are required to

be refinanced. Our focus on uncorrelated, non-consumer growth businesses may pivot to a more value orientated proposition, as we recalibrate our risk/ reward expectations.

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HWSI Realisation Fund Limited (formerly Hadrian’s Wall Secured Investments) – 31 March:

Covid-19 is a developing situation and as of 31 March 2020, the assessment of this situation will need continued attention and will evolve over time. In our view, consistent with many others in our industry, covid-19 is considered to be a non-adjusting post period event and no adjustment is made in the Interim Financial Statements as a result. The rapid development and fluidity of the covid-19 virus make it difficult to predict the ultimate impact at this stage. However, we do not underestimate the seriousness of the issue and the inevitable effect it will have on the UK economy and many businesses across the world. Due to the diversity in our loan portfolio, it is not currently practicable to quantify the extent of impact upon the loan facilities. This is a concern for the board and it is continuing to liaise closely with the manager and customers in an effort to minimise any financial impact on the company. In line with the latest official guidance, the manager has taken the steps necessary to implement its business continuity plan with its staff now working remotely from home, ensuring continuity of service and support to borrowers during this difficult time. The board is satisfied that the company’s other service providers are similarly able to support the continued operation of the company. The manager is reaching out to the company’s borrowers to assess the impacts on their operations. The board will work closely with the manager to consider and recommend any “forbearance strategies” that may arise on the loans as the crisis develops.

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TwentyFour Select Monthly Income – 30 March:

SMIF: *“Forced and indiscriminate has created the opportunity to source assets that have been otherwise unavailable to investors for almost a decade.”*

The credit market has endured significant volatility over the past month as market participants have reacted to the economic uncertainty brought about by the effects of the covid-19 pandemic. Forced and indiscriminate selling has resulted in unprecedented volatility that in turn has created the opportunity to source assets that have been otherwise unavailable to investors for almost a decade.

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UK Mortgages – 27 March:

Covid-19 – Securitisation Market, Mortgage Market and Fund Update

Since the board and manager last updated investors in our interim financial statements published on 19th March, financial markets have continued to be extremely volatile as the covid-19 pandemic has intensified. Spreads in RMBS and ABS markets have widened significantly and primary markets have essentially shut down.

Despite very recent rallies in equity markets and some similar signs in broader credit markets, ABS markets have widened and remain close to their lows, and with spreads at extreme levels new issuance is not likely to return in the near term, particularly from the banking sector where government/central bank funding schemes have given the banks almost unlimited amounts of extraordinarily cheap funding. Whilst this additional funding is likely to be positive for RMBS spreads in the medium term, as it was in 2016 when the first TFS scheme was created following the Brexit vote thereby almost eliminating the banks’ needs for capital markets funding, in the short term the effective shutdown of the country and its consequences for the economy remain the focus of attention and spreads are likely to remain at elevated levels.

As was mentioned in the company's interim financial statements, this means there is a significant possibility that a refinancing in the public markets of the Oat Hill No.1 transaction, which reaches its first refinancing date near the end of May, will not be possible given the relatively short timeframe for any recovery to take place and for those markets to reopen. For the avoidance of doubt the existing funding remains secure, as the current Oat Hill securitisation can remain outstanding, albeit at an increased cost, and this would still allow the company to revisit the securitisation refinancing or a warehouse option in the future, as the deal is able to be refinanced on any future quarterly interest payment date.

As also mentioned, and with this in mind the portfolio managers have continued to explore alternative short-term solutions which would allow the securitisation plans to resume when market conditions improve. This might, for example, be in the form of a short-term warehousing facility with one or more banks to be entered on or about the May 2020 interest payment date of Oat Hill 1. However, given current market conditions, it is unlikely that such a solution will allow the mezzanine funding that had been planned for the securitisation, and therefore any capital release would be greatly reduced. In this case, any capital release would not be forthcoming until a public refinancing was subsequently completed.

UKML: *"We do not know at this point how future cash flows will be affected by mortgage holidays or other forms of relief that will be offered to distressed borrowers."*

The uncertainty over the timing and cost of future funding is mirrored by uncertainty in the mortgage market. Specifically, we do not know at this point how future cash flows will be affected by mortgage holidays or other forms of relief that will be offered to distressed borrowers. It is possible that direct government support to employees and now to the self-employed will be sufficient to maintain mortgage payments at, or close to, contracted levels. At the very least, as this relief will take some time to implement, it does provide the backup to help them make up the forbearance measures once the crisis has abated.

With regard to future loan origination, it is reported that UK Finance and the UK banks are in discussions with the government on whether the mortgage/housing market itself can continue through the current shutdown. Despite the massive liquidity stimulus, banks and other lenders are removing mortgage products from their offerings and/or putting up mortgage rates. Physical property valuations are no longer possible due to the lockdown and the likelihood of any significant number of house purchases completing in the next few months has plummeted.

For loans in our pipeline, this means that other than those loans which are re-mortgages and are currently close to completing, most will likely be delayed. For purchases, those where contracts have already been exchanged may complete, but many may not, and many others are likely to be delayed. For the company this will mean that loan growth will stagnate in short term, but with both the TML and Keystone portfolios having healthy balances of around £200m, and efficient leverage, they will continue to generate income for UKML during the shutdown. Our funding warehouses for these portfolios are long term and so will have ample opportunity to grow again, once lending restarts.

However, in the short term, the board and the manager are revisiting the company's cash flow models to incorporate these unprecedented conditions. The principal concern will be the extent to which these models continue to justify paying an uncovered dividend in the near term, particularly if the intended refinancing of Oat Hill is delayed.

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Chenavari Toro – 27 March:

The manager of Chenavari Toro provided an update, on its website, on its response to the outbreak of covid-19. A link to the full article is provided here. However, we are providing some key takeaways here:

- Volatility and dispersion are expected to continue for some time.

- The manager’s “fundamental long/short dynamic approach, coupled with convexity”, should allow it to generate alpha whilst protecting the downside.
- Its capability has been further enhanced by our proprietary risk system (Clark), which enables the independent risk and investment teams to monitor the funds’ profile in real time and adjust the sensitivity of our funds as fast as possible.
- Outsized investment opportunities often arise at times of market panic and the manager stands ready and equipped to capture them when they arise.
- Within private credit and leveraged finance, all investments have been scanned to assess their potential exposure to the spill over effect from covid-19 and the team has been engaging with our borrowers/issuers to understand dynamics of business evolution and recovery.
- Within private credit, the manager’s focus on specialty finance loans, which are mostly asset-backed transactions with self-amortising features or short duration, should make transactions more resilient than traditional EV-based direct lending, especially in a downturn.
- The manager’s risk team has stress tested the portfolios and developed an internal covid-19 risk score for countries and sectors to which the funds are exposed. this takes into account the economic implications of covid-19 on a certain sector and country, as well as each deal’s structure, covenants and other security features.

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TwentyFour Income – 23 March:

It has been a challenging couple of weeks for obvious reasons, which by turns we have compared to the market volatility seen in late 2018 (the Fed at odds with the market about rate policy, the US-China trade war, Brexit), early 2016 (deteriorating economic data, energy/oil crisis, Deutsche Bank solvency), and 2011 (Spain/Italy default risk, US downgrade, introduction of Basel III) as well as the global financial crisis of 2008. Notably these are all periods where it felt incredibly challenging to be an investor, but which also provided some of the best investment opportunities most of us have seen.

TFIF: “European ABS have lagged behind the volatility seen elsewhere principally as market participants believed that the direct link to fundamental risk in European ABS remained weak.”

As with most of those other events, European ABS have lagged behind the volatility seen elsewhere principally as market participants believed that the direct link to fundamental risk in European ABS remained weak – a belief we continue to hold for the significant majority of the market. However, as also seen during those other periods, as risk sentiment deteriorates, we expect to eventually experience some correlation with other markets, which can often happen sharply. We won’t necessarily see the same kind of moves, but history suggests that some of the changes experienced can happen in more of a step-like manner, which exaggerates the aggression of the move. Typically, this is a function of bank trading desks feeding prices through into pricing vendors. For mezzanine ABS, where TFIF tends to invest, the moves are greater than for the lower yielding parts of the market.

Profile of European asset-backed and CLO markets versus the US helping

What we can continue to have faith in is the performance of our asset class. Unlike the US ABS market, the European version does not feature aircraft securitisations, European CLO exposure to the oil and gas industry is close to zero, there are very few hotel-backed CMBS deals and relatively low levels of retail in CMBS as well. We have written recently on the resilience of RMBS to exaggerated, prolonged non-payment of mortgage interest (twentyfouram.com/2020/03/17/how-will-rmbs-cope-with-covid-19-disruption/).

There is no primary European ABS issuance in the pipeline that we’re aware of, so the technical driver of performance we’re seeing is purely through secondary trading, where

supply (selling by investors repositioning/fund outflows) is keeping demand at bay. We think every ABS fund manager would welcome the opportunity to invest at current levels, but won't until they are confident that the supply has abated.

Outlook – keeping beta and CLO exposure down until opportunity for re-balancing arises

As a closed ended vehicle investing in the less liquid part of the market, and with a clear aim to provide a high level of income, TFIF's portfolio tends to remain well invested. However, as we have commented before, during 2019 we rebalanced the portfolio incrementally to reduce exposure to what we saw as building risks away from our market. Principally this reflected the belief that the ongoing trade war, Brexit negotiations and their effect on UK politics, the changing global growth outlook and other risks might see a spill-over into European ABS performance in terms of risk sentiment rather than fundamentals. As a result, the PM team reduced beta principally by dropping the allocation to CLOs from 37% to 31% (Dec 18 vs Feb 20) and shortening the time to maturity of the portfolio from 4.1yrs to 3.3yrs (Dec 18 vs Feb 20), as well as increasing our exposure to higher rated assets.

Clearly we have seen significantly more volatility than was expected, however we continue to believe in the quality of our investments, and will look to take advantage of the extraordinary value on offer when appropriate by re-balancing the portfolio back towards its more traditional bias, and deploying the flexibility offered by the financing facility introduced last year.

Historically we have not disclosed the mark-to-market yield on the portfolio, principally as the fund pays dividends based on the purchase yield (which we do disclose in our factsheet and was 7.80% at the end of February based on a NAV of 111.69). However, bearing in mind the material change in spreads and pricing on the portfolio, as well as the establishment of a significant discount on the fund, it is worth pointing out that that the MTM yield at the publication of the last NAV (106.29) was 8.94% (compared to 6.85% at February end).

While a period of lockdown would naturally be expected to lead to a higher level of arrears, the offsets to this are a) the credit profile of the borrowers are typically biased away from the most susceptible to a downturn (e.g. those within the gig economy), b) banks already have ongoing forbearance policies that are in line with what we are hearing from banks/politicians, c) the structural benefits of junior bonds, excess profit and cash reserves and d) the transparency of the loan pools that allow for accurate modelling of missed payments and defaults. In addition, the multiple recent announcements of government support are intended to act as an offset to further stress at a corporate and consumer level, and affordability should be further supported by likely lower rates for longer in the UK and Europe. In such a scenario of low rates and government bond curves, yield will be driven by credit spread, which ABS has traditionally had more of than the rest of fixed income.

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Rhys Davies, manager of City Merchants High Yield – 20 March:

The rapid spread of covid-19 outbreak has sadly impacted many lives and will impact many more over the coming months. This sobering prospect is paramount in my thoughts. As a portfolio manager I must, however, consider the economic and market impact of the virus, and how best to position the company's portfolio.

CMHY: "Cash is king and those that can invest are able to name their price."

As of the date of this release, high yield bond markets appear dysfunctional. We are observing widespread selling and at times there are very few buyers, which creates immense downward pressure on bond prices. Cash is king and those that can invest are able to name their price. We have not witnessed markets like this since the financial crisis.

Shareholders in the company have experienced a decline in the share price that extends far beyond the movement in the company's NAV. Thankfully, the company entered this crisis on a relatively strong footing. The portfolio was cautiously positioned by the end of 2019, which was a natural response to yields having fallen so much and our sober view on valuations. At the very early stages of the virus outbreak I raised cash in the portfolio significantly. As the crisis developed, I also put a hedge in place via a credit default swap. This defensive stance has meaningfully reduced the impact of market volatility on the company's NAV and leaves the company with a solid base from which to invest.

The portfolio is well diversified and has always maintained exposure to well over 100 different companies. It is my belief that such diversification of credit risk is essential in a portfolio that is focussed on high yield bonds. These are unprecedented times and it is not clear how the default environment will evolve but a diversified portfolio will leave the company in a strong position to cope.

Finally, the portfolio has been constructed with a bottom-up approach, based on individual company selection. Invesco has a team of highly experienced credit analysts whose job it is to navigate credit markets in both good times and bad.

The global policy responses announced so far are astounding but markets remain rightly focussed on the economic impact that the virus will inflict. High yield bond markets have repriced to reflect the severe economic shock that we can expect, but a lack of market liquidity has undoubtedly exacerbated price moves. Such dislocation between prices today and longer-term value is already creating very attractive opportunities for the company. Whilst maintaining a prudent level of cash I am slowly and cautiously starting to add positions to the portfolio, buying bonds from companies that we believe have a balance sheet and business profile that can survive even a severe economic disruption. These attractive purchases at low prices will increase the company's income beyond its pre-crisis level, to the benefit of dividend cover.

It is important that I, and indeed shareholders, take a longer-term view beyond the current volatility in markets. We do not know when there will be a positive development around the virus, but in the meantime the company contains a diversified portfolio of bonds that produce an attractive level of income for shareholders.

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CVC Credit Partners European Opportunities – 16 March:

Following our 2nd March note addressing the initial impact of covid-19, global credit markets have continued to experience significant volatility in the past weeks, driven by (i) the continued expansion of the covid-19 epidemic on a global scale, and (ii) the break-up of the OPEC+ alliance and downward pressure on crude oil pricing.

As at 12th March, leveraged loan markets month-to-date were down -6.22% in Europe and -6.41% in the U.S., and year-to-date -6.71% and -7.18%, respectively. In HY, the impact continued to be more acute with MTD Europe down -7.89% and U.S. -8.27%, and YTD at -9.45% and -9.95%, respectively. The dislocation seen in credit markets, however, has been dwarfed by that seen across equity markets with the FTSE100 index returning -20% MTD and -31% YTD.

Current market volatility and uncertainty has led investors to "safe haven" assets, driving the U.S. 10-year and 30-year treasury yields below 1% for the first time, and the UK 10-year and 30-year GILTs to near-zero this week.

As we expected in our prior note, the impact on global credit markets has been supported by central bank policies and government-led fiscal stimulus globally. U.S. and UK central banks reduced rates this week by 50bps to record lows and the ECB announced €120bn of bond purchases and additional bank loans. Fiscal stimulus

measures were announced globally that included tax breaks, debt relief measures and direct funding support for businesses.

In light of these developments, our base case scenario remains a six to nine-month disruption period for issuers, however, this could be further extended depending on the development of the epidemic in the coming weeks and into Q2.

Portfolio impact

The impact of the above events is being closely monitored across the portfolio, and we are actively risk managing individual positions that we believe could be most exposed to these events. This includes pre-emptively divesting positions in issuers with material Italian operations, issuers in the transportation, leisure and logistics sectors, and structured finance positions subject to higher volatility, and utilising sale proceeds to build up cash positions.

We remain in active dialogue with issuers of credit positions we currently hold, and today the portfolio remains conservatively positioned with regards to industries and regions most severely affected by recent events: (i) zero exposure to oil and gas and related sectors (ii) <10% exposure to hotels, leisure and transportation sectors and (iii) <2% exposure to issuers domiciled in China, Iran and Italy, the regions most affected by the epidemic to date. In addition, refinancing risk in the portfolio remains low, with no portfolio maturities in 2020, and under 20% of the portfolio maturing in the following two years.

We further believe the current environment will create attractive investment opportunities, particularly in the credit opportunities segment driven by the technical dislocation across this asset class. However, we remain cautious in adding new positions to the portfolio, and only where we have real conviction the issuer is well positioned in light of current events.

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Japan

AVI Japan Opportunity – 20 March:

These are unprecedented times with uncertainty creating a great degree of panic. The wide range of possible outcomes means there have been extreme moves in pricing across all asset classes. Rationality and fundamentals go out of the window and the urge to grab liquidity where it is available takes over. In this environment prices can diverge enormously from fundamental valuations.

Whilst impossible to call the end of the market rout and to time the bottom, it is useful for investors to understand the scale of the derating that has occurred in AJOT's portfolio. Readers will know that AJOT's strategy is to capitalise on improving governance in Japan by engaging with companies with excessive cash on their balance sheets. We have a long-term approach and the nature of investment trusts puts us in a strong position to enact our strategy.

AJOT: *“The Japanese system is built on cash for a rainy day. Japanese cash-rich companies can withstand better than most and will undoubtedly survive the turmoil.”*

The Japanese system is built on cash for a rainy day. While in AJOT's short life we have seen tremendous progress on the corporate governance front, returning cash to shareholders has been done in a measured way allowing companies to retain their financial stability. Japanese cash-rich companies can withstand better than most and will undoubtedly survive the turmoil.

However, despite solid balance sheets our companies' share prices have suffered indiscriminate selling. The portfolio, on a weighted average basis, now trades with market caps 59% covered by net cash and 96% NFV (*net fair value – calculated as cash + listed investment securities + treasury share value - debt - net pension liabilities*),

and on a 1.3x EV/EBIT multiple. These compare to figures of 46%, 82% and 3.4x as at the end of January. While our companies' profits won't be immune to any economic slowdown, the share price reactions have more than compensated for the weakened outlook.

The declines have opened opportunities for those with long-term horizons and capital to deploy. While we have no insight into how long the sell-off will last, the valuations of our companies are unsustainably low and, in some cases, have utterly disconnected with fundamentals. There are a record number of companies in our portfolio with net cash and securities covering more than their market caps, meaning at the current share price the underlying businesses can be purchased for free.

We believe companies in Japan are still committed to buying back shares and the underlying thesis of improving governance is still sound. Our current gearing is 14.6% with 2.3% of available cash, and we have been rotating positions to capitalise on the most exciting opportunities.

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Nippon Active Value – 20 March:

It would be an understatement to say that market conditions have changed over the last month. The world is now gripped by a pandemic the likes of which has not been seen in a century, the oil price has collapsed in the midst of an unprecedented price war between producing countries and economic activity has all but seized up in a large part of Western Europe. The Japanese stock market, as measured by the broad Nikkei 225 Index, has fallen more than 29 percent. It has been a good time to be holding cash! We take some comfort from the data that suggest Japan has had some success in slowing the spread of the virus.

Against this background, NAVF has begun investing the proceeds of approximately £103m from the initial public offering. We have converted most of our cash balances to Japanese Yen, reserving some sterling to pay ongoing administrative expenses. To date, we have invested slightly more than £29m in 15 of our initial group of target companies. We have been deliberate and careful both in our foreign exchange transactions and in our stock purchases. We have not "chased" shares but have allowed dealers to offer us blocks as they become available and our trading has generally represented less than half of the shares traded on any given day. Naturally some shares have been more liquid than others but, overall, we are satisfied at our rate of progress. If we find that any of our portfolio companies is simply too illiquid, we will add additional companies to our list of targets.

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Baillie Gifford Shin Nippon – 17 March:

BGS: *“An ageing population coupled with a shrinking workforce would on the face of it, be a huge worry. Japan, however, has been alert to these changing trends for some time now and has embraced what is known as the ‘silver market’ with enthusiasm.”*

An ageing population coupled with a shrinking workforce would on the face of it, be a huge worry. Japan, however, has been alert to these changing trends for some time now and has embraced what is known as the 'silver market' with enthusiasm. Changing technology can bring huge benefits to all, with a greater unity of purpose and sense of urgency. The Government accepts that change is necessary to address these issues and in the longer term should be beneficial for the country. The company's manager remains focussed on identifying companies with high growth potential and investing in them for the long term.

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India

Ashoka India Equity Investment – 18 March:

The situation on covid-19, both globally and in India, is evolving at a fast pace. We do not have any differentiated opinion to offer on how this pans out for India and the rest of the world. India has so far been fortunate to have relatively fewer cases of C19 (~147 confirmed cases) despite the large population and high population density. However, it is an evolving situation and the numbers can materially change in a short span of time as has happened in other countries.

As a second-order effect of the anticipated demand slowdown and the fall out between Russia and Saudi Arabia, oil prices have also fallen sharply. India is a net importer and imports more than 80% of its requirements. This correction in the oil price is a positive for the country's fiscal and current account deficits as well as inflation. Most of the stocks which have been impacted are commodity stocks in the energy and metals sectors and we don't have any exposure to commodity or energy companies.

While no business may remain completely immune depending on the extent of the spread of covid-19, certain sectors might be relatively more impacted versus others. The first order of direct impact of covid-19 is expected to be on travel and entertainment related industries such as airlines, hotels, restaurants and theatre chains. We do not have any exposure to these businesses. In general, cyclical sectors might suffer in the near term in case of a broader slowdown in the economy. Consumer staples, telecom, healthcare and other such non-cyclical, domestic-oriented businesses are expected to be relatively less impacted.

Outlook

India, due to its limited exposure to global trade and growth driven by domestic consumption and investment led growth, should be less adversely impacted. In a post-covid-19 environment, Indian manufacturing could be a key beneficiary as the world looks to diversify parts of the supply chain from China.

With the recent steep correction in the Indian market, equity valuations are now below the long-term averages.

AIE: *"In a post-covid-19 environment, Indian manufacturing could be a key beneficiary as the world looks to diversify parts of the supply chain from China."*

Vietnam

VinaCapital Vietnam Opportunity – 27 March:

At time of writing, Vietnam's Ministry of Planning and Investment (MPI) had revised its projection of GDP growth in 2020, and (for now) expects growth of below 6% this year - versus its 6.8% pre-covid-19 forecast, although this is most certainly likely to be revised.

An immediate area of impact from covid-19 has been to tourism, hospitality and associated services. According to the General Statistics Office of Vietnam (GSO), Vietnam's tourist arrivals are currently down by 50-60%. Based on ASEAN's experience during the 2003 SARS epidemic - when Asia-wide tourist arrivals fell by about 10% - this current 50-60% plunge in Vietnam tourist arrivals is likely to translate to a 5-10% decrease in tourist arrivals for the full year, which supports the view that this incident could knock nearly 1% off Vietnam's GDP growth forecast for this year.

In contrast to all the recent negative news, a Fellow at the influential Milken Institute commented in February that the covid-19 crisis *"underscored to all of China's trading partners the value of diversification away from China"*, and said that *"covid-19 is speeding up the dismantling of US firms' sourcing from China even faster than the trade war did."*

VOF: *"Covid-19 could knock nearly 1% off Vietnam's GDP growth forecast for this year."*

The need for greater resilience in supply chains will ultimately bode well for Vietnam, and coupled with the US-China trade war, it has gifted Vietnam with a substantial inflow of FDI, particularly from China. Vietnam's economy has benefited from the US-China trade war, accelerating the pace of expansion in the manufacturing sector that was already under way prior to dispute's start, but we think the trickledown effect needs more time to work its way through the system before Vietnamese companies and consumers benefit through additional employment, rising income levels and increased spending power.

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Vietnam Holding – 18 March:

Since mid-January 2020 when an outbreak of novel coronavirus, now classified as covid-19, first appeared in the city of Wuhan, in central China's Hubei province, the number of reported covid-19 cases has risen to an estimated 120,000 globally, with more than 4,300 deaths. The number of infections in China appears to have moderated, and 61,000 people have recovered from the virus. In late February, however, the number of new cases outside China had risen significantly and quickly, particularly in South Korea, Iran, Italy and Japan. In total 120 countries and territories are currently affected and on March 12 2020 the World Health Organisation declared covid-19 to be a global pandemic. In Vietnam the initial cases were reported in late January, shortly after the outbreak in China, and a few weeks after all 16 people initially reported as having contracted the virus recovered, several new cases emerged as a result of people entering the country with the infection.

Vietnam has taken swift preventative steps to limit the spread of the virus, curtailing transport with those countries affected, putting people in quarantine and extending the school holidays. The authorities have also been active in informing the public on a daily basis about the virus, through social media and traditional media, and raising awareness of practical steps its citizens can take: such as washing hands and wearing masks.

Vietnam is an increasingly open economy and is a key part of Asia's manufacturing supply chain. Manufacturing accounts for about 16% of total GDP, and any disruption to the flow of intermediate and finished goods between Vietnam and China, Korea and Japan, representing 56% of the total imports of Vietnam, and 31% of its total exports, will impact GDP growth. That said, given Vietnam's manufacturing capability, relatively low labour cost, and transport connections, some companies are already looking at expanding their operations in Vietnam, as part of a "China-plus-one" strategy. The other sectors most likely to be hit the hardest include tourism and aviation. In recent years

Vietnam has emerged as a favourite destination for tourists, particularly from China and South Korea. In 2019 Vietnam received 18m international arrivals, and in the first month of 2020 it welcomed 1.9m, including 644,000 from China, 468,000 from Korea, and 79,000 from Japan. For as long as travel restrictions are in place, tourist arrivals will be severely impacted. As result, the Ministry of Planning and Investment has forecast Vietnam's GDP growth to fall to a seven-year low of approximately 6% in 2020.

Domestic equity investors have naturally reacted with fear to the uncertainties caused by covid-19 and the indices and the portfolio valuations have been hit hard as a result in February and the first few weeks of March. As a global pandemic, covid-19 poses a wide-range of risks to the global economy. Although it is not clear how widespread the direct impact of covid-19 will be for Vietnam, or how long disruptions will persist, when normality eventually returns, there is likely to be a rebound in domestic confidence, which would likely be reflected favourably in the domestic equity markets. Patience is required in these difficult market conditions.

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Latin America

Ed Kuczma and Sam Vecht, from the management team at BlackRock Latin American – 27 March:

BRLA: “Our base case is that covid-19 will be under control within the next few months and that China will then launch significant stimulus to reverse the negative impact on the economy.”

At the end of February and the first weeks of March, global equity markets sold-off aggressively on the back of further nervousness on global economy fears, given the rising covid-19 concerns and a significant drop in oil prices. Metal commodities have been hit hard, which we believe means the market is already pricing significantly lower global growth over the next quarters. Our base case is that covid-19 will be under control within the next few months and that China will then launch significant stimulus to reverse the negative impact on the economy. During times of elevated volatility and market stress, we find it important to focus on the long-term investment horizon, adhere to disciplined fundamental analysis from a bottom-up perspective and be ready to respond to dislocations in the market as opportunities present themselves. Our constructive long-term thesis for Brazilian equities remains and is based on three pillars: i) a gradual local economic recovery; ii) low interest rates; and iii) structural reforms. On the economic recovery, our expectations have been readjusted downwards amid signs of cooling economic activity in the first quarter of 2020 and the global economic slowdown.

Low interest rates could be a silver lining, as the Central Bank has signalled that it may take steps to mitigate the effects of the covid-19 epidemic on the domestic economy. On the structural reforms, we look for progress in administrative and tax reforms, yet growing tensions between the executive and legislative branches have raised concerns about the likelihood of a positive short-term outcome. However, if the reform agenda gets back onto centre stage, Brazil could outperform its emerging market peers.

We expect the Colombian index performance to continue fluctuating in tandem with oil prices over the medium term. However, compared with the oil shock in the second half of 2014, Colombian stocks have been trading at lower valuations before the correction started (14x trailing P/E (price to earnings ratio) versus 17x by mid-2014) which, in our view, may mitigate the downside from current levels. At the same time, Colombian companies are entering this period with increased debt levels (2.5x net debt / trailing EBITDA (earnings before interest, tax, depreciation and amortization) versus 2.0x by mid-2014), which may prove problematic if a downturn scenario materializes. From a top-down standpoint, the Colombian government is less dependent on oil, but has limited room to manoeuvre. Oil represents ~8.5% of Colombian government revenue (1.4% of GDP (Gross Domestic Product) in 2019), down from almost 20% in 2013. This transition has come at the cost of increased debt levels (51.6% debt/GDP in 2019 versus 37.1% in 2013), which in our view limits the government's ability to implement countercyclical policies if the oil shock persists.

In Mexico, falling oil prices have tightened the government's fiscal rope even further, making it hard for it not to contemplate a higher deficit in 2020. Pemex losses could be offset with government savings, but given the expected weakness in the economy, it's increasingly likely the government will have to increase the deficit through spending. The government has said it will revisit fiscal policy in April, to decide whether or not to cut fiscal spending. Despite the impact from lower oil prices on the economy, we believe Mexico could be viewed as a defensive market in the current environment, given that the companies listed in Mexico have a low level of financial leverage and the market was already trading at relatively inexpensive valuations heading in to the current volatility, which can limit the downside as external conditions remain challenging.

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Leasing

Tufton Oceanic Assets – 27 March:

During the second half of last year and since the turn of the year there have been significant geopolitical events, initially the ongoing US/China trade tariffs disputes followed by the short-lived crisis in the Middle East and Iran, which have had a negative impact mainly on the bulker and containership sectors. However, the issues surrounding covid-19 and the spread of the virus outside of China into a pandemic, together with the recent drop in oil prices, also have significant implications for the maritime industry.

With the extension of the Chinese New Year holiday in order to try and contain the virus in China, we saw a dramatic fall off in both dry bulk raw material Chinese imports as well as lower finished good (containership) exports. Since the failure of OPEC to agree on production cuts and the consequential drop in oil prices, we have seen significant increase in the movement of crude oil and oil product as stockpiling takes place against a contango in the oil price. When land-based storage is full, we expect vessel supply to be taken out of the market for floating storage but it is clear, however, that oil / oil product consumption demand growth will remain low until normality is restored.

It is also expected that the bulker and containership sectors will remain subdued during the continuation of the current reaction in the western world to the spreading covid-19 threat. Interestingly, we have seen a recent increase in the number of port calls in China, returning to prior year norms for 6-7 weeks post the Chinese New Year. It is too early to make definitive projections concerning the medium-term response of world trade to covid-19 but inevitably there will be some distress leading to investment opportunities.

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Amedeo Air Four Plus – 17 March:

AA4: “Almost all airlines globally have been severely impacted by the reduction in passenger traffic.”

Further to the announcement on 12 March 2020, the board notes the news that almost all airlines globally have been severely impacted by the reduction in passenger traffic as a result of covid-19 and understands that many Governments, banks and lessors have received approaches from these airlines to discuss how they might support the industry. Indeed, the company has, in line with this news, received a written approach from Thai Airways, to whom the company leases four A350s, to discuss how it might support them in this period. The board, together with its asset manager and other advisors, are discussing how the company might respond, and considering the terms of any such support. Thai have assured the company that, as the flag carrier of Thailand, it fully commits to its obligations, and they are fully up-to-date with their payments to the company.

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Infrastructure

Infrastructure India – 27 March:

It was announced on 24 March 2020 that the Government of India had ordered a complete national lockdown of non-essential activity for a minimum of 21 days in an effort to slow the spread of covid-19.

This action has immediate and significant consequences for all businesses in India and, in particular, the impact on the logistics sector and on IIP's largest asset, Distribution Logistics infrastructure Limited (DLI), is likely to prevail both during and well beyond the lockdown period.

For DLI, all construction activities at its terminals have now ceased and while some of its freight is essential, movements of cargoes are now negligible due to closures across the supply chain in India.

As announced by the company on 17 March 2020, the effect of an earlier lockdown in China had already had a material impact on Indian container freight and container cycles and this is expected to be amplified by the lockdown in India and other global cargo and transportation hubs. It is currently impossible to predict when DLI, or the wider market, will recover to normal volumes.

In addition, IIP's wind and hydro energy assets are expected to begin to experience reduced demand with the operations of some industrial and commercial offtakers closed.

It is too early to quantify the effect of the lockdown for DLI and for the IIP portfolio companies, other than to note that the considerable impact it will have on all Indian businesses is likely to last for some time.

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Manager's report for BBGI SICAV – 26 March:

At the point of publication, the group believes its business continuity plans can withstand the anticipated operational disruption emanating from the spread of covid-19.

The group does not have any demand-based assets and the portfolio is 100 per cent operational. The group does not expect its financial performance to be materially affected due to the reliance on 100 per cent availability-based revenues. However, the NAV is sensitive to changes in the macro-economic assumptions used as part of the portfolio valuation process.

As part of its analysis, the management board has considered the potential impact of a change in a number of the macro-economic assumptions used in the valuation process. By considering these potential scenarios, Management is well positioned to assess how the group is likely to perform if affected by variables and events that are inherently outside of the control of the boards and its risk management framework.

At the date of publication of this annual report, management believe that the sensitives as disclosed in the Valuation section of this report and again in Note 18 of the consolidated financial statements continue to be reasonable after taking into account potential macro-economic changes which may occur as a result of covid-19. However, there continues significant uncertainty around how this pandemic will evolve and therefore it is difficult to foresee all of the consequences or disruptions that may arise as a result. It remains therefore a priority for the group to monitor and assess for potential consequences and disruption and seek to mitigate issues accordingly.

BBGI's Clients

All of BBGI's assets continue to be available for our clients, communities and end users. Availability-based transportation assets make up 51 per cent of the portfolio by value. To date these assets have been unaffected by covid-19.

The company has 11 healthcare assets which account for 22% of the portfolio value. These assets are most immediately effected by covid-19. To date facility management services continue to be provided.

The schools in our portfolio, representing 11 per cent by value, have either closed or operating the facilities at reduced capacity for children of those providing essential services in the covid-19 effort. We expect the availability fee continued to be paid.

Liquidity and Credit Risk

As of 26 March 2020, post-period end, BBGI had no borrowings outstanding with approximately £179m available under the committed revolving credit facility^[xxi] which is committed until January 2022. The company has no requirement to raise equity in the immediate future. All debt financing at the project level is issued on a non-recourse basis. Only the Northern Territory Secure Facility project is subject to refinancing risk when a portion of the debt matures in 2025.

Supply Chain Exposure

The Management board is in active dialogue with all facilities managers and operators of our assets. To date, no material service delivery issues have been identified and no disruptions reported. We will continue to rigorously monitor performance and supply chain exposure. BBGI has a diversified supply chain in place and geographically-diversified portfolio which helps mitigate this exposure. Furthermore, our supply chain partners have business continuity plans in place and to date performance continues to be strong.

Performance

As at the date of this report there is no evidence to suggest that operational or financial performance is materially affected and therefore, we do not expect any material impact on our cash flows.

There is the potential that performance could be impacted by covid-19. This would likely manifest itself as a reduction in availability of personnel responsible for managing, operating or maintaining assets, or supplies and spare parts. Should this happen then it would have the potential to lead to short-term reduction in asset performance thereby resulting in availability deductions. Deductions, if any, are expected to be passed down to subcontractors.

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International Public Partnerships – 23 March:

- The company confirms that the operational performance of its assets continues as expected;
- Covid-19 has to date had no impact on the company's cashflow from its investments; and
- The company's balance sheet remains robust with a £400m revolving debt facility (maturing in July 2021) of which only c.£9.5m is cash drawn or otherwise committed. The company also has c.£70m of cash available in addition to the cash held within the underlying investments.

INPP: "Covid-19 has to date had no impact on the company's cashflow from its investments."

Whilst the full consequences of the pandemic and its effects cannot yet be known, the company believes that its business model and diversified portfolio continues to offer a significant degree of protection to shareholders and is reassured by the operational performance of its assets to date.

Operations

The company's Investment Adviser, Amber Infrastructure group ('Amber') and its asset management team are fully resourced and are actively managing portfolio performance. During this time of uncertainty, the team has been working to continue to provide clients with the support they need whilst ensuring the health and safety of staff.

This work has focussed on continuity of service delivery, availability of facilities and assurance of cashflows (receipts and payments). Bespoke covid-19 risk management tools have been created to assist the asset management team implement the necessary interventions to support clients and protect value as the situation unfolds. Where the company or its asset management team do not have direct management control of the underlying assets (typically where the company has a minority shareholding) similar work has been requested of the relevant management teams. This review is being carried out by asset type across each jurisdiction both from an operational and contractual documentation perspective.

Schools make up a significant part of the company's portfolio. We note the closure of schools in the UK and Germany (and likely closures in Australia), and have engaged positively with our public sector partners over this. We currently expect that the company will be in a no worse position as a result of these closures.

The company notes that there are a range of contingent risks stemming from covid-19. These include, but may not be limited to, staff shortages and supply chain breakdowns. The company will continue to monitor and where possible take action to avoid or mitigate any such impacts on its portfolio. The company notes that the overwhelming majority of its revenues come from availability-based payments or regulated cashflows that generally provide a range of protections against adverse scenarios. The company believes that those assets which are dependent for their revenues on availability are currently fully available.

As noted above, the company's balance sheet is well positioned. In addition, debt at the level of the company's underlying assets is bespoke to each asset but is non-recourse to the company and typically either fixed-rate debt which fully amortises over the asset life without refinancing risk, or where refinancings are required, there are regulatory or other mechanisms designed to compensate for changes in the market cost of debt.

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3i Infrastructure – 20 March:

3IN: *“To date, any operational impact has been limited and, currently, all of our portfolio companies are maintaining continuity of service to their customers.”*

The covid-19 pandemic is affecting most businesses across the world, including our portfolio companies. Our manager is working very closely with the management teams to address these unprecedented circumstances. To date, any operational impact has been limited and, currently, all of our portfolio companies are maintaining continuity of service to their customers.

TCR, our airport ground handling equipment business, is most obviously affected by the dramatic fall in air travel. TCR is in a strong liquidity position, and is taking action to prepare for a scenario of a potentially long period of reduced aircraft movements. TCR will work closely with its airport, airline and ground handling customers through this period of disruption.

The effect of the pandemic on portfolio valuation will be assessed as part of the valuation exercise of the portfolio as at 31 March 2020. This will seek to take account of individual cashflow effects on portfolio companies as well as broader market pricing considerations, which obviously are extremely volatile.

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GCP Infrastructure – 20 March:

GCP seeks to provide investors with exposure to a diversified portfolio of UK infrastructure projects, which are by their nature long-term investments.

GCP: *“Substantially all of the company’s investments are availability-based infrastructure assets and therefore are not currently expected to be materially impacted by the reduced demand for goods and services.”*

The directors and the company’s manager, Gravis, believe such investments are well placed to weather the uncertainty driven by covid-19 over the long term. Substantially all of the company’s investments are availability-based infrastructure assets and therefore are not currently expected to be materially impacted by the reduced demand for goods and services that is occurring as a result of restrictions on the movement of people.

Any potential impact is likely to be limited to:

- (i) short-term reductions in asset performance which may result from the reduced availability of personnel responsible for operating, managing or maintaining assets, or spare parts; and
- (ii) the impact of any short-term reductions to electricity prices. The manager does not currently consider these to be material risks to the company’s ability to continue to meet its key long-term objective of providing shareholders with regular, sustained, long-term dividends and the preservation of capital over the long term.

At the date of this announcement the company’s investments continue to perform in-line with the manager’s expectations.

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Renewable energy infrastructure

Foresight Solar – 27 March:

FSFL: *“We anticipate that there may be a further short-term reduction in power prices due to an anticipated drop in demand, however power prices are forecast to improve over the medium term.”*

Foresight Solar (FSFL) has provided an update to investors on its response to the covid-19 outbreak. The takeaways were:

- in FY20 there has been no operational disruption linked to covid-19;
- The company has conducted a full review of all key service providers. It has confidence in the resilience of their business continuity plans.
- Foresight has been working closely with its key operational counterparties to ensure that adequate business continuity plans are in place and that operational risks are minimised.
- Foresight anticipates that there may be a further short-term reduction in power prices due to an anticipated drop in demand, however it says that power prices are forecast to improve over the medium term.
- There is currently no evidence to suggest that covid-19 will materially affect the company’s operational or financial performance.

FSFL re-affirmed its FY 2020 dividend target of 6.91 pence per share.

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JLEN Environmental – 26 March:

The JLEN portfolio has made a positive start to the calendar year, with generation approximately 15% over budget including very strong performance from the wind assets due to good wind resource.

Foresight anticipates that there may be a further short-term reduction in power prices due to an anticipated drop in demand. However, power prices are forecast to improve over the medium-term. JLEN’s diversified portfolio has a relatively low level of exposure to wholesale power prices with only one third of the company’s underlying revenues coming from the sale of wholesale power. JLEN currently has fixed price or floor

arrangements covering 49% of electricity generation for the upcoming summer 2020 season and 48% for winter 2020/21.

The company is in a strong financial position and is conservatively geared both in relation to its revolving credit facility, which is currently GBP17m drawn and is not due to be refinanced until June 2022, and at a portfolio company level where all project debt is on a long-term, fully amortising basis with no need for refinancing.

Operations at its wind, solar, anaerobic digestion and hydro assets have not experienced any material interruption and all assets are performing as expected. The company's food waste project, which represents less than 5% of its portfolio and is ungeared, has seen a reduction to its commercial food waste collections while residential food waste supply remains stable. Foresight is monitoring the impact of this closely. The company's counterparties have implemented measures that enable the continued maintenance and operation of JLEN's assets while taking appropriate steps to ensure the health, safety and wellbeing of the those involved.

The company currently sees no material long-term impact from covid-19 on its ability to continue to meet its investment objectives.

The company reaffirms its guidance for a full-year dividend of 6.66p for the current financial year to 31 March 2020, including a quarterly dividend of 1.665p to be paid for the period January to March 2020 and, in line with the company's usual reporting cycle, will announce its target dividend for the 12 months to 31 March 2021 in its final results, which will be published in June 2020.

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Bluefield Solar – 25 March:

The company's key service providers have all successfully implemented remote working policies for the individuals working on Bluefield Solar.

Bluefield Partners, the London based Investment Adviser, has moved ten Bluefield Solar focused personnel out of its London office and they are now working remotely overseeing the investment performance of the existing assets, portfolio enhancement (including lease extensions) and the company's power sales strategy. Bluefield Services, the Bristol-based business that oversees asset monitoring, reporting, technical asset management and financial reporting has 28 employees successfully working remotely. Bluefield Operations has 19 employees who are regionally based and focused on the operation and maintenance of the assets. It is anticipated that a number of these employees will be categorised as 'Key Workers' as defined by the Government's recent announcement, a status that should enable them to carry out their activities effectively.

In addition, as part of the winter maintenance programme, Bluefield Services has undertaken a major review of the status of the portfolio's spare parts and has ordered replacements where necessary. Bluefield Operations has been working on general maintenance across the portfolio and transformer and inverter replacement on specific sites.

BSIF: “Over 60% of the company's revenues are regulated and non-correlated to market based power prices, increasing in line with RPI and with an average duration remaining of 15 years. The company has 94% of its revenues contracted until the end of the current financial year”

General Update: Visibility of Earnings and Financial Headroom

Over 60% of the company's revenues are regulated and non-correlated to market based power prices, increasing in line with RPI and with an average duration remaining of 15 years. The balance of revenues is derived from the sale of electricity via power purchase agreements (PPAs). The company has 94% of its revenues contracted until the end of the current financial year, 88% of its revenues contracted until the calendar year end and 77% until the end of the financial year 2021, providing excellent visibility of earnings over the current and next financial year. The PPAs providers are investment grade entities. The company has no subsidy free assets and no assets are in construction.

The company's current leverage level is 32% (a combination of long-term debt and short-term credit facility) to Gross Asset Value. All long-term debt is fully amortising over an average tenor of 14 years and is without the requirement for refinancing. The debt service cover ratio is over 2.5 times covered. The company has also drawn £44m from its short-term credit facility and is in place until 30 September 2022 (if the facility's one-year extension is exercised by the company).

As indicated in previous announcements the company's policy of increasing the dividend in line with RPI in future financial years remains under review, especially in light of the recent fall in power prices.

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SDCL Energy Efficiency Income – 23 March:

The manager is working closely with key subcontractors and co-shareholders, implementing contingency plans where required. Where individuals are required to be physically present for operations and maintenance, the company and the manager are focused on taking appropriate steps to ensure the health, safety and wellbeing of the workforce and to allow for an uninterrupted service to continue. To date, none of the company's counterparties have raised any covid-19 project specific concerns that are material to the company's current performance.

The company remains on track to achieve the target dividend of 5.0p per share for the year to 31 March 2020. Based on current portfolio performance and assuming the return to more normal operating conditions post covid-19 in the short to medium term, the board remains confident in the forecast future portfolio cashflows which allows it to reiterate the previously published dividend guidance of 5.5p per share for the next financial year to March 2021 and a progressive dividend thereafter.

The company has a healthy liquidity position and benefits from holding significant cash balances.

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Greencoat UK Wind – 20 March:

The health of the company's shareholders and board is of the utmost importance and given the UK Government's advice on social distancing, travel and measures to prohibit public gatherings in order to minimise the spread of covid-19, the company has decided to change the location of its AGM on 30 April 2020. Specific details will be announced in due course.

Portfolio generation to date in 2020 has been strong and is approximately 20% ahead of budget (over 30% of the 2020 generation budget has already been produced) and forward power prices for the remainder of 2020 are relatively stable. The company's target dividend of 7.1 pence per share is expected to be well covered.

The company's overall borrowings are equivalent to 25 per cent of gross asset value (GAV), in the middle of its medium-term guidance of between 20 and 30 per cent of GAV, all of which sits at company level.

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US Solar – 17 March:

The covid-19 outbreak occurred after the period end. As a reaction to the outbreak, the governments of numerous countries have implemented controls to minimise the spread of the virus. Within the solar industry, there is concern that these controls may disrupt the international solar supply chain. Further, as the virus spreads globally, work across industries may be interrupted for periods of time based on workforce availability.

The key risks anticipated revolve around module production and delivery interruption. Some solar manufacturers have halted operations under central and provincial governments' guidance, raising concerns around delayed module delivery. Additionally, ground transportation and shipping from China has been disrupted due to government restrictions. USF's portfolio has sourced panels and other materials from a variety of countries. Of the total 37 projects in the current portfolio, there are seven projects that are yet to be constructed, all of which have met safe harbouring conditions to qualify for the ITC. To meet these conditions, the construction materials for the assets have been purchased ahead of 2020. The solar panels for the six in-construction projects in North Carolina have been imported and delivered and are being stored in various warehouses across the US. The rest of the materials required for construction are either on site or have been procured from various international suppliers overseas and are still scheduled to be delivered on-time. The majority of the construction materials for the project in Utah have already been delivered to the US. The manager has received confirmations from the vendors that there is currently no delay expected for the remaining materials to be delivered. As such, the manager believes that USF's in-construction assets are relatively well-positioned regarding supply chain concerns.

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Commodities and natural resources

Evy Hambro and Olivia Markham, representing the management team at BlackRock World Mining – 25 March:

Global equity markets fell sharply in February as it became apparent that covid-19 was spreading globally with a likely greater impact on economic activity. For reference, the MSCI World Index fell 8.5%. China's response to attempt to contain the spread of the virus included placing a number of cities and towns on lockdown, which meant Chinese factories could not operate. This caused supply issues across many industries, whilst air travel was restricted to certain high virus risk destinations.

Mined commodity prices came under pressure, with zinc and iron ore returning -9.1% and -12.7% respectively. Aluminium and copper were broadly flat over the month returning -1.7% and +1.2% following price declines last month. The gold price was flat on the month and remains 5% higher than at the start of the year at \$1,587/oz, reaffirming its safe haven status in times of market volatility. Similar to last month, gold equities lagged the gold price, partly reflecting the strong performance of the mid-cap gold companies in Q4 2019.

Outlook

We see an attractive valuation opportunity in mining today. Mining companies have sold off in recent weeks in anticipation of a lower level of global economic growth in 2020. We expect any economic stimulus measures from China to disproportionately benefit the mined commodity sector.

BRWM: *“On the demand side, we do not anticipate a hard-landing type event in China and we have been encouraged by stimulus measures beginning to feed through into improvements in some economic data points.”*

The mining sector is generating close to record free cash flow, whilst balance sheets are in strong shape and companies remain focused on capital discipline. Our base case remains that we have positive global economic growth for the next 12-18 months, albeit at a slower rate than was expected this time last year. Barring an economic recession, we expect the mining sector to re-rate into a post covid-19 economic recovery as the miners continue to generate robust free cash flow and return capital to shareholders through dividends and buybacks.

We expect most mined commodity prices to be stable to rising through 2020. On the commodity demand side, we do not anticipate a hard-landing type event in China and we have been encouraged by stimulus measures beginning to feed through into improvements in some economic data points. On the commodity supply side, supply is tight in most mined commodity markets and, given the cuts in mining sector spending since 2012 (down ~66%), we expect it to remain so.

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Private equity

Apax Global Alpha – 26 March:

The covid-19 crisis is unprecedented and has substantial humanitarian, social, and economic consequences. At this stage, it is still rapidly and dynamically evolving with uncertainty impacting global markets. Whilst governments and central banks have started to take wide-reaching actions to counter the near-term effects of the crisis, there remains a significant level of uncertainty as to how the crisis will continue to evolve. This heightened level of uncertainty, together with the short-term impact of extreme measures taken by governments across the world aimed at slowing down the spread of covid-19, has led to a high level of volatility in public equity and corporate credit markets. In the period from 19 February 2020 to 25 March 2020, the S&P 5001 price index has declined by 26.9% and average loan pricing in the S&P/LSTA US Leveraged Loan Index has dropped from 96.7 to 77.9 over the same period.

The extent and nature of the economic impact of covid-19 is unprecedented and unlike a typical cyclical downturn. The population lockdowns and pausing of many types of economic activity is causing unusual effects in the economy in general, and our private equity portfolio is not exempt.

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ICG Enterprise – 26 March:

Given the rapid escalation of the crisis, we currently have limited visibility on the short and longer-term impact of covid-19 on the global economy. It is therefore difficult to accurately gauge the impact on the portfolio at this stage. Performance will vary between geographies, sectors and companies and be dependent on business models and end markets.

ICGT: *“Private equity’s active ownership model allows it to react quickly to issues.”*

ICG Enterprise has a high-quality portfolio that is well-diversified and weighted towards more resilient sectors, such as healthcare, consumer staples, business services and technology. Our portfolio also has a bias to managers who have a strong operational focus and demonstrable experience of successfully managing investments through periods of economic stress; while the situation is rapidly evolving, our managers have moved decisively to address immediate risks and are implementing plans to protect and preserve long term value.

Private equity is a long-term asset class with an active ownership model and an ability to react quickly to issues.

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Oakley Capital – 25 March:

OCI has increasingly focused on investing in companies that provide software solutions and digital infrastructure services and that utilise online delivery platforms. These types of business models are potentially less susceptible to disruptions caused by the pandemic compared with the broader economy. Nonetheless, the probability that we enter a global recession has increased considerably which brings with its significant challenges. OCI and Oakley Capital are taking a proactive approach to the situation and remain confident in the continued long-term performance of the Oakley Funds.

Portfolio companies & NAV impact

OCI: “Over 70% of the portfolio companies operate a subscription-based or recurring revenue business model and are therefore less vulnerable to temporary declines in customer demand.”

- NAV – while it is too early to fully evaluate, it is anticipated there will be an adverse effect on OCI’s NAV as a result of covid-19. The scale of the impact is dependent on many factors including the duration and severity of the virus, as well as the response from governments and consumers. The recent significant fall in the OCI share price presented an attractive opportunity to continue the NAV per share-enhancing buy-back programme, with the purchase and cancellation of 3m shares. This approach to capital management will continue, with further share buy-backs anticipated.
- Valuations – the fall in equity markets as a result of covid-19 will put downward pressure on portfolio companies’ valuations, where there are comparable publicly listed peers. Trading performance – over 70% of the portfolio companies operate a subscription-based or recurring revenue business model and are therefore less vulnerable to temporary declines in customer demand. In addition, 65% of the portfolio either deliver products or services digitally or have the ability to shift to digital delivery in a short time frame. While there will be an impact on trading, Oakley’s sector focus has the potential to provide some resilience during this period of disruption.

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Hg Capital – 24 March:

As the covid-19 pandemic continues to unfold across the world, the board of HGT and the investment manager, Hg would like to update you on what they believe may be the potential impacts for Hg Capital and the mitigations that have been made.

Hg invests in companies that focus on critical activities such as delivering legal, health and safety advice to many thousands of businesses globally, helping these companies to pay taxes and payroll, deliver healthcare services, audit and manage supply chains and provide many other services. These types of company and their business models are potentially less likely to be disrupted by the pandemic than the broader economy. Nonetheless, with a global recession now the backdrop for 2020, it is important to note the potential challenges ahead, recognising the importance of transparent communication to which the board of HGT and Hg have always been committed.

Given the critical nature of software and services that our portfolio provides to the wider business world, Hg believes that there will be fewer direct impacts from the pandemic than you might see in a more generalist portfolio. Nevertheless, whilst Hg anticipates that the portfolio in aggregate will continue to deliver growth over the long-term, the manager can see a scenario where a handful of the Hg investments potentially deliver year-on-year declines in performance and Hg are managing this appropriately.

Public market valuations overall have fallen sharply in recent weeks, with valuation multiples for the S&P500 returning to 2015 levels in EV:EBITDA terms. However, the S&P500 Software and Services index, which is more closely related to our portfolio,

has returned only to 2017 valuation multiples. Strong EBITDA growth across the Software and Services sector has tempered that valuation decline and thus asset values are similar to early 2019 levels. In such volatile markets, and with unpredictable trading results for many businesses, market valuation multiples need to be treated with caution. Hg will continue to stress test the portfolio, in order to identify any issues as early as possible.

In summary, Hg believes that there are likely to be short-term declines in the overall valuation of our portfolio and thus in the reported NAV of HGT.

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■ Insurance and reinsurance

CATCo Reinsurance Opportunities – 23 March:

CAT: *“While we do not expect any adverse impact on actual investment results, it may be possible that there may be an adverse impact on the company’s progress on its stated intentions to return capital to investors as quickly as possible.”*

In early 2020, the existence of a new coronavirus (covid-19) was confirmed. Since that time, covid-19 has spread from China and to a significant number of other countries around the world. Covid-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The company considers the emergence and spread of covid-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is not practicable at this time to determine the potential impact of covid-19 on the company’s operations. While we do not expect any adverse impact on actual investment results, it may be possible that there may be an adverse impact on the company’s progress on its stated intentions to return capital to investors as quickly as possible.

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■ Property – debt

Starwood European Real Estate – 20 March:

SWEF: *“In the current market, the company is particularly focused on its exposure to hospitality, which was 31.4 per cent of invested assets as at 31st December 2019, and expects to see a negative impact in operational performance generally across the hospitality sector.”*

The company considers that the recent share price movements have been driven by market conditions and flows as opposed to a significant change in the company’s fundamental value or outlook.

In the current market, the company is particularly focused on its exposure to hospitality, which was 31.4 per cent of invested assets as at 31st December 2019, and expects to see a negative impact in operational performance generally across the hospitality sector. In common with similar crises of the past such as the 9/11 terror attacks and during the SARS virus scare, the market will see a particularly difficult hospitality trading period.

Whilst this negative impact is expected across the hospitality sector in the near term, the company’s manager is confident in the fundamentals of the markets in which the assets are located and the borrower’s business plans for the assets over the medium to long term. The company’s hospitality exposure has been structured defensively by the manager by conducting thorough due diligence, working with strong sponsors and implementing robust loan structures combined with significant diversification by jurisdiction and asset type. Each investment has a significant cushion to real estate collateral value protecting the lender’s position.

The company has always looked to limit downside risk by focusing on secured debt with quality collateral and contractual protections. The company’s loans have modest senior LTVs.

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Property – rest of the world

Macau Property Opportunities – 30 March:

MPO: “Visitor arrivals to Macau have declined by 57% year on year (YoY) and gross gaming revenue (GGR) has declined by 50% YoY during the first two months of this year.”

On 20 February, the Macau government lifted its 15-day suspension of casino operations. Whilst casino activity has resumed, tight immigration restrictions remain in force, which continue to impact the market. Visitor arrivals to Macau have declined by 57% year on year (YoY) and gross gaming revenue (GGR) has declined by 50% YoY during the first two months of this year.

After nearly 40 days without new covid-19 infections, Macau recorded its first new imported case in mid-March. Since then, the government has tightened entry restrictions significantly. The total number of confirmed cases in Macau stood at 33 as of 27 March 2020, with all of the most recent 23 cases being imported.

Meanwhile in mainland China, the first wave of the covid-19 outbreak appears to be under control. Infection rates have reduced and medical teams seconded to Hubei are returning to their home cities. China is expected to lift outbound travel restrictions for Wuhan from 8 April, after over two months of lockdown. Across China authorities are cautiously starting to relax restrictions on movement, whilst keeping a close eye on any new infection outbreaks.

Macau Property Market

Residential property sales in Macau have dropped significantly during the crisis, with only 21 transactions recorded during the first half of February, compared to 154 transactions a year ago. Average residential transaction prices have fallen approximately 7% over the same period. As the virus situation stabilised, transaction volumes improved, bringing the total number of transactions to 208 for the entire month – down 25% YoY.

The occupancy rate at The Waterside currently stands at 47%, down from 58% in our last report. This decline was entirely due to the early termination of leases by tenants who were unable to return from mainland China. Security deposits equivalent to three-month rents have been forfeited in the company’s favour and the apartments put back on the market for lease. Sentiment in the leasing market has recently started to gradually improve with more enquiries during March.

Looking ahead

Market commentators were generally expecting local travel restrictions to Macau to be eased in Q2 this year based on the declining infection rates across Macau, Hong Kong and China. The sudden increase in imported cases experienced since mid-March, however, may delay any such relaxation. Only when infection rates are believed to be under control in both Macau and China, will restrictions likely be lifted, and only then will GGR start to recover.

MPO: “Macau’s health bureau officials appear cautiously optimistic about Macau infection rates, believing that new imported cases may be peaking.”

Macau’s health bureau officials appear cautiously optimistic about Macau infection rates, believing that new imported cases may be peaking, and strict quarantine measures will help reduce reinfection rates.

The manager considers the health and safety of its employees and their families to be of utmost priority. Its offices have been operating normally with safe working practices in place through these difficult times.

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Manager's report for Alliance – 6 March:

Global equity markets experienced solid growth in 2019, rebounding strongly from the sell-off in the fourth quarter of 2018.

Softening global economic data saw central banks act. The Federal Reserve in the US changed its tightening course and cut interest rates in July, September and October. Similar measures were adopted across many other regions to help stimulate economic activity. This accommodating central bank stance helped spur equity markets on, despite the economic weakness seen globally and continued market uncertainty, with the US/China trade dispute continuing to dominate headlines for a second year.

The impact of the trade dispute was particularly felt across emerging markets, with the MSCI Emerging Markets benchmark lagging the main index, up only 13.9% in sterling terms over the year.

Yet again, US markets dominated most major regions, up 25.8% in sterling terms versus 21.7% for the MSCI ACWI, mostly led by large cap technology companies. The Information Technology sector was up 41.2% in sterling terms over 2019. The weakest sector was Energy, up 8.4%, with performance dragged down by unease about sluggish global growth and oversupply as well as worrying headlines, particularly regarding Middle East tensions and global climate concerns.

Investment in US companies in aggregate represented the Trust's largest holding, accounting for over 50% of the portfolio, at 31 December 2019. Information Technology was also a significant exposure, accounting for 18.5% of the portfolio. This contributed positively to the absolute portfolio return. The Trust had only 3% allocated to Energy stocks.

Whilst US large cap technology stocks led the market for a significant part of the year, it was not plain sailing all the time. Towards the end of summer 2019 we saw a reversal in the trend, with some of the more growth focused stocks pulling back in favour of value stocks. As such, the Trust's value managers were able to recover some ground, whereas the Trust's growth managers' strong momentum was somewhat tapered in the latter part of the year.

The divergent returns from different styles, countries and sectors has been significant and has persisted for many years. It is unpredictable as to when their directions might change. This unpredictability is a key driver behind our risk management approach of balancing the allocation of the Trust's portfolio across a range of global Stock Pickers with different perspectives and investment approaches to control the overall risk of the portfolio. Our focus on risk management has meant that the Trust's portfolio demonstrated its all-weather robustness this year, able to perform strongly in both phases of the market, solidly keeping up while growth momentum dominated, as well as in the reversal back towards value.

2019 saw increasingly common heatwaves, floods and wildfires around the globe having a devastating impact on lives and livelihoods, as well as the environment. There is rising public awareness and pressure on world leaders to address climate risk and reconsider their dependency on fossil fuels, and to design a transition to net zero carbon emissions.

Corporations and investors are now also starting to more consistently evaluate their impact on the environment and reassess their investment beliefs. We have identified

climate change as a critical and systemic priority, given the risk it presents to our clients' investments, the ongoing resilience of the savings universe, and the planet as a whole.

Outlook

Covid-19 has dominated news flow in early 2020. Undoubtedly, the Chinese and global economy will suffer some short-term cyclical impacts. However, whilst there are a wide number of potential outcomes, we believe that most scenarios lead to modestly improving level of global growth by 2021 and beyond. Despite these comments, risks remain skewed to the downside in areas such as the feeble manufacturing sector straining from the onslaught of the trade war impacts. Central banks now have little ammunition left to prevent potential recessionary pressures. This, as well as headwinds from the continued geopolitical risks, the initial shock of covid-19, and with US elections and further Brexit trade deal negotiation uncertainty still ahead, may result in subdued equity returns.

Performance momentum in 2019 was yet again dominated by a continuation of the US large cap technology theme although, as we progressed through the year, we saw glimpses of a turnaround towards other parts of the market. The jury is still out on whether we are seeing a blip in the market or whether this is a true rotation back towards value stocks that will be sustained going forward. If the global economy starts to pick up, these stocks may indeed come back in favour; many of them are currently priced at very attractive levels, well positioned for a strong rebound.

Because economic policy and political uncertainty are elevated globally, it is increasingly difficult to predict economic outcomes. In such uncertain markets, diversification and robust risk management is critical.

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Beatrice Hollond, chair of F&C Investment – 16 March:

The rise and spread of covid-19 has seen increased risks of widespread economic disruption with simultaneous demand and supply side shocks for global and corporate earnings. This is being reflected in substantial falls in equity markets worldwide. We expect that policymakers will attempt to contain both the economic and financial market impact through concerted monetary and fiscal easing. There are risks and there will be opportunities.

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David Harris, chairman of Manchester & London Investment – 20 March:

Key variables for our second half performance are likely to be the extent of economic disruption from covid-19, the upcoming US election, the trajectory of Central Bank balance sheets, movements in the US Sovereign Yield curve and the regulation of Technology companies globally. As the manager says: *"the longer-term Journey will continue through the Era of Software."*

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Simon Edelsten, Alex Illingworth and Rosanna Burcheri, managers of Mid-Wynd International Investment – 3 March:

Global equity markets went from fearing recession in September to levels of enthusiasm in December following a US-China phase 1 trade deal and progress in UK politics. Companies were neither very gloomy in September, nor that much more positive at year end. Global equity indices rose 8% in dollar terms, but this translated to only 4.5% in sterling terms as the pound bounced vigorously on the election result.

Current investment themes

- Automation (16% of investments) - We have been slowly increasing investments in this long-term theme as automation investment has been delayed due to the US-China trade disputes. The agreement reached at the end of the year is principally designed to decrease the balance of trade between those countries, concentrating on commodities. An agreement covering trade in intellectual property will be much harder to reach. All the same, at year end there were signs that robot demand in China may have reached a bottom and that the large back-log in automation orders will come through soon. The valuations of some stocks in this area already discount some recovery, so we will monitor progress and valuations in the year ahead.
- Online Services (20% of investments) - A range of different investments performed well in this broad theme. We have increased our investments in financial technology companies, buying Fiserv which merged with First Data Corporation and investing in FIS which acquired Worldpay. The future of financial services is increasingly about software and online service provision and established suppliers often take very large shares of the market. Despite some investors saying this was a time to sell all the old growth stocks and to buy value, many of the old growth stocks carried on growing perfectly well - Microsoft's share price, for instance, rising 18% over the six months and Mastercard only slightly less.
- Healthcare Costs (12% of investments) - Despite Senators Warren and Sanders continuing to fare reasonably well in the Democratic Primaries, talk of an American NHS seems to be fading - with some politicians describing this as 'banning Americans from spending their own money on their own health'. Such talk had hung over our investments in American health insurance companies, but these have started to recover. Meanwhile our investments in pharmaceutical companies at the cutting edge in cancer immunology continue to show strong growth as their products are more widely adopted.
- Scientific Equipment (6% of investments) - Our investments in scientific equipment have continued to produce consistent growth. We took profits in Hitachi Hi-Tec which has been a very good investment for us. The parent company may be prepared to sell this controlled subsidiary - a sign of the times that, in Japan these days, takeover prospects can drive share prices.
- Emerging Market Consumer (14% of investments) - It is something of a puzzle that, with an improving US economy and a weaker US dollar, prospects for emerging markets seem lacklustre. Indeed, between riots in Hong Kong and Chile and significant GDP slowdowns in South Africa and India, we remain wary, especially as valuations of the best locally listed stocks are rather high. Our developed market holdings selling into emerging markets generally had a reasonable period, Louis Vuitton again with the best performance.
- Low Carbon World (10% of investments) - This theme performed slightly less well during this half year, despite the rising enthusiasm for progress towards environmental goals. As can happen in capital markets, the leading wind farm company - our largest investment Orsted - noted that returns from new projects were falling due to less experienced, but well financed companies bidding very aggressively for contracts. We have taken a few profits and await developments.
- Screen Time (7% of investments) - Over the last six months many of the investments we have made in this theme have performed well, especially as it included some modestly valued companies such as Vodafone and Nippon Telecom. However, as the valuations rose sharply, we have taken some profits.

Our largest investment is now Walt Disney whose new streaming service seems to be attracting large numbers of subscribers in the USA.

- High Quality Assets (15% of investments) - This is the theme in which we most often hold so-called 'value' stocks - out of favour companies whose asset backing may be of greater importance than their growth prospects. Earlier in the year we were finding a number of opportunities of this type, but as some of these shares have performed, their valuation attractions fade, their low growth prospects become an issue and we move on. We have reduced our holdings in gold mines during the period and sold our disappointing investment in Unibail.
- Tourism - we have decided to sell out of our Tourism theme after many years. We believe that very cheap air fares are the result of jet fuel being under-taxed and that increased environmental concerns will see this anomaly addressed, reducing tourism numbers and growth prospects.

Outlook

2020 started with economies likely to grow more rapidly than the previous year, led by the USA and with inflation still subdued. These hopes were then interrupted by the outbreak of covid-19 in China which, at the time of writing, seems to be actively monitored. Necessary action to contain the spread of the virus has interrupted global supply chains and so first half GDP growth for the global economy may well prove less vigorous than hoped for. However, the areas of investment we choose tend to avoid more economically sensitive sectors. Over the last decade, unexpected events such as the SARS virus, the Thai floods or the Fukushima reactor breakdown have seemed likely to upset financial markets at the time, but years later are hard to notice on the longer-term stock market chart.

Furthermore, the companies that we hold generally had a good year last year and saw their cash flows steadily growing. Valuations seem modestly higher than this time last year, but that was after a very turbulent period in equity markets at the end of 2018. Much of the growth in our companies comes from opportunities in our chosen themes and research and development within the companies themselves: we expect this will again be the main source of growth in the year ahead.

Global equity investing has been fruitful now for over a decade and there is bound to be a rough period at some stage.

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Kevin Carter, chair of Murray International – 6 March:

In my outlook comments from last year, I expressed the view that the market repricing of late 2018 was unlikely to be the end of this corrective phase. Of course, I had in mind the risk of further market declines. Instead, as we now know, the company's Benchmark rose by over 20% during the year. Apart from the market's capacity to make fools of those predicting its future, this outturn is also testament to the enduring ability of Central Banks to influence both actual money flows as well as investor sentiment.

A rational assessment of where we are now would suggest a considerable portion of near-term future potential market return was "brought forward" into 2019. After all, the present US economic expansion, for example, is very long lived and current prospects only look modest at best. This is reflected in most developed economies. Meanwhile, Central Banks have already played a good part of the hand they have in 2019 through the rate cuts from last year. Caution therefore seems warranted. At the time of writing global stock markets are experiencing very significant volatility as a degree of panic related to covid-19 has swept across the investment world. Time will tell whether this reaction is fully justified, too limited, or excessive. These matters can only be judged in

retrospect and during their occurrence investors are usually wise to remain both watchful and humble.

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Andrew Bell, CEO of Witan – 12 March:

The tentative signs of economic improvement at the end of 2019 have been overshadowed by the emergence of a highly infectious coronavirus from Wuhan in China. The initially rapid spread of the disease within China created fears of a global epidemic with major humanitarian and economic consequences. The resulting disruption to economic activity has heightened equity market sensitivity to news of the epidemic's rate of infection, with a rally during February on signs that the outbreak was peaking in China followed by a sharp setback when there were outbreaks in a number of other countries.

Volatility is likely to persist until the disease has been brought under control worldwide. Faced with a public health issue for which there was no reliable forecasting model, allied to the ensuing substantial disruption to economic activity, equity investors felt unable to quantify risks. This resulted in substantial falls in equity indices, in case the inevitable short-term impact on growth precipitated a more enduring recession.

In contrast to the positive mood at the year end, which proved vulnerable to the shock of the covid-19 epidemic, markets had substantially lower hopes by early March. Given that investment is a forward-looking activity, driven by new developments rather than what can be seen in a rear-view mirror, for contrarians the signals may be shifting from red to green. Assuming the covid-19 epidemic is contained in coming months, a bounce back in activity is a reasonable expectation by the second half of the year, given the significant amount of stimulus already introduced (from fiscal policy as well as lower interest rates and oil prices).

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United Kingdom

(compare UK funds [here](#))

Manager's report for Aberdeen Smaller Companies Income – 13 March:

We have enjoyed many years of strong economic growth and bull markets, and investors globally are aware that can't last forever. We believe we are certainly nearer the next economic slowdown than the last one. Within the UK specifically, it is difficult to tell at this stage whether some of the areas of slowdown we saw in Q4 will continue throughout 2020, or were short term driven by the general election uncertainty.

Our investment process is focused on fundamental, bottom up, research. We are not taking portfolio decisions based on macroeconomic views. Stock analysis remains the key driver of our decision-making process. Recent periods have given us confidence that this remains a long-term driver of outperformance. Looking back to the 2016 Brexit vote, small caps were heavily de-rated in the aftermath panic. In hindsight this was an excellent buying opportunity as they have rallied strongly since. Companies have been resilient despite these external factors. We believe in our investment process. This process guides us to invest in companies which have strong management teams leading their strategies, which have a number of growth levers to pull, which can drive growth independent of external conditions and which are resilient and have strong financial positions. A critical part of our research is also analysing the environment, social and governance characteristics of businesses and looking for both risks and

opportunities. We believe companies who can exhibit strong ESG credentials are higher quality, and lower risk investments.

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Christopher Waldron, chairman of Crystal Amber – 4 March:

It is also important to note that the Fund's strategy and activist tactics of patient engagement have remained consistent over the period. There has been no change in focus or approach, but there are clearly times when the investment environment is favourable to the Fund's style and other times when it is not. There is no doubt that since the June 2019 financial year end, the investment climate for a UK focussed, small and mid-cap value investor has been difficult. The global equity market has increasingly been influenced by persistently accommodative monetary policy that has driven down interest rates. Aside from the potential effects of asset price bubbles and over-leveraging, this manifests itself by increasing discounted cash flow valuations of growth stocks. The proliferation of ETFs and asset allocators favouring mega-cap stocks has also led to ratings expansions that have not been reflected in the small and mid-cap sectors. Since the period end, the Fund has also had to contend with the increased volatility and economic uncertainty caused by the covid-19 outbreak. This has already had a direct effect on Hurricane Energy, as a result of the falling oil price and is likely to impact Equals group, if the demand for foreign travel becomes weaker.

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William Meadon and Callum Abbot, managers of JPMorgan Claverhouse Investment – 19 March:

The decisive result of the recent General Election has removed much of the political uncertainty that has hung for over both the UK economy and stock market in recent years. Whilst the precise timeline for delivering a complete Brexit (including attendant trade deals) will remain unclear for some while yet, we nevertheless expect the clearing of the political skies soon to improve the confidence of consumers, corporates and investors alike.

With such a substantial majority in the Commons, the Government can enact policy at will and it would not surprise us if much of it was radical in nature and rewarding for UK shareholders. Such policies should also attract overseas investors back to the UK economy and stock market. What is more, despite a strong performance in 2019, UK equities still look very good value, trading at a 35% discount to the MSCI World index - a near 30-year record. Moreover, the prospective yield on the FTSE All-Share looks particularly appealing relative to both other equity markets and also the pitifully low yield on bonds and cash deposits.

The global economy remains in reasonable shape and should be supported further by the recent signing of the first stage of the US/China trade deal. The US economy may slow a little in 2020 but it is unlikely to go into recession. This together with continuing low interest rates keeps us optimistic on the prospects for markets in the medium term.

However, an improving economic and political backdrop has been completely overshadowed since the year end by the rapid spread of covid-19 from its origins in China. This virulent virus, which is moving at pace across the globe, is understandably causing concern amongst both investors and general public alike. Against a backdrop of considerable uncertainty as to how potentially dangerous the virus is and how far it will spread, equity markets globally have fallen sharply. Sentiment is likely to remain risk averse until such fears dissipate, which may be some while. As a consequence, we have tactically reduced the gearing in the portfolio to lower levels than usual, but we will be looking to increase it when appropriate.

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Tom Bartlam, chairman of Jupiter UK Growth Investment – 30 March:

In these turbulent times, when the outlook remains so uncertain, there is only limited comfort to be taken from statements about future prospects. The board believes that Richard Buxton, whom we decided to appoint as our new investment manager, and who has managed money through both the two worst bear markets of the last 30 years, has the necessary experience and judgement to achieve significant improvement in the Trust's performance, consistent with his long-term performance record.

Until his expected arrival at the end of April we will be monitoring the portfolio closely and have put in place interim arrangements with Jupiter intended to enable us to take advantage of opportunities that arise as a result of any dramatic change in current market conditions.

The board and the investment manager remain committed to growing the company over time, recognising that the net assets, particularly after the recent dramatic market fall which has reduced our market capitalisation to £28m at 24 March 2020, are now well below the minimum size preferred for prospective investment by many institutional and wealth management investors. We have already raised this serious issue with Richard Buxton and will work with him and his colleagues to address it once the new arrangements are in place.

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Richard Hills, chairman of Strategic Equity Capital – 27 March:

Following the outcome of the UK general election in December, UK equity markets raced ahead until late January 2020, when covid-19, the disease caused by covid-19, took to the stage. Since then stock markets have suffered heavily amid widespread economic disruption. There are so many variables at play here that predicting what will happen with this pandemic seems futile. While the fear factor is adversely affecting stock markets at present, future market moves will depend on how far the disease spreads and how long it is around.

Our plan remains to follow rigorously and consistently our disciplined investment process which has been in place since the company was first launched. We sense more than ever that investors are concentrating on fundamental valuations, which in these volatile and uncertain times should offer the best protection and prospects whatever the final legacy of covid-19. The impact of the pandemic will pass and we look forward to the company participating in the recovery. In the medium term, we are excited about the changes announced today and we believe that the company has a strong future as London's leading quoted vehicle for smaller company investment, adopting private equity investment techniques.

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North America

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

Robert Siddles, manager of Jupiter US Smaller Companies:

The smaller company sector has suffered more severely than blue chips in the market sell-off following the end of the period, meaning that the smaller companies sector is back at levels compared to large caps that have not been seen since 2003. Blue chips tend to do relatively better in difficult times because investors become risk averse and smaller companies tend to have greater sensitivity to economic growth. The current period of market stress is likely to go on for a while longer: in a bear market, all news

is bad news. However, once stocks bottom out, the recovery in the smaller company sector is likely to be much stronger than that of the general market.

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Europe

(compare Europe funds [here](#))

Jack Perry CBE, chairman of European Assets – 13 March:

Given the unprecedented nature of the current covid-19 epidemic, it is unwise to provide any specific outlook. What we know is that the longer the epidemic endures, the more damaging it will be on the global economy and on stock markets. This is likely to be met with responses by both central banks and governments, with the latter more likely to be constructive with expansionist fiscal policies. This may potentially lead us into a market cycle different from the liquidity driven cycle we have seen thus far.

In investment terms, we can take comfort that the portfolio entered this period without any leverage. Indeed, the manager has been clear that we needed financial capacity to take advantage of any opportunities to add some good quality assets were they to fall towards more attractive valuation levels. We would therefore expect to be deploying more capital over the coming months, taking advantage of any further volatility for the benefit of long-term returns.

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Asia Pacific

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

Manager's report for Pacific Horizon – 5 March:

In many ways, the world is becoming a better place. On average, people are richer and healthier, with more choice than ever in how they live their lives. This trend is particularly pronounced within the emerging world and in Asia ex Japan, home to 50% of the world's population. Despite all the media and political noise to the contrary, as well as the disruptive effect of the covid-19 outbreak, these trends will probably continue for decades to come.

We continue to be excited about Asia, where more people are being lifted out of poverty faster than ever in history. Income in many of the Asian countries is reaching the tipping point where large chunks of the population move from a subsistence existence to middle class lifestyles. As their savings and their appetite for consumption soar, they demand new goods and services. It is our belief that this wealth-creating locomotive will gather speed over the next decade.

The pace of technological innovation is increasing fast. As more people, economies and businesses get connected, ideas spread and multiply, new businesses are created and old ones are lost at an accelerating rate. The adoption of the new is as rapid and sometimes faster in Asia ex Japan than in the West. Huge fortunes will continue to be made and lost as new technologies cause the existing order to become outdated and irrelevant.

We live in the age of information. Alongside matter and energy, information is now seen as a fundamental economic building block. Unlike matter and energy, it cannot exist on its own, and takes huge resources to create and maintain. Companies wishing to succeed over the next decade need to either create and manipulate information in

evermore complex ways or make the devices that gather data that enables these transformations.

In the technology and information revolution, it is our belief that we are closer to the beginning than the end. The world in 2030 will be dramatically different from today's world, in ways we cannot yet fathom. For example, we have only just entered the era of machine learning. The future growth trajectory of electric and autonomous vehicles is only now becoming visible.

We are currently looking at the ways in which the millennials (under-40s) and Generation Z (20-somethings) will transform the world. How will their tastes, social habits and consumption patterns differ from those of their parents? The current millennial generation, much of it based in Asia, could become the world's first truly globalised citizenry, connected 24/7. In this new world, fashions and trends will be set in the east as much as in the west.

This growth in the Asian middle class will make new calls on the world's resources. Despite technological change, demand for commodities is likely to keep rising. Certain sectors will benefit from converging trends, as when increasing availability of electric vehicles meets a growing Asian middle class.

We remain optimistic. Change is happening rapidly, though not evenly. There will be periods of rapid growth, followed by periods of stress and retrenchment where the painful effects of change come to the fore.

In the last six months we have seen these effects in the streets of Hong Kong, scenes of violent demands for greater democracy. The roots of the unrest lie in the confusion and uncertainty about Hong Kong's place in the world. As the former British colony's economic importance to China wanes, and mainland immigration is seen to be threatening Cantonese culture, rising property prices have accentuated the gap between winners and losers.

Elsewhere in China, the covid-19 outbreak suggests that, despite all the country's technological wizardry and high-rise urbanisation, food and hygiene standards could be improved further. Perceptions of the Chinese Communist Party's handling of this health crisis could help shape domestic politics for years to come. In the short term, while China's economy will be severely affected by the virus, we believe that China was already showing signs of increased economic activity and we expect it to undergo a V-shaped economic recovery in the third or final quarter of 2020.

We continue to look for evidence of change and its impact on society. We seek asymmetric opportunities where the prospect of superior long-term returns vastly outweighs the risks of failure. In so doing, we will take risks and intentionally look for investment opportunities in smaller companies and those with new business models. The resulting portfolio can be volatile and look very different from the index, but we believe this strategy provides us with the opportunity to deliver significant long-term outperformance compared to the comparative index.

One such company with a focus on cultural change is Hypebeast, a recent new purchase for the portfolio. The small Hong Kong company's name refers to a target customer who is 'hyped-up' about the latest fashion item and will do anything to get it. These are the kind of consumers who queue all night at Nike to buy the latest limited-edition shoes. Hypebeast operates the world's leading site dedicated to this sub-culture. Having rare trainers or other streetwear fashion fits people's need for a distinctive identity. We expect rapid growth for the company from its expanded China operations in the next few years.

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Global emerging markets

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

Manager's report for Fundsmith Emerging Equities – 5 March:

2019 review

This concentration is far more marked in emerging market MSCI indices than it is in developed markets. The top five MSCI Emerging & Frontier Markets Index constituents account for almost 20% of that Index, whereas the top five constituents of the MSCI World Index account for just 9% of that index. This magnifies the impact of ETF flows into the major constituents of the Index. It could also produce some problems if or when these flows reverse. Just one company, Taiwan Semiconductor Manufacturing company (TSMC), accounts for 40% of the value of the Taiwanese stock market. Yet TSMC is overwhelmingly held by foreign investors. It may be that in this and other emerging market stocks, local demand may not be able to supply the necessary liquidity if international investors, represented by ETF fund flows, decide to sell out.

Alibaba, Tencent, Samsung, TSMC and Naspers (whose main asset was its stake in Tencent) accounted for over 40% of the increase in the Index in 2019 and were the largest determinant of the Index's relative performance in the year (in contrast, the top five constituents of the MSCI World Index (Apple, Microsoft, Amazon, JP Morgan and Facebook) contributed 14% of the absolute performance of that index).

It increasingly strikes us that emerging markets are currently viewed as a homogeneous single asset class by asset allocators who, rather than having a strategy of which stocks to buy and why, simply buy the Index.

Whilst we continue to analyse some of the stocks which dominate the Index to see if they are developing into businesses we would be comfortable investing in, as yet we have not found this to be the case, as illustrated by the ROCEs in the table above.

There are other issues which derive from the composition of the Index and therefore our company's divergence from it. One is that the China element of the Index is not predominantly, as you might think, made up of Chinese companies listed on Chinese markets. Instead it comprises Chinese companies listed in the US, Chinese companies listed in Hong Kong, and Hong Kong companies. The smallest element of the Index element categorised as 'China' is Chinese companies listed in mainland China.

Concerns about these 'Chinese' stocks in particular, which were identified in our due diligence ahead of launching the company in 2014, include issues around corporate governance, accounting standards, shareholding structures and voting rights, government intervention and legal ownership of business assets. Equally, a large proportion of the China weighting in the Index is either listed in the US and priced in dollars or Hong Kong listed (whose currency is pegged to the dollar), thus adding an additional layer of complexity.

These issues continue to concern us, yet seem to us to be disregarded by many investors, particularly those 'hugging the Index'. That does not mean we have ruled out investing in China-focused companies, it just means that our exacting standards have to date limited the number of companies suitable for the company.

2019 saw the joint listing of Alibaba in Hong Kong. Alibaba's share price performed strongly after that point, not necessarily because of what the listing brought to the business, but from what the listing brought to the market. The Hong Kong Exchange has only recently liberalised the rules for joint listings, particularly regarding companies which have preferential voting rights for founders.

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JPMorgan Emerging Markets Investment – 6 March:

It is worth mentioning two other things. First, a few words about covid-19 which is currently dominating news headlines. We fully recognise the seriousness and importance of this situation in everyday life for those directly affected, including our colleagues who are based in China; but as investors we also know that profits earned in the next few months account for a small part of any company's intrinsic value. We continue to focus on the potential of companies to generate cash flows many years into the future; it is the net present value of those cash flows which most reliably determines the value of any business, and we do not think that this is altered even by considerable uncertainty in the short term. There are a few companies in the portfolio whose business is being adversely affected right now; but we are confident that the businesses owned in your company's portfolio are strongly positioned and able to ride out any short-term difficulties; indeed, the best companies expand their competitive advantages most rapidly when times are tough. So despite the blanket news coverage, as investors we are trying to keep our eyes on the long term; in the past, events like the spread of a virus have generally faded in significance from an investment point of view when seen with the benefit of hindsight, and this seems likely to happen again in this instance.

The second issue we are regularly asked about is our view of the global economy, and especially whether the long economic cycle seen in the USA will come to an end. This is a question that has been confounding forecasters for several years already. It seems to us that interest rates are likely to remain low by historical standards, and that economic growth in emerging markets is also likely to continue to exceed that of developed countries, for a number of structural reasons. But it is also worth stressing that as investors, we do not base our decisions on this kind of macroeconomic view. We invest on your behalf in the shares of companies around the world, not in countries' GDP, and so we are far more interested in factors that are specific to a given company, especially its competitive strengths and weaknesses, and the extent to which it can earn a financial return from the skills it has; those skills include the ability to manage a business in a sustainable manner, something we pay ever more attention to in our research process. As I wrote a year ago, well run companies which can sustainably grow their share of the economic opportunity before them are what we are looking for, and that is not going to change; so you can expect that we will keep approaching investment decisions in the future in the same way that we have done in the past.

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Manager's report for ScotGems – 9 March:

It is hard to make general points about small caps across GEM but it is worth making some points about the GEM universe across all market caps – not least because this should help illustrate how we apply our investment philosophy. Firstly, on valuations we doubt there are very many cheap high-quality companies in GEM today but we do see some instances of decent cash flows being rewarded less generously than the jam tomorrow of some of the more conceptual and technological companies. South Africa, perhaps for the third or fourth year in a row, feels like the place where a small-cap investor (not concerned with making spectacular short-term returns) would have the most exceptional opportunities though. On a recent trip we met, or were reminded of, probably a dozen well managed, cash generative businesses, far away from government interference, trading at more than acceptable valuations. We wouldn't buy all of them for any fund – South Africa is not high growth and not without risk either.

One of the riskiest areas of value is traditional banks. Assuming that the world and its regulators wish to have a number of financial institutions with large amounts of loss-absorbing capital then there is a role for a traditional bank, not only for a 'digital disruptor' aiming to have all the fun of taking fees with none of the disadvantages of committing capital to anything other than customer acquisition and employee stock

options. We have never owned many banks, given their lack of downside protection in a crisis. However, we are keen to add to one or two of the most conservatively-run financial institutions, especially those where higher interest rates would lead to higher profits without blowing up the loan book. A relevant example recently added to the portfolio, and discussed above, is BRAC Bank.

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India

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

Manager's report for Ashoka India Equity Investment – 11 March:

2019 review

2019 was a relatively weak year for the Indian equity market as it lagged the US as well as global emerging markets. Whilst the broader equity index was positive for the year, the distribution of returns remained polarized in a continuation of the divergence experienced in 2018. The S&P BSE large cap index was up 5.2% while the mid and small cap indices were down -5.1% and -13.9% respectively.

This was the second worst year for relative performance for Small and Mid (SMID cap) in the last fifteen years, coming on the back of 2018, which was the worst year in this period. As can be seen in the graph below, these two years have rapidly wiped out the cumulative valuation premium that SMID caps had reached at the start of 2018 following a sustained rerating that began in mid-2013 coinciding with Modi's nomination as the Prime Ministerial candidate for the BJP.

To be clear, the purpose of the above graph is not to suggest that SMID caps are ripe for a bounce back, but to show where we stand today relative to the past. At present, SMID caps are trading close to their longer-term average valuations, trading at a modest discount to the large cap segment of the markets. Through this tumultuous period, the company has been predominantly invested in SMID caps, in contrast to the 20% weighting this segment has in the MSCI India IMI.

Generating alpha during such a time is analogous to swimming against a strong current and the magnitude of the company's alpha over the benchmark should be viewed in this context. The benchmark itself has been a top quartile performer with most managers struggling to keep up with it. As a result, the company is amongst the best performers relative to the peer group.

Outlook

Calendar year 2019 felt like a more eventful one than years past. The Indian economy entered the year following a challenging 2018 which saw non-bank financial companies (NBFCs) besieged with liquidity problems. The situation has since improved, but challenges remain with weaker NBFCs in the system finding it difficult to raise capital and some facing solvency challenges.

Signs of moderation in demand emerged early in the year and subsequently economic growth has seen material deceleration. With the benefit of hindsight and the compulsion to rationalise, experts have attributed the current slowdown to a series of shocks to the economy over the past few years including the short term impact of demonetisation, implementation of a Goods and Services Tax (GST), real estate reforms, a clampdown on corruption, peaking corporate loan NPAs and the NBFC crisis. In our view the trend of ever-increasing tax rates in various forms over the last few years is one of the primary reasons for the deterioration in business sentiment and the resultant slowdown in job creation. Experts can pick their own poison, but the reality remains that the full year

GDP growth in 2019 is expected to come in at 5% compared to 7% for the previous year. World Bank, estimates suggest growth in India is expected to recover to 5.8% in 2020.

The monetary easing cycle that began in late 2018 has continued throughout 2019 and the Central Bank has further room to be accommodative, although currently it is on a pause following a recent pick-up in inflation towards the end of the year. The benchmark repo rate currently stands at 5.15%, down 135bps since the beginning of 2020. Macro variables such as inflation and the current account deficit remain stable. Furthermore, India enjoyed one of the best monsoon rains in decades, which may benefit agricultural output and revive rural sentiment.

The BJP led NDA government secured a strong majority in the central parliamentary elections held in May 2019. The current electoral maths indicates a potential majority in the upper house of Parliament as well as in the forthcoming elections in 2022. This should allow the Government to push through several long pending difficult reforms, if it chooses to. Whilst a stable government at the helm for the next five years remains a positive for business sentiment, its first budget in early July disappointed the market, primarily due to tax increases on the so called 'super-rich' as well as the introduction of a share buy-back tax. The latter is effectively an additional tax on the corporate sector while the former is an incremental personal tax. In the days and weeks following the budget, business sentiment, already suffering from a slowing economy, weakened further.

Recognizing the gravity of the situation, the government sought to take several corrective measures to revive sentiment. Among other things it announced divestment of several public sector units which has the potential to raise tens of billions of dollars of much needed fiscal resource.

On 20 September 2019, the Government announced the reduction of the headline corporate tax rates from approximately 35% to 25% and a further reduction for new manufacturing units to 17%. In our view this could mark an important turning point in the NDA Government's tenure of the last six years marking a U-turn in its previous trajectory of raising taxes. We believe this could be the first of a series of tax cuts which should improve the competitiveness of Indian industry, revive business sentiment, rekindle entrepreneurial risk-taking and create jobs. The Union Budget presented in February 2020 focused on fiscal prudence, infrastructure spending and incentives to encourage domestic manufacturing. In addition, the latest monetary policy declaration from The Reserve Bank of India focused on offering to support growth by aiding in the faster transmission of lower interest rates to the real economy and regulatory forbearance to stressed real estate developers to enable access to funding to complete projects.

We are closely monitoring the evolving covid-19 epidemic and evaluating any potential impact this may have on our investment companies. At the moment we do not believe there is significant effect, but if the situation deteriorates there could be supply chain disruption for some of our portfolio companies in industries such as manufacturing, speciality chemicals and pharmaceuticals. Looking further out, we anticipate that this disruption may result in some manufacturing and production moving from China to other parts of the world, including India.

As much as one may want to talk about the macro economy, in our opinion the opportunity to continue to generate significant alpha through stock selection remains the most attractive aspect of the investment case for India. From this perspective, the outlook for India is as positive as in years past.

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Elisabeth Scott, chair of India Capital Growth – 20 March:

The global economy is grappling with a worldwide pandemic, an oil price war, and unprecedented extreme volatility in capital markets. The situation is rapidly evolving on a daily basis and as such taking a view as to the likely near-term impact on the Indian economy is a challenging task. The Mumbai based Investment Management team is in regular touch with the companies in which your company is invested, monitoring corporate developments closely. They are hopeful that, when concerns about COVID19 are allayed, Indian equities will be able to recover and that businesses will return to growth.

Your company's investment objective is to provide long-term capital appreciation by investing in companies based in India. The board is hopeful that key reforms introduced in Modi's first term (2014-2019) are now starting to come to fruition and that investors will start to see long term structural improvements from these. The Goods & Services Tax, the newly reconfigured Insolvency & Bankruptcy Code, Demonetisation, amongst others, are all expected to improve efficiency and transparency in India's economy. These factors, combined with the overhaul of India's labour laws that is currently underway, should provide a push that helps to improve ease of doing business and attract foreign investment. The corporate tax rate cuts, announced in September, were welcomed by Indian companies, with the reduction from 30% to 22% (and from 25% to 15% for new investment in manufacturing) making them globally competitive. As the Trade Wars between China and the US continue, India is positioned to increase its market share in some manufacturing industries.

Finally, India is in the midst of moving from a patronage based to rules-based system. Whilst the transition period may result in short-term setbacks, the long-term impact of this change will be to improve governance and, in turn, to open up new opportunities for investment in India.

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Vietnam

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

Manager's report for VietNam Holding – 18 March (see the earlier section for a more recent covid-19 update):

Vietnam's macro position became the envy of much of Asia during 2019. Vietnam was seen as a winner in the trade war between the US and China, with an increase in the market share of exports to the US pushing the trade surplus to a record level of USD 10bn, and the country attracted record levels of Foreign Direct Investment (FDI). The FDI, trade surplus and the strong levels of inward remittances from the overseas Vietnamese diaspora, led to a surge in the foreign reserves which ended the year at around USD 80bn.

Underlying GDP grew by approximately 7% for the full year, one of the highest growth levels in Asia. Much of the growth is from expansion in the manufacturing sector. At the end of the year an adjustment was made in the calculation of the GDP, effectively lifting the absolute level of GDP by around 25%, and taking the per capita GDP to USD 2,800 per capita, which is close to the level at which consumerism accelerated in other Asian markets. The Vietnamese Dong has been relatively stable against the US Dollar in the period under review. Headline inflation has risen slightly, partly due to increase in pork prices as a result of African Swine Fever, but core inflation remains low and under control. The State Bank of Vietnam has kept credit growth under strict control at around 14%, in line with its targets.

Outlook

Vietnam is expected to see more attention from foreign funds in 2020 due to the overweight position in the MSCI Frontier Market index that will arise when Kuwait is upgraded to Emerging Market status in May 2020. Vietnam's inclusion in the MSCI Emerging Market index is still probably a couple of years away. In the meantime, a New Securities Law, expected to be effective from January 2021, provides some measures to address the constraints of Foreign Ownership Limits. Market innovations on the horizon include new ETFs, which may be introduced soon based on the three new indices introduced by the Ho Chi Minh City Stock Exchange, and in the longer term potentially the introduction of Non-voting Depository Receipts (NVDRs), which are under consideration as a means to address access to stocks that are already at the Foreign Ownership Limits.

Geo-Political risks and the trade tussle between China and the US overshadowed the equity markets in 2019, despite the benefits that accrued to Vietnam in terms of FDI and trade gains. 2020 has started under the shadow of the covid-19 outbreak. Our investment themes: the domestic consumer, industrialisation and urbanisation remain intact. Our aim is to position the portfolio across these areas within a three- to-five-year investment horizon. This means looking through the short-term noises and volatility and seeking to build longer-term value from the robust compounding growth derived from well-managed companies.

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Manager's report for VinaCapital Vietnam Opportunity – 27 March (see the earlier section for a more recent covid-19 update):

2019 was another strong year for Vietnam's economy, characterised by high and sustainable GDP growth and a stable macro-economy. Vietnam ended 2019 with GDP at over USD262bn and growth of 7.02% compared to 2018, surpassing the Government's target of 6.6% - 6.8%. For most of the year, inflation was well under control at about 2-3%, before dramatically spiking to 5.2% year-on-year (y-o-y) in December 2019 due to a surge in pork prices in the aftermath of the African swine flu epidemic. There are clear signs that the worst of the swine flu epidemic has passed and, moreover, despite the blip in inflation investors are not overly concerned about this temporary issue.

Vietnam's economic growth was driven by household consumption, manufacturing and by an expansion in the trade surplus. It is especially noteworthy that consumer spending growth accelerated from about 8% y-o-y growth in 2018 to over 9% in 2019, despite a reduction in consumer credit growth from 30% in 2018 to 20% in 2019, which is strong evidence of the high confidence level of local consumers.

The USD-VND exchange rate ended the year unchanged, having barely moved all year, with the value of the VND supported by an approximately USD20bn increase in Vietnam's foreign currency reserves to about USD80bn or four months' worth of imports, due to the trade surplus and current account surplus, by the continuing high level of foreign direct investment (FDI), by overseas remittances and a significant inflow into the capital markets, albeit largely in private deals and not on the stock exchanges. As a result of Vietnam's large capital inflows and its stable macro-economy, aside from recent volatilities, we expect the value of the VND to remain more-or-less stable at current levels.

We estimate that the total foreign capital inflows into Vietnam exceeded 20% of GDP last year and our initial expectations are that large capital inflows will continue again this year given Vietnam's unique positioning to take advantage of the US-China trade war. FDI is creating jobs, lifting individual wealth and is a key component of GDP

growth. In 2019, the average income per capita stood at USD2,800, and the Government expects it to increase to USD3,000 in the coming years.

Market volatility and dynamics

The VN Index ended 2019 at 961 points, up by 7.7% for the full calendar year (and was up by 1.2% in simple terms for the six- months period under review), with an average trailing twelve months' price-to-earnings (TTM P/E) ratio of 15.8x. Excluding the Vingroup (VIC) group of companies, the average TTM P/E was 13.7x at the end of 2019. Pre-covid-19, this is significantly lower than Vietnam's peers and neighbours such as Malaysia, Philippines, Indonesia and Thailand, where the average TTM P/E was 18.6x. Given the market setback, at time of writing, the Vietnam market now trades on a P/E ratio of 11.1x, with many regional peers suffering similar, if not greater downward re-ratings.

In the past year the VN Index's increase fell short of those in the US market. During 2019 the VN Index reached a high of 1,025 points on 6 November; it subsequently declined as a result of several unexpected market events. These included a sharp decline in several large, richly valued listed companies, including Sabeco (HSE: SAB; TTM P/E 29.2x) following the sale of part of Heineken's holding, and Vingroup's (HSE: VIC; TTM P/E 50.0x) controversial restructuring of its retail and e-commerce businesses.

Poor corporate governance, even in some of the largest publicly listed Vietnamese companies, reinforces our view that we should continue to seek out private equity investments with associated minority protections and rights.

Continuing strong capital inflows into Vietnam (foreigners bought almost USD300m net in 2019) and the fact that even active funds are choosing the VN Index as a benchmark has meant that the index heavyweights are being favoured despite some very high valuations and this has meant that VOF's NAV return did not keep pace with the index. VOF's risk/return requirements and longer-term focus mean that many stocks in the index, including some of its largest constituents, do not meet our rigorous investment criteria on valuation grounds.

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Technology

(compare technology funds [here](#))

Robert Jeens, chairman of Allianz Technology:

The beginning of the new decade provides us with an opportunity to reflect on the technology sector's success story over the last ten years and, of course, the exceptional and top-performing investment performance your company's investment managers have delivered. Whilst we are all aware that past performance is no guide to future returns, our thoughts now turn to the future and what the new decade could hold. Can technology stocks deliver success on a similar scale, when stock market sectors typically come and go out of fashion over the course of time? Of course, nobody has a perfect vision of what lies ahead but we are reassured by the manager's first-hand knowledge and long track record. The team continues to believe that exciting opportunities to identify disciplined and well-run tech companies lie ahead.

Geopolitics and macroeconomic uncertainties will continue to throw up obstacles along the way. Last year, the US-China trade wars triggered clouds of uncertainty and already, at this early stage of 2020, we have witnessed challenges which have unnerved markets. In the very first days of 2020, new tension between the US and Iran unsettled investors and, more recently, the focus of concern has been the spread of

the covid-19; this global public health crisis is evolving day by day and, first and foremost, our concerns relate to the loss of human life and how to contain the spread of the virus. From an investment perspective, however, this dynamic situation poses a very real threat to the hopes of recovery in the global economy. The end of February and beginning of March were very painful weeks for stock markets, with global share prices tumbling over successive days. We will continue to monitor the situation but, in the face of this and other future uncertainties, your board is reassured by the manager's proven ability to carefully balance risks and opportunities, leveraging industry experience and emphasising individual stock selection.

Technology is a 21st century growth story and, with every year, its reach and influence grows. It disrupts old industries and moves into different parts of our lives as it tightens its grip on the global economy. This 'bubble' is not about to burst any time soon but investing in the sector is not for the faint-hearted and there will always be examples of technology stocks that do not deliver on their promised growth trajectory. With this in mind, we continue to believe that a diversified technology fund like ours has considerable advantages, since the portfolio offers risk-diversification by investing in a basket of stocks across a range of technology sub-sectors. The team continues to believe that a carefully chosen portfolio of technology stocks can continue to deliver positive returns over the long term.

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Debt

(compare debt funds [here](#))

Pedro Gonzalez de Cosio, co-founder and CEO of BioPharma Credit's manager – 10 March:

Size and growth dynamics of the industry

The life sciences industry consists of pharmaceutical and biotechnology firms and is a large and vital industry with a track record of strong, consistent growth. Worldwide prescription drugs sales were \$827bn in 2018 and are expected to reach \$1.2 tn by 2024, reflecting a compounded annual growth rate of 6 per cent. While medical and scientific advances contribute to a portion of that increase, other growth drivers include more basic demographic and macroeconomic factors, such as a growing population, ageing populations and increasing prosperity in developing countries which is improving access to healthcare for millions of patients. The increase in spending is expected to be largely driven by brands and increased usage in emerging markets, offset by expiring patents.

Product life cycle

Pharmaceutical and biotechnology products have long life cycles, which can provide considerable downside protection for the company. Worldwide patents can lead to more than 20 years of protection, which frequently translates into as long as 15 years of exclusivity from the time the products are first approved by regulatory agencies such as the U.S. Food and Drug Administration (FDA). Some governments also provide for regulatory exclusivity, which provides for six to ten years of commercial exclusivity independent of an approved patent, if an innovator performs clinical trials. On average, sales growth is very robust for the first 12 years of a product's life cycle, after which some of these products begin to lose exclusivity, and their sales growth slows and starts to decline shortly thereafter. A key driver of initial sales growth is increasing prescriptions from physicians in the early-launch markets, but subsequent commercialisation rates in additional geographic markets, as well as expanding indications, frequently drive attractive growth for more than a decade.

Market dynamics create fragmentation of the industry and more lending opportunities

Despite growth in the pharmaceutical market, large pharmaceutical companies continue to face mounting pressure on top-line sales from patent expiry on blockbuster products and failures in their research and development pipelines. The internal research and development departments of larger pharmaceutical companies have struggled to replace lost revenue with new products. Dramatically escalating research and development costs have also put pressure on industry participants to adapt their business model and seek partners to reduce risk. The amount of research and development investment per FDA-approved product is now approximately \$1.4bn. As a result of these factors, large pharmaceutical companies are increasingly relying on in-licensing and corporate acquisitions for new products.

Over the last 30 to 40 years, the landscape of the pharmaceuticals industry has been transformed from one dominated by fully integrated pharmaceutical companies to a more dynamic and entrepreneurial research and development ecosystem comprised of thousands of participants. As a result of this research and development evolution, smaller companies, investor groups, universities and non-profit research institutes increasingly have rights to royalty streams on products that have been out-licensed to larger pharmaceutical companies. This broader shift in research and development approach provides an expanding landscape of lending opportunities for the company, as smaller companies are increasingly partnering with large pharmaceutical companies.

The pharmaceutical and biotechnology ecosystem has evolved to one where innovation and commercialisation, which was once centralised in fewer than 100 big pharmaceuticals, has now spread among more than 5,000 academic labs, government-funded entities and more than 5,000 biotech companies. The pool of creditworthy borrowers has increased exponentially.

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Ian Francis, manager of CQS New City High Yield – 20 March:

The July to December period covered by this interim report was once again in the UK dominated by Brexit related news. Having despaired about anything getting done, a clear-cut UK General Election result in December 2019, followed by the UK's decision, ratified on 31 January 2020, to depart the European Union paved the way for the UK to formally leave the EU on 1 January 2021. The election also put to bed some of the bigger risks to the economy, as business and private individuals assess the reality of 5 years of Conservative rule with an overwhelming majority in Parliament. We have previously reported that Manufacturing, Construction, the Service Industry and Consumers desperately want some certainty to plan ahead and although there are ongoing risks with a potential no-deal trade agreement the mere fact the UK is leaving galvanises businesses and individuals to act.

European economic data was fairly pedestrian during the period with the traditional powerhouses of Europe continuing to experience problems with low growth, falling manufacturing orders and weak output numbers alongside political uncertainty. The EU is now struggling with a potential trade war with the US and having to deal with a politically stronger UK.

The United States continued to grow despite trade wars, in the shape of actual and implied tariffs against China, starting to have real effects on the US economy. The potential for slowing growth prompted the Federal Reserve to cut interest rates again in October and the US and China signed a phase 1 trade deal that took a lot of heat out of the issue.

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

Post the end of the period covid-19 has become the major issue facing the world economy. Apart from the clinical aspects the effects on worldwide economic activity are far greater than the SARS outbreak in 2002/03.

Governments are attempting to minimise a potential global recession by injecting funds into economies and lowering interest rates. At the time of writing we are only part way through the epidemic and have a lot more to learn on how long it will last and what will be the final cost to the world economy. In the current markets, liquidity is poor and spreads are wider which is creating greater volatility, but our closed ended structure offers us some protection in times of market volatility.

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Manager's report for CVC Credit Partners European Opportunities – 11 March (see the earlier section for a covid-19 view):

2019 market review

2019 started with central bank policy designed to extend global growth in response to the significant drawdown in global risk assets at the end of 2018. There were sustained periods of volatility as the market digested trade negotiations between the US and China as well as monitoring geo-political concerns across Europe and in the US. Overall, the steady improvement in news flow helped reverse market sentiment regarding recession risk and, as such, risk assets had a very strong year, albeit still heavily weighted in higher quality, large, global corporates.

Across the loan market, total new issuance in European Loans for 2019 was €80.95bn, down from €97.20bn in 2018 and €120.40bn in 2017. In European High Yield (HY), total new issuance was €74.13bn, up from €63.47bn in 2018 but still below the record issuance of €93.55bn in 2017.5

2019 loan volumes were relatively evenly weighted between acquisitions at 54% and refinancings at 45%, with the balance being general corporate purposes. Euro issuance dominated the market, comprising 94% of the volume, with Brexit uncertainty being an influencing factor.5

This mergers and acquisitions (M&A) theme continued to add to the size of the European loan market, breaking records by hitting €214bn5 for the year. Cross border transactions also continued as corporates sought to access global capital pools as well as to diversify balance sheet financing.

On the demand side, including interest in the asset class from global insurance and pension allocators, with CLO arbitrage remaining attractive in Europe the expansion of the institutional CLO market has continued in 2019 where volumes came in at €29.8bn from 72 deals, versus €27.3bn from 66 deals in 2018. On the back of tightening AAAs in the latter part of the year, the European Loan market, having held pricing steady at E+390-400bps for the first 9 months of the year, tightened as deals priced in the E+370bps context.5

Across the European High Yield market there was tightening up through the year in response to both the Federal Reserve rate cut as well as the next announced round of European Central Bank asset purchases. Single B new issue spreads ended the year at 470bps versus 674bps at the end of 2018. Looking to the BB space, spreads tightened from 395bps to 313bps. The spread differential between the risk classes compressed from 279bps to 157bps. Within new issuance, most was focused on

refinancing, at 69%, with only 16% being involved in M&A. Again, Euro issuance dominated, accounting for 93% of the volumes.⁵

European HY funds saw a net inflow for the year of €7.6bn, which comprises €3.0bn being added to passively managed Exchange Traded Funds (ETFs), a net €62m coming out of short duration funds, while Global HY funds saw an inflow of €1.5bn, taking total European HY Assets Under Management (AUM) to €77bn.⁶

In the US, HY fund flows saw retail demand for bonds increase in 2019 following record withdrawals in 2018, as an accommodative Federal Reserve and rapid decline in Treasury yields boosted demand for fixed income assets. The HY bond asset class saw \$18.0bn of retail inflows in 2019, being its largest inflows since 2012. This contrasts with 2018 where HY funds experienced a record \$46.9bn of outflows. The year also saw a significant inflow of money into ETFs of +\$13bn versus only +\$5bn for actively managed funds.⁷

An area within sub investment grade credit which has not been nearly as heavily reported on through the year has been the bifurcation in performance of high-quality credit versus that of the lower quality spectrum. This has been as a result of credit investors remaining very cautious on the macro picture despite the market technicals being very supportive. Data from the US HY market showed spreads compress in both the BB and B risk categories, 144bps in BB from 5.44% to 4.00% Yield to Worst (YTW) by the end of December and 153bps in B from 7.41% to 5.88%, while the CCC space saw only 31bps of yield compression from 12.74% to 12.43%, evidence of an up-tiering in credit quality away from the most speculative issuers.

This bifurcation can also be seen in the US loan market, where 2019 saw the yield (based on a 3-year life) on BB and B tighten 151bps and 128bps respectively to 4.29% and 6.36%, while CCC rated loans widened 106bps to 15.29%. In the European HY market this was seen with BB and B secondary trading YTW spreads tightening 127bps and 185bps respectively to 2.09% and 5.38%, while CCC spreads widened 16bps to 11.72%.

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Manager's report for GCP Asset Backed Income – 19 March:

The manager notes the current economic climate with regard to covid-19 and the impact that this will have on the wider economy, potential supply chains and ability of business to meet contractual obligations. With this in mind and after discussion with the board, the manager will be looking to slow down its rate of deployment into new investments.

The group has cash available at present as well as access to its RCF facility, which expires in August 2020 and can be extended for a further twelve months. The group remains well capitalised and has the capacity to fund any attractive deals that may arise. However, the manager is mindful that these transactions would need to meet additional downside sensitivities to see them through the current environment.

The manager continues to work on an attractive pipeline of opportunities with both new and existing borrowers. The pipeline transactions mirror the current portfolio in terms of yield, size and sectors.

In the coming months, the manager will be working with existing and new borrowers to ensure deadlines on transactions are well managed and are met.

All potential borrowers working on pipeline transactions with the group will be conscious of the risks involved in starting new projects given the disruption from the covid-19 outbreak. Therefore, whilst the manager is not anticipating significant deterioration in the pipeline overall, some transactions are likely to fall away or be delayed.

Financials

(compare financials funds [here](#))

Nick Brind & John Yakas, managers of Polar Capital Global Financials – 9 March (see earlier section for more recent covid-19 statement update):

2019 review

Financial markets suffered a brutal sell-off in December 2018, for example, the S&P 500 Index fell by nearly 15.0% at the worst point on Christmas Eve before staging a partial recovery in the last few days of the year. The fall was sparked by hawkish commentary on the outlook for US interest rates by Jerome Powell, the chairman of the Federal Reserve, and in particular a statement around the downsizing of the Federal Reserve's balance sheet which he said was on "automatic pilot".

The severity of the falls was not seen as justified and equity markets rallied strongly in January 2019 with the momentum of this rally carrying through to the end of April before there was another correction. The rally was given renewed impetus by less hawkish commentary from the Federal Reserve about the outlook for interest rates and the pace at which it would shrink its balance sheet. Solid fourth-quarter results also helped underpin the positive turn in sentiment.

However, concern around the escalation of trade tensions between the US and China and a fall in leading indicators resulted in interest rate expectations and bond yields falling steadily over the first seven months of the financial year, as expectations increased that the Federal Reserve would have to cut interest rates.

As trade tensions continued to ratchet up with the US threatening to impose further tariffs, weak manufacturing data and softer leading economic indicators caused bond yields to fall further as the market priced in three interest rate cuts in the US by the end of 2020.

As a result, by the middle of August, US and German ten-year government bond yields had fallen to around 1.45% and -0.7% respectively, in the latter case below levels last seen in 2016. In comparison, the equivalent yields at the start of the financial year were 3.0% and 0.3%. The amount of negative yielding debt globally ballooned to over US\$15 tn, double that at the start of the financial year. At this juncture bond yields bottomed and started to rally and there was a sharp rotation out of growth stocks into value stocks.

The change in outlook was helped by a number of factors. In particular, the Federal Reserve after having cut interest rates three times during 2019, announced in September it was not expecting to cut rates further, citing robust consumer spending, strengthening home sales and reduced geopolitical risks and furthermore stating that they required a material reassessment of the outlook to justify further cuts. There was also progress in trade talks between the US and China, and the UK government came to a new agreement with the EU on Brexit, leading to a sharp rally in Sterling.

Finally, while the ECB announced a further cut in interest rates to stimulate growth, it was coupled with the introduction of a tiered deposit scheme to offset some of the negative impact from negative interest rates on banks' profitability. On top of this the heads of the German, Austrian, Dutch and French central banks all voiced opposition to the ECB's decision to undertake additional monetary easing. There were also increased calls for fiscal stimulus to reduce the need for monetary policy to remain so loose.

US repo markets (short-term funding markets) suffered a sharp spike in cost in September. While a number of reasons were given for causing the ruction, at its simplest we believe it was driven by the unintended consequence of the liquidity

requirements put in place post the financial crisis. As banks are now required to hold a higher amount of high-quality short-dated securities, (in other words government bonds, cash and deposits at central banks) then the ability of the Federal Reserve to shrink its balance sheet materially is vastly reduced. As a result, the Federal Reserve was forced into pumping more liquidity into markets which undoubtedly helped underpin the improvement in tone in financial markets and rally into the year end.

Sector review

This background of falling interest rates and bond yields acted as a headwind for bank stocks over the year, as while they are beneficiaries of rising interest rates, the reverse is also true. Japanese banks were particularly weak over the year but European banks and US regional banks also underperformed, reflecting in the latter case their greater sensitivity to movements in interest rates versus larger US banks and in the others the weaker outlook for interest rates relative to the US.

The sell-off in bank stocks saw their valuations fall materially, bottoming in August. At this point the discount at which US banks traded to the wider equity market had widened out to around 45% on a PE ratio relative to the 20% discount they have, on average, traded for the last seven years. In the case of European banks, valuations fell to levels on a par with those seen in the middle of the crises of 2009 and 2012 before both rebounded sharply.

Money laundering allegations weighed on sentiment towards Swedish banks. Danske Bank, Denmark's largest bank, had come under significant criticism in 2018 over alleged flows through its Estonian branch. While initially Danske was seen as an exception, Swedish banks also came under suspicion over their money laundering controls, in particular Swedbank, which suffered a sharp fall in its share price and resulted in its CEO and chairman both being forced to step down.

UK banks initially rallied in the first half of the year on the expectation of a "softer" Brexit as the UK government was forced to concede to the date when the UK could leave the EU being pushed back. However, the rally proved short-lived, along with strength in Sterling, as the political impasse worsened. This led to the resignation of Prime Minister Theresa May and the election of Boris Johnson as her replacement and continued uncertainty about the outlook for the UK as an early act was to prorogue parliament.

Merger and acquisition activity picked up during the period with Deutsche Bank and Commerzbank admitting to talks, which fell through, with other banks also linked to discussions with the latter. In the US, SunTrust and BB&T announced a merger to create the sixth largest bank in the country with one of the reasons given being a need to increase spending on technology to compete against their larger peers. In the UK, Charter Court Financial Services and OneSavings Bank, both buy-to-let focused lenders and both holdings in the Trust, also announced a merger.

Non-life insurance and REITs performed well over the year albeit their relative performance in the second half of the financial year was weaker, the latter due in part to the pick-up in bond yields. The non-life insurance sector has continued to benefit from its defensive characteristics, namely a steady growth in earnings combined with a relative lack of economic sensitivity, in an environment where investors have been concerned about global growth.

2019 turned out to be the third year in a row to see significant catastrophic losses after several events late in the year, including Hurricane Dorian, Typhoons Hagibis and Faxai as well as Californian and Australian wildfires. However, the bigger concern for non-life insurers has been around social inflation in the US, which hit the share prices of several companies. Social inflation is the increase in insurance losses caused by higher jury awards which have been rising for a number of reasons, including the increasing availability of third-party litigation funding.

Asset managers also performed well, benefiting from rising equity markets which was enough to offset negative flows and fee pressure for most traditional asset managers as the shift into passive funds out of active funds continues. Alternative asset managers saw a significant jump in their share prices as they continue to benefit from strong demand for alternative assets. Several US alternative asset managers announced they would be changing from a partnership structure to a corporate structure and therefore their shares would become eligible for inclusion in indices and this boosted their share prices further.

Subordinated debt of banks and insurance companies performed strongly over the year as bond yields fell and there was a tightening in the spread at which they traded relative to government bonds. Bond funds have continued to attract inflows as investors search for yield and the outlook for the sector from a credit standpoint remained robust. An expectation that banks would honour call dates which are optional also helped performance.

Outlook

We believe this relative derating of the sector - or absolute derating in the case of banks - reflects concerns about the medium-term outlook for economic growth, inflation and therefore interest rates, latterly driven by concerns over the impact of covid-19 on global growth, and how these factors will impact profitability. We believe these concerns are overdone and that views on the outlook are so entrenched that investors risk having little or no exposure to the sector and missing out on a rotation back into value stocks, of which financials represent the largest percentage.

The financial sector is the second largest globally and there are significant opportunities within the sector and a number of themes that are worth highlighting.

FinTech is a broad theme and one we have played primarily through payments companies, which we continue to expect to do well from the growth in e-commerce and shift from cash to card payments. We have steered clear of so-called peer-to-peer or marketplace lender that take balance sheet risk, and which have universally struggled to justify their high valuations.

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Private equity

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

Duncan Budge, chairman of Dunedin Enterprise – 25 March:

Although the uncertainty created by the spread of covid-19 will continue to cause significant dislocation, the extent of this remains unpredictable. Our portfolio companies are making contingency plans wherever possible to address this threat.

Although the UK has formally left the EU there remains significant uncertainty regarding the ongoing relationship that the UK will have with the EU. While the board does not expect there to be any significant impact from Brexit on the operations of the company itself, each of our portfolio companies are preparing for the likely outcomes as Brexit negotiations continue.

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Steven Tredget, partner at the manager of Oakley Capital – 20 March:**2019 Review**

Assets under management in private equity continued to increase to over \$4tn in 2019, with record levels of unspent capital at the year-end of \$1.5tn (source: Preqin). This trend is likely to remain, as private equity firms in Europe are collectively seeking to raise more than \$80bn this year, which, if achieved, would mark the largest sum raised in a single year (source: Preqin). This is largely fuelled by 'megafunds' of over \$5bn, which accounted for more than half of the total funds raised in 2019 (source: McKinsey).

As both the demand for private equity and capital increases, so too has competition for high-quality assets, with the average purchase price multiple in Europe reaching a record high of 10.9x EBITDA in 2019 (source: Bain).

Oakley remains insulated from this backdrop, due to its mid-market niche and unique sourcing model, which focuses on identifying off-market deals through a network of entrepreneurial business founders and managers, allowing Oakley to avoid highly competitive processes. As such, Oakley can find defensible businesses at a stage where valuations are fair and there is opportunity for significant growth, as evidenced by Oakley's 9.7x average entry EV/EBITDA for 2019 investments, compared to the peer group average of 13.1x.

At exit, Oakley benefits from the excess of capital in the market, which creates potential buyers and competitive tension for its portfolio companies. This is demonstrated by Oakley's realisations in 2019, which were completed at a combined 97% premium to book value.

Increasing valuations leading to rising leverage

While market-level deal activity across Europe fell by 8% during 2019, multiples paid rose to new records, partly driven by record leverage, as deals with debt of more than 6x EBITDA accounted for more than 75% of all transactions (source: Bain). This has continued to fuel debate around the sustainability of the private equity model and the industry's reliance on using leverage to drive returns. However, these figures are driven by large deals that 'megafunds' are now able to secure, which typically carry higher leverage levels. In contrast, Oakley takes a disciplined approach to debt, with the underlying portfolio levered at an average net debt/EBITDA multiple of 3.7x at the year-end. This level remains appropriate, given the average 30% annual EBITDA growth, high cash conversion rate and low capex requirements across the portfolio.

Continued outperformance in Europe

Private markets have experienced an impressive period of growth, with the number of private equity-backed companies in North America and Europe increasing by 6.8% in 2019 (source: PitchBook). While Bain reported that returns from US public markets outperformed private equity over a 10-year period for the first time, private and public market returns have not converged in Europe, where private equity's historic outperformance has continued (source: Bain).

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Georges Gagnebin, chairman of Symphony International – 12 March:

This time last year, we were beginning to see the effects of less accommodative monetary policy and weaker investor sentiment that had impacted market valuations. The expected continued unwinding of the unprecedented monetary easing that has lasted more than a decade surprisingly did not happen. Instead, we saw central banks across the world cut interest rates aggressively in 2019 to counter weaker growth and escalating trade tensions. Financial markets have been buoyed as a result.

Despite the current historically low interest rates, further cuts and other stimulus are likely on the horizon due to a sluggish recovery and, more recently, the growing impact of covid-19. With the current level of global supply chain integration and interdependencies, the full impact of the covid-19 is almost impossible to determine across industries, as something like this has no precedent. We expect some of our investments, particularly those with exposure to hospitality, food and beverage and trade, to be significantly affected in the short to medium term.

We also see certain other risks to the global economy, including but not limited to further US-China decoupling despite the recent trade accords, the ongoing negotiations of the UK-EU trading relationship, the potential escalation of tensions in the Middle East and the emergence of inflationary pressures that could hinder accommodative policies. Although these risks may impact financial markets, we believe, nevertheless, that the continued long-term strengthening of Asian economies and related integration will continue to provide relatively more longer-term investment opportunities and better risk adjusted returns than other regions.

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Hedge funds

(compare hedge funds [here](#))

Manager's report for Gabelli Merger Plus+ - 24 March:

In absolute terms, 2019 was an excellent year for markets, with stocks, corporate bonds, gold, and oil all up double digits. This was in sharp contrast to 2018, when virtually every asset class declined because of a growth scare similar to the ones that occurred in 2011 and 2015. Economic growth in the U.S. slowed, but it remained above 2%. As it turns out, the 2010s will be the first recession-free decade in U.S. history and the record holder for the longest recorded bull market. Life in the political sphere has remained volatile. While Brexit and U.S. trade deals appear on a path to resolution, President Trump faced the impeachment process and was acquitted, and the coming election is sure to keep 2020 interesting. From here, the economy and the markets may well grind higher, although the latter at a muted pace.

The tumult of late 2018 created a plethora of bargains in the market. In retrospect, it appears that investors correctly anticipated an economic slowdown that manifested itself primarily in the industrial and materials sectors (key purchasing manager indices spent the last three quarters of 2019 in contraction) and flat corporate earnings in 2019. However, the markets, ever forward looking, rebounded as the so-called Powell and Trump puts were triggered. Federal Reserve chairman Jerome Powell backtracked on his project to normalise interest rates, cutting rates three times and increasing bond purchases and overnight funding operations. After escalating trade hostilities with China, President Trump showed an increasing willingness to make amends, culminating in Phase One of a deal announced, but not signed, in December. Through 2019, the American consumer remained steadfast, supported by the lowest unemployment rate (3.6%) since 1969 and rising household wealth (up by 3% to \$114tn).

In recent weeks, market volatility has intensified. This has led to spread widening across most pending transactions. We are speaking with the management teams of our company holdings and industry experts as we strive to position the company in deals with the most certainty of closure, and have selectively added to some positions.

While the global pandemic may interrupt new deal announcements, it will also lead to opportunity and likely a more attractive spread environment. We have managed

through such challenging markets in the past and remain confident in our process and ability to generate returns.

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Growth capital

(compare growth capital funds [here](#))

Manager's report for Schiehallion – 20 March:

We remain excited by the outlook for the current portfolio, though this is tempered by the uncertainty presented by covid-19. The idiosyncratic nature of each of these businesses makes it difficult to generalise about how each will fair over the coming year. This is by design. Whilst there will be external factors that influence the success or failure of a company, each holding in Schiehallion has been selected because of its ability to determine its own destiny over the longer term through product differentiation, business model innovation and execution. It is likely that some companies in the portfolio will face challenges in the near term as a result of covid-19, particularly those tied to the travel industry. But we believe that the long-term opportunity and investment potential is unchanged for these businesses. We also continue to be encouraged by the pipeline of new opportunities, both from businesses that are new to us, and others that we have been following closely for many years.

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Infrastructure

(compare infrastructure funds [here](#))

Manager's report for BBGI SICAV – 26 March:

2020 and beyond

The levels of competition for the availability-style assets in which we invest vary between markets. In all BBGI's target markets, infrastructure under-investment persists, and public finance budget constraints necessitate the involvement of the private sector to deliver the finance and expertise required to build, maintain and operate much needed assets.

Canada

Canada has remained one of the world's most prolific PPP markets and is one of the most mature and stable of the company's territories. A total of 285 assets across Canada are procured under the PPP model, with those already in operation or under construction valued at C\$139.3bn - including hospitals, courthouses, highways and bridges, and transit assets.

In 2020, there is a well-defined pipeline of availability-based transactions. With thirteen assets in Canada, BBGI is well-positioned to participate in an attractive primary pipeline and is considered a very credible purchaser for secondary assets.

The company also benefits from its North American strategic partnership with SNC-Lavalin which covers five assets. The company estimates that further investment opportunities in excess of C\$250m could result from the pipeline agreement over the next years; all of which will be assessed on a case-by-case basis.

Post-period end, the Nova Scotia provincial government named a BBGI-led consortium as the preferred bidder to undertake the expansion and upgrading of Highway 104

between Sutherlands River and Antigonish, Nova Scotia. Construction is scheduled to begin in spring of 2020, with an estimated completion date of the end of 2023.

The Canadian secondary market is expected to be active in 2020 as assets developed over the last several years come into operation and may come to market. In Q1 2020, the company acquired a further 25 per cent stake in Stanton Territorial Hospital.

UK

The outcome of the December 2019 UK General Election resulted in a decisive parliamentary victory for the UK Conservative Party. The UK Labour Party's defeat ultimately means the threat of nationalising certain UK PPP assets and other regulated infrastructure assets is no longer a material concern for the sector or its investors.

Whilst Brexit has dominated Britain's political agenda in recent years, it is difficult to say how the UK's decision to leave the EU will affect private investment in infrastructure. The Conservative Government made the decision to abolish the PF2 model in October 2018, but private infrastructure investors like BBGI still have a significant role to play in managing existing investments procured under both PFI and PF2; all of which the UK Government has committed to honour.

Despite the UK market being less buoyant compared to levels seen ten years ago, procurements are expected to progress in Wales in 2020. This includes the £500m A465 PPP for which BBGI is one of three short-listed consortiums; the Velindre Cancer Centre and the 21st Century Schools Programme.

The UK Government has promised to use infrastructure spending as a means to kick-start the economy post-Brexit and seek to "level up" the regions within the UK. Although the Government has been vague on the form of the delivery model, we remain optimistic that there will continue to be a role for private capital, particularly where we demonstrate good value for money.

The board notes that some other asset classes are demonstrating a risk-return profile that increasingly matches the company's low-risk, availability-based investment strategy. The Offshore Transmission ('OFTOs') opportunities and the MIM in Wales are good examples of how there continues to be attractive investment opportunities in the UK which are very similar to PPPs and include a long-term availability income stream from creditworthy counterparties.

The UK market continues to be a source of secondary market transactions. However, the reduction in secondary market PPP deal flow reflects the slowdown in public sector procurement since 2010 and the large amount of secondary activity in previous years. While supply has decreased, there has been no corresponding decrease in demand. This has resulted in a trend of lower discount rates for stable, mature secondary assets since around 2010.

The company's appetite for the selective acquisition of high-quality availability-based assets has not diminished. We will continue to pursue primary, secondary and other availability style opportunities on a selective basis within the UK.

USA

2019 was a strong year for availability-style investments in the United States. More states than ever enacted PPP-enabling legislation. While many of these are transportation-related, funding shortfalls combined with the need for better infrastructure has caused legislators to take a hard look at PPPs.

However, the 2020 PPP market in the United States could be impacted by local and federal elections. These contests have the potential to delay procurement processes of large projects at the state level due to divisive political climates. The likelihood of a major infrastructure bill passing Congress in 2020 is also unlikely.

The US PPP market remains one of great potential, with nascent deal flow. We are currently tracking several transactions and are in active discussions regarding upcoming transportation and social infrastructure opportunities.

Going forward, we expect that the success of the Ohio River Bridges/East End Crossing asset, which opened on time and on budget, will create opportunities for BBGI. This asset is one of a limited number of high-profile availability-style transportation assets to have reached construction completion.

Continental Europe

Continental European infrastructure markets remain active with certain countries offering an attractive pipeline of new assets. We believe these markets are likely to provide attractive investment opportunities over the medium-term.

Scandinavia: The Scandinavian greenfield market looks set for a busy 2020, particularly in the transport sector. Both the €1bn Sotra road PPP in Norway and the smaller Hailuoto causeway PPP in Finland are set to progress.

Netherlands: Over the past decade the Netherlands has built up a reputation for stable, predictable infrastructure deal flow. The country has matured and transparent procurement processes, and most projects have reached financial close within the expected timeframe. Following our recent investment in three assets in the Netherlands, we are actively investigating further investment opportunities in this market.

Belgium: BBGI is part of a consortium which successfully prequalified for the R4 Ghent project. The project is a 30-year availability-based PPP project involving the upgrade of the R4 West and East in Ghent to primary roads, removing intersections and creating new cycle highways.

Belgium's €550m schools PPP programme is one of the largest PPPs in the Benelux market at present. The Coalition Agreement 2019-2024 for the new Flemish Government mentions explicitly PPP initiatives for school buildings.

Germany: The expectation is that the road PPP scheme will continue. With six existing assets in Germany, strong credentials and German language skills on our Management board, BBGI is well positioned to consider these upcoming opportunities.

Southern Europe: Countries including Spain, Italy, Portugal and Greece have PPP pipelines. While some of these programmes may be viewed as attractive in terms of their size and the availability-style nature of the assets, the credit rating of the counterparties and certain risk transfer expectations make these investment opportunities unattractive to the company. Consequently, BBGI has not focused on these opportunities.

Australia

Australia's big build will roll into 2020. New South Wales and Victoria, the two biggest states, are each spending AUD\$90bn over four years on major projects. Two more arterial road PPPs - the Northern and South Eastern Roads Upgrades with a combined value of about AUD \$2.2bn - are set to reach financial close later in 2020. The AUD \$79bn North East Link ('NEL') motorway, is also expected to reach financial close later in 2020.

The AUD\$50bn Suburban Rail Loop is another major project which will be built in phases. The government has announced the first stage of that will be a dedicated line, which should allow for it to be procured as a PPP. Construction will not begin on the loop until 2022.

BBGI has three large operational assets in Australia and will continue to monitor the market. The company is hopeful that some select opportunities may emerge in 2020.

Renewable energy infrastructure

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

Alexander Ohlsson, chairman of Foresight Solar – 9 March (see the earlier section for a more recent covid-19 update):

Market developments

United Kingdom

The UK remains committed to its ambitious 2050 goal of becoming the world's first fully carbon-neutral nation and is set to take centre stage when it hosts the 2020 United Nations Climate Change Conference (informally known as COP26) in November. OFGEM recently set out its vision for how gas and electricity markets will contribute towards meeting the target in its 'Decarbonisation Programme Action Plan' which was published in February.

Continuing to foster the growth of renewable energy and integrating these new sources of intermittent power into the network remains a core area of focus.

While 2019 saw a number of milestones in regard to the contribution of renewable energy sources, including coal-generation hitting a historic low, the period as a whole recorded relatively modest renewables buildout compared with the growth rates witnessed over the last decade. Offshore wind capacity continued to grow during the year, but there were very limited onshore renewable projects. The slowdown in new solar construction has been particularly pronounced as the market continued to adapt to the commercial reality of a post-subsidy environment. However, the recent announcement that established onshore technologies such as solar and onshore wind will once again be able to participate in CfD auctions could see a reversal in this trend.

In addition to projects supported by government Contract for Difference (CfD) auctions, the emergence of a commercially viable subsidy free sector will be vital if the UK is to continue to make progress towards its decarbonisation goals. Whilst the number of subsidy-free solar projects completed in 2019 was extremely limited, there is a pipeline totalling an estimated 6GW expected to come online in the coming years.

The re-election of the Conservative Party in December and the comprehensive nature of the result should provide investors with a degree of clarity on several fronts. The European Union (Withdrawal Agreement) Act 2020 was passed into law in January 2020 leading to the UK leaving the European Union (EU) on 31 January 2020. The withdrawal triggered an expected 11-month transition period during which the UK and the EU will seek to agree upon the future terms of their economic and security partnership. The manager does not consider that the UK's departure from the EU will have a material impact on the company's operations or revenues.

There were a number of regulatory developments over the course of the year. The Office of Gas and Electricity Markets (OFGEM) published the long-awaited results of its Targeted Charging Review (TCR). The result of the TCR is the proposed end to embedded benefits payments to electricity generators from April 2021. This decision was published on 21 November 2019 resulting in a negative impact on the NAV of approximately 1.6 pence per share.

Australia

In September 2019, the Clean Energy Regulator announced that Australia had met its Renewable Energy Target a full year ahead of its 2020 target. This achievement coincided with the end of a decade that saw Australia achieve a significant shift away from its historic reliance on fossil fuels to a diversified energy mix in which renewables

play a central role. In 2019, renewable energy contributed over 21% of the country's electricity generation with solar energy sources, both utility scale and domestic, playing a meaningful role.

The challenge of the next decade will be the integration of these new sources of intermittent energy generation into an ageing grid infrastructure. If the progress made in decarbonisation is to continue, the regulator should work closely with generators to ensure future grid resilience and the resolution of ongoing issues such as the Marginal Loss Factor (MLF) methodology. The manager continues to engage constructively with the regulator on these issues and is hopeful a sustainable solution can be reached which balances fairly the needs of consumers, generators, and other market participants.

It would be remiss not to comment on the bushfires that affected large parts of the country in the second half of the year. We are fortunate that none of the manager's or local contractors' staff were hurt during the widespread and destructive bushfires and can confirm that there is no damage or disruption to report with regards to the company's assets. Despite the lack of direct impact on our operations, there were some small pockets of localised disruption, however the grid proved robust in the face of the significant challenges. Should the events of this summer repeat itself in coming years, it will present new challenges for the grid and may contribute to further climate change action from policy makers.

Sustainability and ESG

The importance of environmental, social and governance (ESG) factors to global investors continues to grow as sustainable investing moves from the periphery to the mainstream. Sustainability has been a key focus of the company's investments since launch and is embedded in every stage of the manager's processes and asset management. The company is well positioned to serve the needs of those investors seeking to achieve positive environmental and social outcomes alongside attractive financial returns.

During the year, the company's green credentials were recognised by the London Stock Exchange with the award of the 'Green Economy Mark'. The Green Economy Mark recognises companies and funds that generate more than 50% of their annual revenues from products and services that contribute to the global green economy.

The company continues to contribute meaningfully to the UK's decarbonisation efforts. This year alone the portfolio produced enough clean energy to power 230,000 homes and the manager continued to develop and manage its sites in a manner that minimises their environmental footprint. This is achieved through a proactive programme of on-site initiatives such as sustainable drainage and flood control works, which not only improves local biodiversity but also protects sites from potentially damaging extreme weather events. Other habitat enhancing initiatives, such as the installation of bat and bird-boxes and partnerships with local beekeepers, are undertaken wherever feasible. Furthermore, the company continues to support the local communities in which it operates through financial contributions to community funds that help to directly address pressing local issues.

Outlook

As the decarbonisation of energy markets in the UK and Europe continues, the company is well positioned to identify investment opportunities in an expanding renewable energy sector. The growth in solar assets in the UK and other European markets is expected to be delivered by subsidy free developments as regulatory support continues to decrease. As a result of the consolidation of subsidised European markets, pricing for operational assets is expected to remain expensive which, combined with the company's disciplined approach to new acquisitions, is likely to result in limited investment opportunities in the secondary market. The company will closely

monitor the competitiveness of solar in future CfD auctions given the recent government announcement on the eligibility of established renewable technologies.

The company continues to review the development of subsidy free markets in both the UK and Southern Europe, supported by the manager's extensive network of project developers in those markets. Investments in subsidy free projects represent an exciting opportunity for the company and opportunities will continue to be considered based on their risk-adjusted return profile.

The company's portfolio will continue to be predominantly UK based but, despite the progress experienced in the UK subsidy free market, the manager believes the case for subsidy free investment is currently more compelling in Southern Europe due to the combination of higher irradiation levels and the longer PPA tenors available.

The company is working closely with the manager to identify areas of potential disruption at portfolio level resulting from the emergence of covid-19 and it can confirm there has been no impact to date.

With the UK portfolio now in a 'steady state' and the capital structure effectively optimised, the manager will be focused on delivering continued positive operational performance. More optimisation initiatives will be undertaken by the manager, building on the solid platform in place, including the introduction of further cost saving initiatives at operational level and possibly the retrofitting of battery storage units to selected UK assets.

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Rónán Murphy, chairman of Greencoat Renewables – 2 March:

The Irish wind market remains an attractive jurisdiction with both a stable and supportive regulatory regime and broad public support. The country has over 4.0GW of installed capacity either in operation or construction under REFIT 1 and REFIT 2, and the board continue to view Ireland as an attractive market for further investment.

In June 2019, the Irish Government announced its Climate Action Policy committing the country to generating 70 per cent of electricity from renewables by 2030 and is projected to create more than €12bn of further investment opportunities. It is expected that the majority of this new capacity will be delivered under the new RESS, a competitive auction structure for CFD support, with such auctions expected to commence in 2020 and run until 2026. Given the expected CFD structure of RESS, as well as regular auctions planned until 2026, this should ensure Ireland remains a very attractive jurisdiction for further investment. In addition, Ireland is experiencing substantial growth in the demand for electricity, particularly from the development of a substantial number of data centres. We expect to see a growing number of large corporate entities seeking to enter into long term electricity contracts.

The group is now able to make acquisitions in Belgium, Finland, France, Germany and the Netherlands, in line with our existing investment policy. Continental Europe can provide further diversification of intra-year generation volumes and gives the group access to a considerably larger pool of assets from which to seek best value. In addition to the above jurisdictions, the group is assessing opportunities in the Nordic regions, currently outside of the investment policy. Special resolution 9 will be proposed at the forthcoming AGM to amend the investment policy to enable the group to invest in Nordic countries in addition to the other relevant countries.

Many of the operational assets across the continent are owned by parties with whom the manager has strong existing relationships. The group's position is further improved by the absence of currency risk when acquiring assets in Europe.

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Gill Nott, chair of US Solar – 17 March:

The first year of USF's operations has reflected a strong year for the US solar market overall. By the end of the third quarter of 2019, the contracted pipeline (the total capacity of utility-scale PV solar with an energy offtaker in place) for the US utility-scale solar market reached a record high of 45.5 GWDC. The market opportunity has remained robust as the industry expands. The market continues to be supported by both federal and state subsidies. During 2019, nine states increased their renewable targets indicating broad support for renewable energy in the US. Although the Investment Tax Credit (ITC) (a US federal solar tax credit) begins to roll off this year with its step-down from 30% to 26%, the manager continues to see a substantial pipeline of investment opportunities that meet its demanding criteria. This is largely due to solar being one of the cheapest forms of new build power generation in the US, even without subsidies.

Earlier this year, renewables funds in the UK came under pressure when power price reports released by Bloomberg New Energy Finance forecast that UK baseload electricity price would show a real decline of 4.0% pa to £19/MWh in 2040, and to £15/MWh by 2050. This forecast of real decline raised analyst concern regarding the potential impact to renewable funds' NAVs given their exposure to potential power price volatility. US electricity forecasts continue to show trends toward flat real power prices through 2040 and flat through 2050. As noted above, US Solar Fund's income cashflows are 100% contracted in the US through fixed price PPAs with investment grade offtakers for an average remaining term of 16.2 years. The nature of these cashflows, being in the US and contracted for long periods of time with fixed PPAs, decreases the Fund's exposure to power price volatility.

As covid-19 spreads across the world we will wait to see what the final impact will be on the global economy. I am pleased to report that the majority of the equipment the manager requires to complete the investments under construction is either already in the USA, or is being manufactured there. However, as governments of many countries implement controls to minimise the spread of the virus, delays to construction may yet still occur from other factors such as interruptions to the availability of labour.

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Commodities and natural resources

(compare commodities and natural resources funds [here](#))

Richard Prickett, chairman of CQS Natural Resources Growth and Income – 12 March:

Although covid-19 has produced an enormous shock to global economies and politics it is important to focus on the medium and longer term in resource markets. The trade tensions between the US and China that spanned some 18 months and driven volatility during that period were calmed by the phase 1 trade deal between them early in 2020. The big driver for demand of natural resources will continue to be China. Chinese growth in Q1 will be significantly impacted but we believe that the recovery will be ultimately U shaped over most likely Q2 and Q3 of 2020. It is anticipated that China will use all the tools at their disposal, in order to achieve their growth targets, namely fiscal and monetary policies which will result in increased infrastructure spending. The case for the continued relevance of your company's investment objective and policy remains. I wrote in October 2019 that the closed end structure enables the manager to invest over the medium to long term without liquidity fears.

Ian Francis, Keith Watson and Rob Crayford managers of CQS Natural Resources Growth and Income – 12 March:**2019 review**

2019 was a year that initially offered much promise for commodities, as steadily growing demand had looked likely to meet slowing production growth, especially in base metals. But the extended impact of a US China trade war weighed on global commodity demand and the tightening balance that would have supported commodity pricing has been deferred again. As we approached the end of 2019, the US and China agreed to a phase 1 agreement on trade, which marked a notable positive shift in sentiment as it felt once again that demand may exceed supply and the balance for commodities would once again tighten.

Unfortunately, yet another unforeseeable event has emerged, with covid-19 spreading through China and cases now reported globally. As at the 11th of March, the WHO had declared it a pandemic, with widespread restrictions on travel and the closure of schools and public events which will increasingly lead to a demand shock that has been felt acutely within commodities where prices typically trade on a spot basis. Equities are more anticipatory but resources equities are dominated by spot commodity movements.

Precious metals

Precious metals have outperformed the other segments of the resources sector. This has been supported by increased geopolitical uncertainty, low global yields, covid-19 disruptions and strong buying from ETF's and Central Banks

The chart below shows the Gold price in USD and GBP. It is important to note that in many currencies (including GBP) Gold is close to all-time highs.

There remains a wide valuation gap between the larger and smaller producers due to the effect of passive ETF's requiring higher levels of liquidity. The company continues to benefit from holding names that generate materially higher proportional earnings than the peer average, which we believe should outperform either through operational execution or M&A closing the valuation gap.

Base Metals

Base metals had been in the doldrums for some time due to the concerns on the US China trade war and its impact on demand. When the Phase 1 deal was reached in early December, it lifted base metals, with the economic bell weather copper lifting to \$6,200/t, 10.9% higher than its September low. Since this date it has been negatively impacted by concerns on the potential impact from covid-19. China is likely to stimulate their economy heavily through easing interest rates, reducing reserve ratios at banks and investing in large infrastructure projects. As China has excess capacity across much of its manufacturing industry, this may enable some catch up on lost production post this period of slowdown.

Energy

The company benefited from having minimal exposure to the energy sector, which has continued to struggle as US production growth has depressed global oil and gas prices. At the time of writing Saudi Arabia and Russia have entered a price war as OPEC talks on extending cuts collapsed, which has driven Brent oil down 47% YTD, to \$34 per barrel. It has been further impacted by the recent drop in demand from covid-19, although unlike with base metals we remain cautious on the outlook. The primary reason is that OPEC have cut production by 1.7M bbls/day and will be looking to bring that back with any increase in the oil price whilst the growth in global LNG capacity has globalised the US's weak gas pricing, which destroys a major revenue stream for the majors, who are already paying out dividends that appear unsustainable without further

selling down of assets. At the same time the growing presence of electric vehicles will further slow oil demand growth in the years to come.

Outlook

The long-term fundamentals for commodities remain positive, with strong capital discipline from mining companies leading to minimal capex on new mines or oil fields, resulting in low levels of production growth. Base metal projects especially will be slow in responding to higher pricing due to the long lead times to bring a mine into production, whilst an increasing focus on environmental requirements also makes the permitting of new projects more difficult than seen at any other time. Against this the world is still growing, even if it is slowing in the short term, with higher commodity demand expected in line with a growing GDP.

In assessing the potential fallout from covid-19, whilst it is difficult to draw a direct comparison with SARS, it is still the best comparison we have. SARS saw a 3-month negative impact on commodity demand, before it quickly rebounded. China is a much larger component of global commodity demand than in 2003, meaning that short term pressures are larger, but as we look to SARS, we can see that once the worst of SARS had passed demand sharply recovered. Whilst we cannot say with any certainty on how this recovery may look, President Xi Jinping of China has indicated that China will provide large levels of stimulus to support the Chinese economy, which is further supportive for a sharp rebound. Unfortunately, at this time the duration remains uncertain, thus the ultimate fallout from covid-19 is unknown. The fund's precious metal weighting should offer some protection against an extended covid-19 impact.

This is also an election year in the United States of America, meaning Donald Trump will be looking for a strong and stable economy in to the November election. This suggests it is less likely we will see the geopolitical shocks we have seen previously, whilst the agreement on a phase 1 trade deal with China should improve trade stability.

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Insurance and reinsurance

(compare insurance and reinsurance funds [here](#))

Jed Rhoads, manager of CATCo Reinsurance Opportunities – 23 March (see the earlier section for a comment on covid-19):

2019 loss events

Global insured losses during 2019 are estimated to be \$52bn, which is in line with the long-term average, compared to 2017 and 2018, which represented the first-and fourth-costliest years on record, resulting in over \$140bn and \$80bn of insured losses respectively.

While 2019 experienced significantly lower insured losses compared to 2017 and 2018, a similar confluence of events occurred throughout 2019, causing further trapped capital industry-wide for the third year in a row.

Multiple severe thunderstorms swept through the United States during 2019, resulting in over \$19.5bn of insured losses, the second-worst year over the past three decades after 2011, when severe thunderstorms generated approximately \$26.5bn of insured losses. The most significant storm occurred in May 2019 which impacted the Midwest States of Illinois, Nebraska and Ohio and caused approximately \$3.4bn of insured losses. This was the worst tornado since the Joplin and Tuscaloosa tornados of 2011, which caused approximately \$7bn of insured losses each.

For the fourth consecutive year, the Atlantic Basin experienced a relatively active hurricane season with eighteen named storms, significantly above the annual average of twelve. The strongest hurricane of the season, Hurricane Dorian, was the most intense tropical cyclone on record to strike the Bahamas, and is regarded as the worst natural disaster in the country's history, causing approximately \$4bn of insured losses. Continuing northwest from the Bahamas, Dorian threatened to strike Florida as a Category 3 hurricane, but gradually dwindled northeast, only making contact with the edge of Cape Hatteras as a Category 1 before moving out to the open Atlantic and then making landfall again in Canada.

As in 2018, Japan was again struck by a series of severe typhoons, the most significant of these being Faxai and Hagibis, which generated \$7bn and \$10bn of insured losses respectively, topping the combined insured losses generated by Typhoons Jebi and Trami of 2018, the insured losses from which are currently estimated to be approximately \$11.4bn. Both 2019 typhoons hit the Tokyo area, with Faxai sweeping over Tokyo Bay and making landfall in the city of Chiba. Hagibis struck further northwest, directly over the Yokohama-Tokyo conurbation, with as much as approximately 1 metre of rain falling within two days, breaching levees and seriously damaging many industrial operations.

As was the case in the preceding two years, California experienced more wildfires in the fourth quarter of 2019. However, these were far less devastating than the record \$30bn for the combined insured California wildfire losses in 2017 and 2018. The Saddle Ridge, Walker and Kincadee fires were the headline California wildfire events of 2019, burning a total of 140,000 acres and causing approximately \$1bn of insured losses.

Lastly, during the final weeks of the year, hundreds of bushfires across all of Australia continued to materialize, a number of which are still burning at the time of this report. The Insurance Council of Australia indicated that the countrywide insured losses due to the bushfires was approximately \$200m at 2019 year-end. However, as at the date of this report the figure is over \$1bn, following further fires in the first quarter of 2020.

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Leasing

(compare leasing funds [here](#))

Manager's report for Tufton Oceanic Assets – 27 March (see the earlier section for more covid-19 commentary):

2019 shipping market review

Some notable highlights of the shipping market over 2019 include*

- Global seaborne trade grew by 2.2% (tonne miles) in 2019 decelerating from 2.7% in 2018
- Fleet expansion accelerated to 4.1% as an improving market reduced yard slippage and limited demolition activity
- The global orderbook is equivalent to only 9% of the fleet, compared to over 50% in 2008. The orderbook is at its lowest level since 2004
- Newbuild deliveries were up by 22% year on year in 2019, while newbuild ordering volumes were down 27% year on year representing the lowest since 2016
- Secondhand transaction volumes were down 9% year on year in 2019, with the secondhand price index down 2% year on year
- Bulker average 12-month time charter rates fell 10% year on year in 2019

- Containership time charter rates index fell 6% year on year in 2019
- Tanker average 12-month time charter rates rose 24% year on year in 2019, with VLCC charter rates up 59%

The second half of 2019 was marked by a slowdown in GDP growth and industrial production. As the benefits on the 2018 tax cuts in the US faded, business confidence weakened in the face of the uncertainties of US-China trade negotiations. Manufacturing firms became more cautious on long range capital expenditure. The International Monetary Fund revised down its forecasts for World GDP growth in 2019 from 3.5% to 2.9%. Within this context, the different segments in shipping markets exhibited a remarkable variety of outcomes.

The oil tanker market showed steady improvement over the third quarter and received an unexpected boost at the end of the period when the US sanctioned Cosco Tankers, a large Chinese operator - effectively taking out a significant portion of available tanker capacity. Benchmark rates for large tankers hit decade highs as the effect of US sanctions was exacerbated by ships taken out of service for scrubber retrofit ahead of the transition to low sulphur fuel on 1 January 2020. The third quarter of 2019 still saw record demand for many dry bulk products as businesses opportunistically built inventories ahead of expected changes in tariff regimes over the fourth quarter. The benchmark Baltic Dry Index hit a six-year high in the third quarter. However, the fourth quarter was a perfect storm for dry bulk with the combined effects of weakening GDP growth, lower steel demand growth and pullback from the inventory building of the third quarter being exacerbated by environmental shutdowns in Asia. Containership rates, led by larger vessels, improved over the course of the third quarter and consolidated at relatively high levels in the fourth quarter. Over the period, consumer sentiment remained buoyant (particularly in the US) as additional easing by the Federal Reserve was followed by mortgage refinancing and added to disposable income.

The supply-side adjustment across shipping subsectors continued as new orders lagged deliveries and the orderbook shrunk to 9% of the fleet, the lowest level since 2004. The shipping market also encountered one of the most impactful regulatory changes in recent history at the end of 2019 as the global fuel sulphur cap was reduced to 0.5%. To date, the transition has been without large scale technical disruptions although some analysts believe that the real transition will only take place at the end of March with the "carriage ban", when ships without exhaust gas cleaning systems are prohibited from carrying high sulphur fuel oil. After this date, all ships without scrubbers will be forced to switch to use low sulphur fuel at all times.

Outlook

We believe the supply-led recovery in shipping will continue, offering strong returns over coming years. A major uncertainty in the market is the duration and impact of the covid-19 outbreak. The outbreak will have direct and indirect effects on GDP and World trade. A survey of analysts estimates that World GDP growth may be reduced to 1-1.5% for the full year (from previous estimates of 3.3%) while Chinese GDP growth may be reduced to 4-4.5% for the full year 2020. The Chinese government's prompt and stringent actions to contain the outbreak, appear to have had initial success. However, the outbreak has spread internationally and on 11 March 2020, the World Health Organization declared the covid-19 a pandemic, urging global powers to take co-ordinated action to contain the outbreak. The impact of the pandemic may be limited to the first half of the year, if global measures to contain it are effective and economic stimulus measures across key economies are successful. In this scenario, it is reasonable to expect a balanced shipping market for the year with around 1-1.5% World GDP growth and 2% growth in World seaborne trade demand, balanced by 2.0% fleet growth (3.3% in 2019). We expect fleet growth will continue to slow due to the impact of supply-side factors discussed in detail below. Fundamentals appear to be most favourable for tankers followed by dry bulk and containerships.

In the medium term, we continue to believe that a confluence of supply side factors will lead to slowing fleet growth and will support the shipping markets. Even as newbuilding prices stabilised in 2019 (after a 4% rally in 2018), new orders fell by 32% YoY. As a result, the global shipping orderbook stands at 9% of fleet (the lowest level since 2004). The diminishing orderbook is an indicator of slowing fleet growth in years to come. We believe the pace of new orders will continue to be below trend due to a combination of lack of capital from traditional sources of funding (banks) and uncertainty about environmental regulations on decarbonization. The dearth of new orders is also resulting in rapid consolidation of global shipyard capacity. Maersk Shipbrokers estimate a 30% reduction in global shipyard capacity between 2011 and 2018. We believe the ongoing yard consolidation will also result in better pricing power for surviving yards, pushing up newbuild prices and increasing the premium for secondhand ships. The International Maritime Organization's (IMO) new global sulphur cap was effective as of 1 January 2020. Satellite data confirmed our expectations, showing that the average speed of the global fleet fell by 2% over the second half of 2019 and continues to fall in early 2020. The decrease in average fleet speed results in lower available capacity and will further support the market.

The company continues to pursue a strategy of growing a diversified fleet. The revenue earned by most of the company's vessels is not affected by short-term fluctuations in general shipping markets. The company is relatively well positioned to weather the volatility from the impact of covid-19 as vessels in the portfolio which have charters expiring over the next six months only represent c14% of NAV (as of 29 February 2020). Most of the vessels in the portfolio are employed on medium to long-term charters with carefully chosen counterparties to minimise the impact of fluctuations in commodity prices, geopolitical events and other short-term supply-demand factors.

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Property - UK

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

Vikram Lall, chairman of BMO Real Estate Investments:

Although sentiment improved at the start of 2020 following a conclusive general election result and Brexit being triggered, this went into sharp reverse soon afterwards in response to the spread of covid-19 both globally and within the UK. Monetary and fiscal policy have been eased substantially in an effort to combat the disruption caused by the pandemic. With economic growth forecasts being revised lower and concerns about a no deal Brexit re-surfacing, the outlook for property has become much more uncertain with share prices across the real estate sector falling sharply and remaining volatile. The duration and severity of the covid-19 outbreak is unknown, but it is likely to impact 2020 performance across the property industry, and the changes to working practices and lifestyles may have longer-term implications for the industry.

In such uncertain times the diversification of our asset base, the exposure to a wide range of sectors and occupiers, in particular industrial and offices which make up approximately three quarters of the asset base by value should provide relative resilience. The company has limited exposure to development, leisure and restaurants and no exposure to the other hospitality and healthcare sectors.

We anticipate that there will be some impact upon revenues for the coming year, but it is too early to quantify the levels. Against this uncertain background the company has a robust balance sheet and the cash position, including undrawn loan facilities, remains strong.

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Stephen Hubbard, chairman: of LXI REIT:

Whilst it is too early to quantify the potential impacts of the covid-19 (coronavirus) pandemic, the company remains well placed to navigate effectively a prolonged period of uncertainty and to mitigate the risks presented by it. The company draws comfort from the group's robust balance sheet and high-quality portfolio of defensive commercial property assets let or pre-let on very long term, index-linked leases to a wide range of strong tenant covenants highly diversified by tenant, sector and location.

The company's debt is currently at 20% loan to value (LTV), with no short or medium term refinancing risk given the 12-year unexpired average duration of its long term debt facilities with Scottish Widows, which are fully fixed at an all-in average rate of 2.94% per annum. This provides significant headroom to the covenant of 50% and, similarly, the interest cover is c.600% versus the interest cover test of 300%. The company also has a committed £100m revolving credit facility with Lloyds Bank, which is completely undrawn.

The company's portfolio is 100% let or pre-let to over 50 strong tenants, across nine sub-sectors. Further security is provided through the tenants and guarantors being the main trading or parent companies within the tenant groups. The company's leases average 22 years to first break and each lease is drawn on a fully repairing and insuring basis – tenants are responsible for repair, maintenance and outgoings, so there is no cost leakage for the company. 96% of its income benefits from index-linked or fixed uplifts.

A number of the company's tenants, such as Aldi, Lidl and BUPA, are in sectors which are trading more robustly in the current climate. In the sectors which covid-19 has spotlight, such as budget hotels, pubs and drive-thru coffee shops, the company's tenants – Premier Inn, Travelodge, Greene King, Costa Coffee and Starbucks – are financially robust, with strong balance sheets and material cash holdings.

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Steve Smith, chairman of PRS REIT:

The coronavirus crisis is evolving and changing rapidly, and its full effect on the macro environment in the UK and globally is not easy to predict. We have taken both operational and financial measures to guide the company through this difficult period, and will continue to assess our plans as the situation changes. We believe that our business model is resilient and that we have the financial and operational capacity and capability to navigate challenges successfully while responding to opportunities. Our partners are well-established and supportive.

The company has a robust balance sheet, a diversified customer base and a housing delivery model that limits construction risk. The company's cost base is covered by net rental income.

Currently, all construction activity has been suspended across all sites, a measure put in place by all major house builders in response to the coronavirus. At present, it is not known when activity will resume but there should be little adverse cash flow or balance sheet effect during this period of suspension, reflecting the company's delivery model and our fixed price contracts.

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Paul Bassi, CEO of Real Estate Investors:

The unprecedented and fast changing circumstances surrounding covid-19 provide us with an uncertain landscape, however we have a strong, stable business platform and management have a proven track record of performing during periods of uncertainty, as demonstrated in the past.

We are alert to the potential impact of covid-19, an unforeseen human tragedy on a global scale. REI has a risk averse strategy, stable portfolio with high levels of occupancy and multi-sector diversification, together with controlled overheads. We remain vigilant and, in common with all businesses, we are closely monitoring the situation. To date, there has been no noticeable effect on the business, however it is too early to quantify what the impact may be in the future.

We have received assurance from all third-party providers and partners that they all have contingency measures in place to support REI. All necessary actions are being taken to safeguard our staff and ensure the continued progress and success of the business, through difficult and unprecedented global circumstances.

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Malcolm Naish, chairman of Target Healthcare REIT:

The current pandemic presents a significant challenge for the care home sector and potentially for some of our tenants. The safety and wellbeing of the residents in our homes, and the healthcare professionals who provide their care, is paramount. We derive some comfort from noting that infection control protocols many of us are now becoming familiar with, form a routine part of operations for care homes. The current enhancements to these, such as restricting access to essential visitors only, can only help. We would also note that the modern, purpose-built homes in our portfolio, via their en-suite wet-rooms, generous bedroom size, and wide corridors, will assist in effective implementation of the Government's advice on isolation in residential care settings.

We are therefore confident that our tenants are well placed to provide the best quality care to their residents given the circumstances. The Manager is engaged with our tenants and is supporting their infection control processes by postponing scheduled home visits for the time being. Close asset monitoring will continue remotely, through established reporting channels for key metrics and regular discussions at both a senior management and individual home level. Anecdotally, we are already hearing from some tenants of requests for beds from local authorities seeking to move patients to care home settings rather than hospitals.

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Martin Moore, chairman of Secure Income REIT:

The relief rally following the decisive UK election result proved short-lived as the spread of the covid-19 virus has precipitated sharp stock market corrections across the globe. It is safe to make the judgement that eventually it will pass and economic activity should revert to normal levels. In the same way, we anticipate that the strong branded businesses making up our tenant base, together with the key operating assets that we lease to them, will prove just as attractive to investors once the virus has passed as they were before. Rental income should continue to rise along the path of inflation and therefore our earnings should not suffer the same interruption that operational businesses will face should events deteriorate.

In every reporting period since the company listed, the group's net loan to value ratio has fallen and this trend continued in the year, with a reduction to 31.9% at 31 December 2019. If the correction in equity markets were to fuel a disruption in the market for long

lease property we hold £234m of uncommitted cash, significantly more than our historic cash buffer of around £60m, which can be deployed to take advantage of any opportunities that arise. The current flight to safety by investors has driven bond yields around the world to historic lows. Safety has rarely, if ever, been as expensive in offering such meagre income returns, which seem unlikely to match the level of inflation. We believe that those investors willing to keep their nerve and focus on the medium term horizon have the potential to make significantly higher returns with only a modest amount of incremental risk by investing in secure, inflation-linked income streams such as those provided by SIR.



QuotedData

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