QuotedData

Monthly summary | Investment companies

May 2020

Economic & Political Roundup

Kindy sponsored by Allianz

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

Covid-19's devastating impact on so many real economies across the world will leave a lasting scar, probably permanently re-shaping many industries. For their part, markets took a glass half-full view, counter-attacking dogmatically over April to turn the tide after the complete collapse in sentiment in late-March.

Unprecedented fiscal and monetary stimulus, coupled with encouraging news-flow from South-East Asia and hopes that some of the existing therapies being tested might deliver clinically significant results, have driven this.

Covid-19 briefings

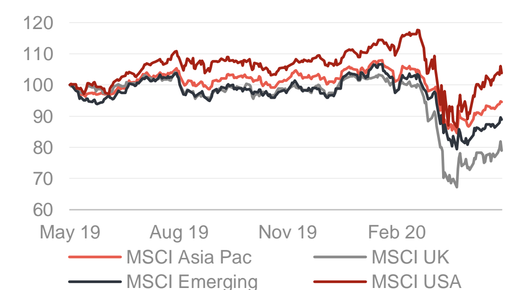
Like last month, we have included key statements from updates released by companies who did not report results over April. Compared to last month, this section is thinner, given that many companies briefed last month. On the flipside, extracts from the results section covers covid-19 more densely, with companies having had more time to react and reflect than those that reported in late-March.

Exchange Rate	30/04/20	Change on month %
GBP / USD	1.2594	+1.4
USD / EUR	0.9131	+0.7
USD / JPY	107.18	(0.3)
USD / CHF	0.9653	+0.4
USD / CNY	7.0632	(0.3)

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/05/2019 to 30/04/2020



Source: Bloomberg, Marten & Co

	30/04/20	Change on month %
Oil (Brent)	25.27	+11.1
Gold	1686.5	+6.9
US Tsy 10 yr yield	0.6393	(4.5)
UK Gilt 10 yr yield	0.231	(35.1)
Bund 10 yr yield	(0.589)	+24.3

Source: Bloomberg, Marten & Co

NB: this note has been prepared by Marten & Co and is for information purposes only. It is not intended to encourage the reader to deal in the security or securities mentioned in this report. Please read the important information at the back of this note. QuotedData is a trading name of Marten & Co Limited which is authorised and regulated by the FCA. Marten & Co is not permitted to provide investment advice to individual investors.

UK

THRG: *"It is our belief that this virus will result in the structural withdrawal of capacity in many industries, and therefore we are likely to enter a period of heightened "corporate Darwinism" will that will create opportunities for those survivors with the financial resources to win market share and further solidify their market position."*

Dan Whitestone, manager of BlackRock Throgmorton – 27 April:

During March we saw an acceleration of the spread of covid-19 into Europe and the US, which caused rapid sell offs in stock markets globally. The market falls during the month have not only been large, but also very sharp, with daily falls larger than those experienced in the 2008 financial crisis, with large daily and intra-day moves throughout the month.

The scale of government and monetary authority interventions over the month were huge. These include both lower interest rates and monetary easing as well as direct interventions to cover labour costs and ease business costs in the face of a social shutdown. On this last point, leisure has been one of the industries hit hardest in the sell-off and this, with our wider consumer services exposure, has been a material drag on returns. Whilst we don't think the Government's actions will draw a line under valuations, this should help alleviate an emerging liquidity crisis engulfing so many businesses that were on a completely different trajectory only a matter of weeks ago. Unfortunately, many companies, will not make it through to the other side, or will survive but in a much-weakened state. It is our belief that this virus will result in the structural withdrawal of capacity in many industries, and therefore we are likely to enter a period of heightened "corporate Darwinism" will that will create opportunities for those survivors with the financial resources to win market share and further solidify their market position, which will be increasingly important for industries where the recovery in demand is more elongated.

It should be noted, that amidst all the panic and uncertainty right now, long term investment opportunities continue to present themselves. Many companies we've engaged with recently have been able to quickly reduce their cash burn so enable them to "hibernate" to preserve equity value for the upturn. Others have sought equity injections to ensure they emerge from this crisis on the front foot, or have secured waivers of their banking covenants. We also believe that some industries will see their aggregate growth rates accelerate on a 5-year view e.g. digital payments, cloud audio/visual communication, software-as-a-service, infrastructure-as-a-service. Other companies will emerge with a strong market position as capacity exits. And to the future, there will be new and exciting small and medium sized companies that will emerge to capitalize on the profound changes many industries will endure and the structural changes in corporate and consumer behaviour that will likely occur."

. . . .

Gresham House Strategic – 6 April:

The portfolio entered the recent market drawdown with circa 16% of assets in cash, which now represents circa 19%. Whilst many open-ended small company funds will have to anticipate and manage fund cashflows, our cash is protected and awaiting deployment, either to build existing holdings or take advantage of new investment opportunities that emerge, of which there will be many. Our challenge in a concentrated approach is to then to pick the very best, balanced for both reward and risk.

Overall, the portfolio holdings have strong financial positions going into this period of uncertainty and recession. Many have net cash positions such as Centaur Media, Brand Architekts and MJ Hudson. Others have very low levels of financial leverage such as our holdings in Augean and IMImobile. These holdings will be less impacted than most companies by the effects of the virus on economic activity. Our unlisted convertible bond holdings represent circa 15% of the portfolio and these have been providing regular interest income at 8% coupons.

To varying degrees all our portfolio companies will be impacted by the first order and knock-on effects of this enforced economic shutdown which, despite fast and material Central Bank monetary and Government fiscal support, will significantly curtail economic activity and cause bankruptcies, impair end-market demand, extend sales cycles, reduce credit availability, as well as disrupt employees and suppliers. Furthermore, the collapse in the oil price will have additional negative effects on those of our holdings with exposure to this industry. However, the portfolio finishes the year with little direct exposure to the impacted sectors of oil production, travel, leisure, retail or financial industries. We seek to support our portfolio companies more than ever through this difficult period, potentially financially, if prudent to do so, and we will also exploit share prices which are at an even greater discount to intrinsic value.

All companies and individuals are striving to predict what lies ahead. The recent crisis demonstrates that often we have an inaccurate sense of certainty or confidence in what the future holds. This is why it is so important to have an understanding of value. With careful analysis, a conservative approach to financial leverage and deep insight into a company's value drivers, a material margin of safety can be created to enable investments into stocks with significant medium-term returns. Near-term outlooks have of course been impaired, but for those that survive this current crisis their market positions may be stronger, the competitive position easier and their cost-bases leaner, primed for profit growth in the future.

GHS: “*The longer-term repercussions of the use of helicopter money and the level of fiscal stimulus taking government debt to previously unacceptable levels await us all.*”

We expect the national discussion around 'lives' vs 'livelihoods' to intensify and to see a partial return to work by the summer. The work on tests for anti-bodies and a vaccine will be successful. Those over-leveraged companies and weaker industry players going into this crisis may not survive, including many of the already loss-making businesses that have been increasingly in vogue in recent years, but the Banking sector is better placed to deal with this stress than when it entered the global financial crisis of 2008-09. The financial requirements of companies due to covid-19 will generate significant opportunities for capital deployment during the rest of the year. The longer-term repercussions of the use of helicopter money and the level of fiscal stimulus taking government debt to previously unacceptable levels await us all.

. . . .

Flexible investment

Livermore Investments – 9 April:

We continued to monitor the pandemic closely, with a focus on the impact on the company's CLO and US senior secured loan portfolios. The spread of the virus, government policy responses and changing demand patterns are expected to have a negative impact on the operations and earnings of some of the borrowers in the CLO portfolio. The company has been in close contact with managers of its individual CLO positions and is tracking the level of rating downgrades of underlying loans to CCC+/Caa rating and a worsening default outlook. A significant concentration of CCC+/Caa rated loans can turn off the distributions to the equity and lower mezzanine tranches of CLOs and would result in significant drop in the market values of those CLO portfolio constituents. At this early stage it is not possible to quantify the impact, but further updates will be provided as more information becomes available. The full extent of the impact will depend on the length and severity of the crisis and is expected to vary widely between sectors and companies.

The company has been positioned very conservatively for several months with high liquidity and cash reserves (in excess of USD 60m as of 31 March 2020) and a CLO portfolio that consists largely of CLOs with long reinvestment periods, which should benefit somewhat from the volatility in the market. The company has no debt.

. . . .

Debt

CVC Credit Partners European Opportunities – 24 April:

CCPE: "*The impact of the covid-19 epidemic on markets as a whole and leveraged credit markets in particular has served to reconfirm the board's view that it is desirable to reassess the company's dividend distribution basis.*"

The impact of the covid-19 epidemic on markets as a whole and leveraged credit markets in particular has served to reconfirm the board's view that it is desirable to reassess the company's dividend distribution basis. As a result, and after detailed discussion with the Investment Vehicle in respect of sustainability in the medium term, the board has determined with immediate effect to reset the company's dividend target at 4 pence per sterling share / 4 cents per Euro share for the next 12 months. For the avoidance of doubt, the board's previously stated medium term total return target of 8%, referred to above, remains unchanged. It is the board's intention to seek to restore the annual dividend target to the previous level in due course if market conditions so justify.

. . . .

Alcentra European Floating Rate Income – 15 April:

European loans did not participate as much in the rally after falling less than stocks

During the month concerns around the impact of the covid-19 virus outbreak evolved from an initial focus on the risk of a supply shock driven by Asian shutdowns, to concerns around the impact of the pandemic on businesses globally. This drove markets lower, with equity returns circa-(15%) - (20%) in the month. Given this background, European loan prices were down (14%), with US loans and high yield markets seeing similar price declines. While the sectors most exposed to the impact of the quarantine and closure measures (leisure, travel, retail, gaming) underperformed, other sectors were not exempt as dealers marked all positions lower and liquidity was thin in early March. Sentiment showed tentative signs of improvement towards the end of the month, as extraordinary fiscal stimulus and monetary support measures were unveiled. While equity markets benefited from this improved sentiment, recovering somewhat from (25%) - (30%) at the trough, European loans did not fall as much so also did not benefit as much from the rebound.

Given conditions during the month, the market for new loan issuance was closed with scant new deals pricing. Similarly, CLO formation was also muted, with three deals pricing early in the month, but afterwards the market was closed to issuance. While the prospect for material new CLO issuance is low, we do expect the market to explore pricing static or short maturity CLOs which would be a positive for loan demand.

AEFS: "*While the S&P default rate for the 12 months ending March remained broadly stable at 0.43%, the impact of the virus on certain corporates is likely to lead to an increase from this low level.*"

While the S&P default rate for the 12 months ending March remained broadly stable at 0.43%, the impact of the virus on certain corporates is likely to lead to an increase from this low level. Initially we believe this will be brought on by more directly impacted businesses, where travel and mobility restrictions, as well as working capital unwinds, mean they are at risk of seeing near term liquidity pressures. S&P are now forecasting an 8% default rate for the European market in 2020, with a low double digit forecast for the US market given higher exposure to the energy segment. However, the final figure on defaults and indeed 2020 performance, will be directly correlated to the ongoing duration and severity of the outbreak.

Our focus remains on the impact of containment measures on the credits in our portfolio. We are working closely with management teams and financial sponsors to assess the impact of mobility restrictions on demand and cash flows. While government fiscal support appears to be helping, the more directly exposed sectors (travel, leisure, retail etc) are our focus. These sectors remain a relatively small part of the market and our fund at circa10%, while the market's largest exposures remain more stable and defensive sectors including healthcare, telecoms and cable.

While the first half of the month saw the themes of dealer de-risking and weaker liquidity, more recently we have seen signs of stability and even inflows as some investors look to take advantage of the market's dislocation. So, while the prospect for continued volatility remains and default rates are likely to increase from current low levels, we do think current market conditions may provide an attractive entry point, particularly for assets in more defensive sectors.

Some defensiveness in healthcare, telecoms and cable credits

Generally, the best performing credits in the fund were in more defensive sectors such as healthcare, telecoms and cable which traded off less than the broader market in the extreme volatile scenario. The weaker names in the fund were those with more direct impact from the quarantine and movement restrictions, generally in the retail, leisure and travel sectors. The weakest credit was a French commercial services and equipment provider which traded down on the expectation of weaker results due to government mandated shut downs. The second weakest credit was a UK based childcare provider which also traded down on concerns around the impact of quarantine and shut down measures on demand.

. . . .

Marble Point Loan Financing – 8 April:

Given the ongoing uncertainty caused by the covid-19 pandemic, the board has resolved to temporarily suspend the declaration of dividends. The board and the manager recognise the importance of dividends for shareholders but believe preserving liquidity is the appropriate and prudent action considering the significant near-term uncertainties that exist.

The covid-19 pandemic and its unprecedented economic disruption have seen rating agencies downgrade CLOs' underlying senior secured loan collateral at an accelerating pace which increases the risk of triggering provisions of CLOs' tests which could impact near-term cash flows. Additionally, the heightened risk of higher than modelled default rates may impact the portion of distributions ascribed to income under the company's effective yield methodology, thereby potentially affecting the magnitude of cash flows.

It is difficult to predict the full impact of the covid-19 pandemic on loan and CLO markets, but the company remains focused on delivering long term value to shareholders and taking prudent actions in the near term in respect of this quickly changing market dynamic.

The manager believes the dislocation in credit markets may also create attractive investment opportunities beneficial to future investment portfolio cash distributions, with the goal of seeking to maximise shareholders' total return over the long term. The company believes it is well positioned to take advantage of such dislocation. To the extent that income generated by the CLOs is not distributed but is available for reinvestment into additional collateral within the CLOs, given the current loan market environment, such reinvestment activities may build par and enhance potential distributions from the CLOs in the future.

In the event that cash flows in the near term are not impacted or should conditions in the loan market improve, the board will consider the reinstatement of the quarterly dividend and other appropriate options.

. . . .

Technology and media

Tim Levene, CEO of Augmentum Fintech– 16 April:

AUGM: *"We expect several of our holdings to perform counter-cyclically."*

In our announcement of 24 March 2020, we explained that the company has a strong and diversified portfolio across fintech sectors many of whom are category leaders. We expect several of them to perform counter-cyclically and a number are already experiencing heightened demand for their products and services. Onfido and Previse are just two such companies (the companies raised $100m and $11m over March).

. . . .

Leasing

Doric Nimrod Air One – 21 April:

These are unprecedented times and the impacts of covid-19 are far reaching and changing at a significant pace. The impact of this pandemic on the aviation sector has been significant with a large part of the global passenger aircraft fleet grounded. This quarterly factsheet is exclusively based on known facts at the time of writing and does not seek to draw on any speculation about any possible future, long-term impacts of the pandemic on the aviation sector or the company specifically and should be read in such context. The board notes the current market commentary regarding rental deferrals and confirms that it has received no formal request from Emirates to renegotiate their leases and that they are currently servicing them in line with their obligations. The board is in close contact with the manager and its other advisors and will continue to keep shareholders updated via quarterly fact sheets and ad-hoc announcements as required.

Market overview

DNA: *"Cirium estimates that more than 11,500 widebodies, narrow bodies and regional jets have been parked due to the pandemic as of the end of March 2020, representing approximately 44% of the total global fleet."*

Air passenger traffic worldwide is currently being affected by the covid-19 virus. In response to the pandemic, governments have been imposing severe border restrictions and airlines have subsequently sharply reduced capacity due to the significant drop in passenger demand. The International Air Transport Association (IATA) reported that markets that comprise 98% of all passenger revenue worldwide are subject to some form of severe restrictions, including outright border closures, partial travel bans, and mandatory quarantines for arriving passengers. Cirium estimates that more than 11,500 widebodies, narrow bodies and regional jets have been parked due to the pandemic as of the end of March 2020, representing approximately 44% of the total global fleet.

Given the pattern of previous epidemics, IATA anticipates that the impact on aviation will last a number of months (typically 6-7 months) with the greatest effects realised after 2-3 months. However, IATA also notes that an economic recession could delay any recovery past this six-month period seen in previous epidemics. Fiscal stimulus from governments is expected to lessen recessionary impacts. In March, IATA updated its initial assessment of the covid-19 impact and now anticipates 2020 global revenue losses for the passenger business of USD 252bn due to the broader spreading of covid-19. This represents a 38% fall in global passenger traffic.

DNA: *"Chinese passenger numbers have begun to increase and that passenger yields have stabilized, with March domestic yields thus far slightly exceeding those in the same month during 2019."*

IATA did report that Chinese passenger numbers have begun to increase and that passenger yields have stabilized, with March domestic yields thus far slightly exceeding those in the same month during 2019. Further, it was encouraged by fiscal stimulus actions and intentions declared by governments around the world. The governments of many large economies with significant air travel markets are expected to provide stimulus packages falling in the range of 10-20% of GDP.

According to IATA, industry-wide passenger traffic, measured in global revenue passenger kilometres (RPKs), grew at a rate of 4.2% in the calendar year 2019,

compared to the year before. At the same time, industry-wide capacity, measured in available seat kilometres (ASKs), increased by 3.4% against the previous year. This resulted in a 0.6 percentage point increase in the worldwide passenger load factor (PLF) to 82.6%.

In 2019, passenger traffic in the Middle East has increased by 2.3% against the previous year. Capacity grew marginally by 0.1%, resulting in a 1.7 percentage point increase in PLF to 76.2%. As of January 2020, carriers based in the Middle East recorded 5.4% annual growth in international RPKs, the fourth consecutive month of solid growth. At that point in time, none of the main carriers in the region cancelled flights due to covid-19 virus, but this situation has since changed.

A380 update

Following the epidemic operators like Air France, Lufthansa (at least six units), and Qatar Airways have publicized plans to phase out the A380 in the near term. Lufthansa is permanently decommissioning six A380s that were previously schedule to depart the fleet in 2022.

. . . .

Amedeo Air Four Plus – 6 April:

Company update: Emirates

The board of the company announces that it was advised by its asset manager, that they had received written confirmation that Emirates are seeking from the company some form of financial accommodation.

The board has asked its asset manager to continue its negotiation with Emirates and also with the company's lending banks which have financed the group's acquisition of the relevant six A380-800 aircraft and two Boeing 777-300ERs leased to Emirates; with a view to reaching a conclusion acceptable to all parties.

While these discussions are in progress, and due to the numerous parties involved coupled with the restraints caused by the covid-19 crisis, the board is of the view that they are unlikely to be concluded speedily. However, the board was pleased to note that Emirates, in their message, had confirmed that "the lease rental will remain current and up-to-date until an agreed contractual position is achieved".

The board will keep the company's financial position under review and will make a further announcement as and when there are any material developments in connection therewith.

. . . .

Renewable energy infrastructure

US Solar – 23 April:

USF: *“We do not expect covid-19 to materially impact construction timelines or operating cashflows.”*

No material impact expected and dividend set to commence as planned

- USF does not expect covid-19 to materially impact construction timelines or operating cashflows;
- USF’s acquired portfolio consists of 37 projects with total capacity of 383 MWDC. A further four projects totalling 61 MWDC are under exclusivity. All are on target to be operating by the end of 2020;
- More than 55% (by MWDC) of the acquired portfolio is fully operational and construction of the remainder is progressing to the expected timeline.
- All debt and tax equity financing required for construction and operations of the acquired 383 MWDC is in-place, and USF’s acquisition of the further 61 MWDC is subject to debt and tax equity financing being in place; and

- USF has said that it is in a strong position to commence the full 5.5% (annualized) dividend from Q1 2021 in line with the target set out at IPO.

Cashflow Stability and Dividend – fixed-price power purchase agreements (PPAs) cover 100% of the portfolio over a 15-year term

- The USF portfolio has fixed price PPAs for 100% of electricity generated for a weighted average PPA term of 15 years (including Potential Acquisition Five), and all PPA counterparties are investment grade (S&P rated A to BBB+);.
- USF's PPA prices are fixed at the time of execution so the resulting steady, contracted cashflows put the company in a strong position to consistently deliver dividends despite electricity and broader market volatility. There are no mechanisms for PPA prices to be reduced;
- USF does not expect to be impacted by reductions in electricity demand because of covid-19. Although covid-19 measures in the US have reduced electricity demand, utilities are expected to reduce generation from other forms of generation, including their own assets, before curtailing USF's assets;
- USF expects to fully cash cover the remaining ramp-up dividend of 2-3% (relating to the remainder of this financial year to 31 December 2020) with cashflows from operating projects; and
- The company is in a strong position to commence the full 5.5% (annualized) dividend from Q1 2021 in line with the targets set out at IPO.

. . . .

NextEnergy Solar – 8 April:

Key messages from the update included:

- Generation (unaudited) in the financial year ended 31 March 2020 was 4.7% above budget (2019: 9.1%);
- Financial debt* of 21% as at 31 March 2020 (2019: 27%);
- Full-year dividend target of 6.87p reaffirmed for financial year ended 31 March 2020 (2019: 6.65p);
- Covid-19 pandemic has not had any significant impact on the company or its underlying portfolio.

2020/21 Electricity Sales

NESF: *"Of the market revenues derived from the sale of electricity generation, the company has secured fixed price agreements covering 95% of its electricity generation for the summer of 2020 and fixed price agreements covering 50% of its electricity generation for the 2020/21 winter."*

For the current financial year ending 31 March 2021, NESF estimates approximately 61% of revenues in the UK will be derived from regulated revenues (renewable obligation certificates and others), and approximately 39% of revenues will be derived from the sale of its electricity generation under short-term and medium-term contracts. Of the market revenues derived from the sale of electricity generation, the company has secured fixed price agreements covering 95% of its electricity generation for the summer of 2020 and fixed price agreements covering 50% of its electricity generation for the 2020/21 winter. These agreements were concluded during calendar year 2019 and at prices well above the current market prices.

In Italy, approximately 83% of revenues will be derived from regulated revenues (principally feed-in-tariffs) and approximately 17% of revenues will result from the sale of electricity generated under short-term contracts, of which the company has secured fixed price agreements covering 100% of its electricity generation until the end of the calendar year. These fixed price agreements were entered into during calendar year 2019 and at prices well above the current market prices. The majority of the expected cash flows from the Italian portfolio are covered by a currency hedge for the period up to 2032, which includes all hedging costs.

The power purchase agreement counterparties both in the UK and Italy are all of investment grade quality.

. . . .

Gore Street Energy Storage – 1 April:

During this evolving and unprecedented crisis, the health and safety of all employees, company stakeholders and their staff have and will continue to be of primary importance.

All operational assets continue to function as expected and deliver a continuous source of revenue to the company despite the global impacts of covid-19. Gore Street's operational assets require minimal human intervention, with typically no staff on site, and therefore there has been no significant impact at the current time. Energy storage assets continue to provide a critical service to the grid in maintaining its stability.

For sites under construction, we are suspending work from the end of this week in line with UK government direction for public safety. At this time, we do not believe that these suspensions will materially delay the expected operation dates due to our conservative construction schedules. We continue to plan that two projects will commence operations in Q1 2021 and two in Q3 2021. The company will keep working with all stakeholders to ensure health and safety procedures are in place and construction programmes are optimised.

Dividend reaffirmed

At this time of uncertainty for many, Gore Street is pleased to be able to update its shareholders on further operational progress and that it currently sees no material impact from covid-19 on its ability to continue to meet its investment objectives. I have dealt with a number of market and environmental disruptions during my career, and we are applying the lessons right now. I cannot provide insight into the medical aspects of covid-19, but I can tell you that Gore Street is operating with efficiency and is prepared to deal with external events that could impact our business. We have activated a number of the plans which we have put in place – such as remote working, technology distribution, and online meetings; these are working well.

GSF: *"In the longer term, the trend toward more use of alternative energy in the UK, Europe, and beyond will continue. The income that our assets produce is neither directly impacted by either energy demand nor prices, as we principally sell hours of access to our projects for the grid."*

We provide essential services, and therefore follow government guidance and the public interest. I am pleased that across all of our active projects, operations are on target, and performing according to our expectations. In the cases where we have reduced operations according to regulations or to protect workers, such as our assets under construction, we are actively engaged and ready to resume full service at any time. Obviously, we all hope for a rapid and conclusive end to the current health challenge, but I am pleased that we have been able to maintain the high level of service, financing, and market activity that Gore Street is known for. In the longer term, the trend toward more use of alternative energy in the UK, Europe, and beyond will continue. The income that our assets produce is neither directly impacted by either energy demand nor prices, as we principally sell hours of access to our projects for the grid. Furthermore, it is clear that the UK and Ireland will continue to develop significant sources of intermittent renewable power generation to meet international obligations to reduce global carbon emissions. The requirement for the services that our assets provide will therefore continue to grow.

. . . .

Property – UK

Richard Shepherd-Cross, manager of Custodian REIT – 29 April:

It is too early to assess the long-term impact of covid-19 on the commercial property market, but we believe it may accelerate pre-existing trends in the use of, and investment in, commercial property. We expect to see a further deterioration in secondary retail, an increase in demand for flexible office space (both traditional offices, fitted out and leased flexibly, as well as serviced offices) and a continuation of the growth of logistics and distribution. As always, we would expect location to be a key determinant of the future success of commercial property assets.

In the near-term, of even more importance than the NAV derived from current valuations is the absolute focus on rent collection, future cash flow, ongoing asset management and the affordability of future dividends which are all underpinned by the Company's low ongoing charges ratio of 1.12% and low cost of debt of 3.0% (circa £4.7m interest per annum in aggregate).

. . . .

Alternative Income REIT – 24 April:

Rent collection

As at the date of this announcement, the group confirms that it had received 82% of the rents which were due on the March 2020 rent quarter day in respect of forthcoming quarter, which represents 64% of the group total rent roll. The remainder of the rents remain due as the collection dates fall outside of the usual English quarter days. The rents due to the company do not include the rents from Meridian Steel Limited, whose rent-free period ends from the June 2020 rent quarter day.

AIRE: *"As at the date of this announcement, the group confirms that it had received 82% of the rents which were due on the March 2020 rent quarter day in respect of forthcoming quarter Despite having fundamentally sound business models, some of the group's tenants are experiencing unprecedented short-term disruption to their operations, which is impacting their near-term cash flows."*

Despite having fundamentally sound business models, some of the group's tenants are experiencing unprecedented short-term disruption to their operations, which is impacting their near-term cash flows. Where realistic, the group is providing proportional assistance to those tenants whose operations are being materially impacted, whilst protecting its own position and its responsibility to shareholders.

The company is in discussion with tenants (who represent 39% of the rent roll) which include conversions to monthly or payments in arrears or deferral and stage repayments over defined periods. The company will treat each case on its individual merit.

Dividend

Given the current uncertainty over the economic impact and duration of the covid-19 pandemic, the board draws comfort from the company's high quality portfolio, strong financial position, the recent rent collection levels and diverse tenant base, and it expects the company to continue paying an attractive quarterly dividend even if a prolonged economic downturn results in some potential impairment from the company's previously announced aggregate dividend target of 5.5 pence/share for the year ending 30 June 2020.

Loan-to-value

In terms of headroom, net rental income would need to fall by 74% and property values would need to fall by 50% for covenants to be breached based on the 31 December 2019 numbers. In addition, there are four properties still available to be pledged which were valued at £53m at end of December.

. . . .

Standard Life Investments Property Income – 23 April:

Rent collection

As at close of business on 20 April 2020, the company had received payments reflecting 66% of rents due for what can collectively be termed advance billing for the second quarter of the year; this comprises both old and new English quarter days (25th March and 1st April) and the Scottish quarter day (28th February). The figures below include those tenants with whom it has been agreed, and have paid, on a monthly in advance basis. Assuming those tenants continue to pay rent monthly the collection figure should increase to 74%. The statistics, split between sectors, are shown below.

The impact of the virus and associated restrictions on how we live, work and play is felt by every company, and this company's team of asset managers are working closely with our tenants to understand their needs. We believe that this is a crisis that impacts on individuals as much as companies and we take the Social aspects of ESG very seriously. We firmly believe that by helping tenants now and building better relationships we will have better occupancy over future months and years, which will in turn benefit the company's cash flow.

Loan-to-value

In terms of headroom, net rental income would need to fall by 74% and property values would need to fall by 50% for covenants to be breached based on the 31 December 2019 numbers. In addition, there are four properties still available to be pledged which were valued at £53m at end of December.

. . . .

Alex Short, manager of AEW UK REIT – 20 April:

We are currently seeing an unprecedented period of uncertainty within UK and global markets and understandably, this is having an impact on real estate markets. This is demonstrated within our property valuation this quarter and also by the fact that the property valuation, in line with guidance given by the RICS to the UK real estate market as a whole, is issued with material uncertainty.

Features inherent in the company give us comfort however, that it is as well-positioned as possible in the current time. Firstly, the high and very stable level of earnings generated from the portfolio represent a strong starting point in times of increased volatility. Looking at UK real estate return components since the inception of the MSCI index, income is by far the least volatile providing a much more resilient profile even in times of large capital declines. The company's ability to generate both high and stable earnings is demonstrated by its dividend of 2p per share per quarter which has been reliably paid each quarter for four years now and was most recently covered to 106%.

Furthermore, the company's strong focus towards industrial property at over 48% is expected to provide a robust base, both during the crisis and also for recovery once normal life resumes. We can already see that the restrictions that have been placed on all of our lives have led to a significant drop off in trade for retail and leisure operators. In the industrial sector however, we see supermarkets and online retailers looking to take on additional space in order to deal with increased capacity and UK manufacturers rising to new production challenges with an entrepreneurial spirit.

Another area which provides us with some optimism is in connection with ongoing asset management transactions. AEW's very active approach to asset management is a major feature of its investment strategy and proven by the portfolio's outperformance of the MSCI UK Balanced Index at property level over various time periods. Since restrictions have been sanctioned in the UK, we have seen some of the portfolio's potentially most accretive value plays continue to progress and, in addition, some new opportunities have come to light during this time. We continue to work assets hard in

order to maximise value. This can be demonstrated by the portfolio's very low vacancy level, which has now remained below 4% for seven consecutive quarters.

. . . .

Peter Lowe, manager of BMO Real Estate Investments – 20 April:

Given the uncertainty surrounding the current trading position of some of the company's tenants, the recovery of income due under existing lease contacts remains the immediate focus. The company's low void rate of circa 3% and relatively high and diversified weighting to the Office and Industrial sectors should provide some protection against these challenges but very few areas of the market will offer immunity to the wider downturn induced by the pandemic and associated global lockdown. We therefore continue to expect to see significant disruption to revenues over the near term, including the next quarter's rent collection, even when the timetable for relaxation of lockdown measures becomes clearer.

. . . .

Tritax Big Box REIT – 8 April:

The average unexpired lease term across the portfolio (58 assets) is over 14.1 years with 99% let or pre-let.

The group's top five customers by income1 are Amazon (13.1% of rent), Morrisons (6.8%), Howdens (5.2%), Co-op (4.8%) and Tesco (4.3%), with approximately 50% of annual rent generated from defensive sectors in the current climate: e-commerce, food retail and 3PLs (including postal couriers) many of whom are being called upon to assist with the UK's response to the pandemic.

Despite having fundamentally sound business models, a number of our customers are experiencing unprecedented disruption to operations as a result of the UK Government's measures put in place to combat the spread of covid-19. This has led to an immediate impact on their near-term cash flows. Whilst there are various forms of assistance on offer from the Government, including loan schemes, we are working with our customers where we can through the relaxation of cash flow requirements over the short term.

BBOX: *"We expect that 96% of rents will be collected by the end of May 2020 in respect of advanced quarterly rental payments that were due by 1 April 2020."*

We expect that 96% of rents will be collected by the end of May 2020 in respect of advanced quarterly rental payments that were due by 1 April 2020. This includes 86% which has been collected to date (2019: 100%) and a further 10% for which alternative short-term payments are expected to follow. Discussions are ongoing with certain customers over the outstanding 4% of rent due.

Operational response

Throughout this period, we are proactively engaging with our customer base. 95% of our buildings remain fully operational, with only three temporarily running with a skeletal maintenance staff framework. Our collaborative approach has been well received, as we endeavour to share practical advice and guidance to assist with the health, safety and well-being of our customers' staff.

With regard to our development portfolio, we are actively collaborating with our contractors and developers, to ensure that appropriate working conditions are in place to maintain operations within new covid-19 guidelines. At present, there is continued activity at all our sites, albeit at reduced levels, signifying the importance of these buildings in our customers' supply chains.

Tritax Big Box has a low risk approach to development, with no speculative construction underway currently. We will only seek to pursue further developments on a pre-let basis and where this can be funded without applying pressure on our balance sheet.

Loan-to-value and covenants

In line with the company's conservative leverage policy, the group's LTV was 30% at 31 December 2019 with a weighted average maturity across its loan facilities of 7.5 years. There are no significant refinancing events until 2024.

Immediately available resources under existing, but undrawn, committed borrowings total £500m. The group has capital commitments of approximately £130m in relation to its forward funded pre-let development assets, asset management initiatives and commitments to development land.1

Rental income and asset values would be required to fall by more than 60% and approximately 50% respectively before any of the group's principal debt covenants were breached.

Dividend update

In conjunction with its annual results on 17 March 2020, the company confirmed a dividend target of 7.0p per share for FY2020. Given the necessary UK Government intervention in response to covid-19 since that date, visibility over the economic impact and duration of the pandemic has reduced significantly. This has resulted in a slowdown in the occupational markets and increased the likelihood of delays in areas such as planning and construction. The board therefore considers it prudent to withdraw its dividend guidance for the current financial year.

The high-quality nature of our portfolio, strong financial position and diverse customer base provides us with the confidence to continue paying an attractive quarterly dividend. The board has today declared a quarterly dividend for the period 1 January to 31 March 2020 of 1.5625p per share. It believes this is a conservative level allowing the company to continue to deliver on its business plans whilst noting that the duration and effects of covid-19 may be extended. We believe this is in the long-term interests of shareholders.

We will continue to monitor the dividend position for FY2020 with potential to increase the quarterly dividend when we have better visibility.

Property – UK healthcare

Target Healthcare REIT – 16 April:

THRL: *"Longer-term, the fundamental demand drivers for elderly care have not changed, nor have the advantages of the group's ethos and strategy of owning modern, purpose-built care homes which by design segregate residents into groups, promote enhanced infection control, and allow effective isolation, as needed, of residents in their own rooms through the provision of private en-suite wet-rooms."*

The group notes the recent commentary on the care home sector and increasing reference to the magnificent work of all social care staff in these trying times. The sector plays a crucial role in supporting the NHS ordinarily, and is assisting the NHS's efforts to increase critical care capacity by making much of its own limited headroom available to those who can be moved from hospitals. Care home operators are clearly therefore faced with the difficult balance of exercising this civic duty whilst caring effectively for existing residents during the challenging conditions the pandemic brings. We are encouraged to see the sector's importance recognised with pledges for testing for residents and staff where required, which is especially long overdue for the latter group who are taking personal risk to care for residents, and for provision of personal protective equipment (PPE).

Longer-term, the fundamental demand drivers for elderly care have not changed, nor have the advantages of the group's ethos and strategy of owning modern, purpose-built care homes which by design segregate residents into groups, promote enhanced infection control, and allow effective isolation, as needed, of residents in their own rooms through the provision of private en-suite wet-rooms.

Property – Europe

Nick Preston, manager of Tritax EuroBox – 29 April:

Despite the unprecedented nature of this crisis, we believe that the fundamentals driving demand for Continental European logistics assets remain strong. Supply chains have been severely tested, and this has highlighted occupiers' growing need for modern, well specified, strategically located buildings close to major population centres and infrastructure.

Structural tailwinds driving demand in the big box logistics sector may be accelerated as a result of the impact of the covid-19 pandemic. We anticipate that the recent marked increase in online retail usage in Europe will lead to retailers having an even greater focus on growing their e-commerce platforms. Other emerging themes include manufacturing moving closer to Europe from the Far East in order to shorten supply chains and also companies holding higher inventory levels to protect against potential supply chain disruption. All of these effects are likely to lead to companies growing their logistics functions. Meanwhile, the supply of logistics facilities remains constrained due to low land availability and little speculative development. We believe these supply and demand factors will help to underpin future valuations in the Continental European logistics space, and notwithstanding any short-term issues arising from the current crisis, create further upward pressure on rental values.

. . . .

Evert Castelein, manager of Aberdeen Standard European Logistics Income – 28 April:

Notwithstanding the covid-19 pandemic which has impacted the world greatly during the initial phases of government imposed lock downs, the board and the investment manager believe that the European market will continue to offer attractive opportunities as the logistics segment grows. There will clearly be a period of time where many businesses will be severely impacted through the effective halting of trade and the shutdown of economies as governments attempt to tackle the pandemic. During this difficult period, however, we see that businesses involved in essential services and supplies like food production and supply, pharmaceuticals and parcel deliveries to homes and businesses are faring well and are often requiring additional logistics facilities or space. This crisis will likely see businesses speeding up their adoption of e-commerce use with a resultant increase in take-up of warehouse capacity. We believe that the size segment that we are invested into is the most attractive and liquid part of the logistics sector with the urbanisation trend across Europe driving demand and growth.

With previously close to 10% of retail sales on average in the EU resulting from online transactions and with a double digit growth rate, the economic pressures on the demand side of the logistics sector prior to the crisis were evident, particularly on urban freight infrastructure. Despite what will no doubt be some short-term headwinds, we expect the current environment to accelerate this demand led growth and this gives confidence that we are well positioned in an expanding area of the real estate market.

. . . .

Contents – extracts from full-year and interim results announced over April

16	Global (thoughts from Henderson International Income and Martin Currie Global)
17	Flexible investment (thoughts from CIP Merchant)
18	UK (thoughts from Acorn Income, Dunedin Income Growth, Fidelity Special Values, Henderson High Income, Marwyn Value, Mercantile and Merchants)
23	North America (thoughts from JPMorgan American, JPMorgan US Smaller Companies and North American Income)
25	Europe (thoughts from BlackRock Greater Europe and Henderson Euro)
26	Japan (thoughts from Schroder Japan Growth)
27	Asia Pacific (thoughts from Aberdeen Standard Asia Focus, Asia Dragon, Fidelity Asian Values, Henderson Far East Income, Pacific Assets, Schroder Asian Total Return and Scottish Oriental Smaller Companies)
37	Latin America (thoughts from BlackRock Latin American)
40	Global emerging markets (thoughts from JPMorgan Global Emerging Markets Income)
41	Vietnam (thoughts from Vietnam Enterprise Investments)
42	Biotech and healthcare (thoughts from International Biotechnology Trust)
43	Debt (thoughts from Axiom European Financial Debt, Carador Income, NB Distressed Debt and NB Global Floating Rate Income)
45	Financials (thoughts from EJF)
46	Private equity (thoughts from BMO Private Equity, EPE Special Opportunities, ICG Enterprise and LMS Capital)
49	Hedge funds (thoughts from Highbridge Tactical Credit and Third Point Offshore Investors)
49	Infrastructure (thoughts from International Public Partnerships)
52	Renewable energy infrastructure (thoughts from Aquila European Renewables Income and Gresham House Energy Storage)
55	Environmental (thoughts from Impax Environmental and Menhaden)
56	Commodities and natural resources (thoughts from Baker Steel Resources, Golden Prospect Precious Metals and Riverstone Energy)
59	Leasing – (thoughts from DP Aircraft 1 and SQN Asset Finance Income)
60	Property – UK (thoughts from BMO Commercial Property)

AS FOCUSED ON DIVIDENDS AS YOU ARE

The Merchants Trust PLC

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

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

1889 – 2019

0800 389 4696 www.merchantstrust.co.uk

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

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

Global

(compare Global funds **here**)

Ben Lofthouse, manager of Henderson International Income – 29 April:

Over the coming months the dividend trends are likely to be less positive due to both the slowdown in economic growth and some recent non-economic factors. In some parts of the world there is increasing political pressure to withhold dividends until the pandemic has been resolved. France, for example, is asking all companies to moderate their dividend payments this year regardless of whether they have benefited from direct state aid. In the financial sector, regional regulators are issuing hastily introduced guidance that ranges from suggestions to be prudent through to demands to defer and even cancel dividend payments, which are being interpreted and implemented in different ways by different local regulators. This is leading to considerable confusion at insurers and banks regarding their ability to pay dividends at this time.

. . . .

Zehrid Osmani, manager of Martin Currie Global – 9 April:

2020 started well, but this stalled with the covid-19 outbreak in China in the last week of January. The impact of the virus is undoubtedly globally significant in the short term. Beyond China's growth figures, which will be particularly badly hit, supply chains and global GDP will also be severely impacted, with Europe likely to suffer more than the US.

At the market level, investors are likely to remain in fear mode for a while. There will therefore be plenty for the pessimists to focus on. On the supportive side, central banks are on stand-by to act in an even more accommodative manner (and in some instances have already started to act), should economic activity suffer too much from the pandemic fear. We are also likely to see further sizeable fiscal policy responses across key economies.

Both of these could trigger a positive market reaction. One thing is certain, the bull-bear debate will be very active this year, and markets are therefore likely to be volatile, while the recovery remains fragile. We will increasingly be revisiting the topic of recession fear. That said, it is worth highlighting that these kind of short, sharp pull backs in the market are typically a good buying opportunity for long-term investors. In previous pandemics, we have seen the markets rally once evidence of a policy response comes through, the threat level eases and/or the short-term impact on economic and corporate activity is taken into account.

For us, this simply reinforces our belief in our investment strategy. In such an uncertain environment, we believe that our approach of long-term investing focusing on quality growth companies, with strong balance sheets and sustainable business models should help us navigate the choppy waters we are going through.

As far as the shape of any recovery is concerned, it is difficult to make reliable predictions at this stage, given the lack of visibility on the timing of the return to a normalised situation. We have updated our projections based on a core assumption of business activity in 2020 dropping significantly, and only normalising during 2021 (ie not assuming a sharp recovery). This is to build some conservative buffer into our forecasts. This scenario has a high degree of forecast risk, and will need constant updating as the situation unfolds, and we get more evidence in terms of leading indicators as we progress through the year. Based on these tentative assumptions, we have brought our estimates down sizeably on profit forecasts and therefore dividends

from portfolio companies. At the dividend level, there is also uncertainty around companies' dividend policies, even for the ones whose balance sheets are strong.

We believe many companies that could still be in a position to maintain their dividend policies might act cautiously and reduce payouts, or postpone dividends until there is better visibility on the shape of the economic activity and any recovery that will ensue.

All in all, given the major near-term uncertainties to the economic cycle, we predict 2020 to be volatile given the headwinds to economic growth and corporate profits, and the likely further supportive monetary and fiscal measures we might see. The exogenous shock of covid-19 is bringing some high risk of downside to the economic momentum globally, and therefore to corporate earnings, and is likely to trigger sizeable and potentially globally synchronised policy responses, both monetary and fiscal, to ensure the world avoids a prolonged recession.

. . . .

Flexible investment

(compare flexible investment funds **here**)

Carlo Sgarbi, manager of CIP Merchant – 6 April:

In 2019, markets benefited from both a recovery, following the fall at the end of 2018, and the general support of central banks to essentially all asset classes delivering positive returns. The equity markets in the UK for both the large caps and the small caps were both up approximately 12% in 2019; similarly, in Germany, the SDAX grew by 32% and the DAX by 25%; in the US the Russel 2000 grew by 24% versus a 22% increase of the DJIA. One exception is represented by Italy where the FTSE AIM Italia index lost 6% vis-à-vis a 28% increase in FTSE MIB, mostly affected by the bankruptcy of a €1bn market cap company listed on Italian stock exchange.

In terms of private markets in 2019 (according to PitchBook reports), Europe saw a decline in deal volumes of approximately 3% vis-à-vis 2018 and also lower than 2017. However, the total deal value in 2019 was only down approximately 2% at €453.5bn, vis-à-vis 2018, though was above 2017 levels.

The US private markets saw a decline of approximately 4% in 2019 vis-à-vis 2018. The total transaction value was $677.9bn in 2019, corresponding to a 7% decline vis-à-vis 2018.

We will need to be disciplined in our investment approach, as we see the full impact of recent events being reflected in companies' future earnings, with certain sectors likely to be impacted more than others. Accordingly, the company is, subject to shareholder approval at the upcoming general meeting, proposing to amend its investing policy to allow a wider investment remit, with a focus on the market as a whole as opposed to certain sectors.

The current covid-19 pandemic has the potential to cause significant disruption to businesses and the wider economy. Consequently, the market is pricing this uncertainty into companies share prices and we continue to monitor our investee companies and pipeline closely in this rapidly changing environment.

. . . .

United Kingdom

(compare UK funds **here**)

Managers of Acorn Income – 29 April:

Views from Simon Moon and Fraser Mackersie, the smaller companies managers:

Looking to the prospects for 2020 the focus must unfortunately rest on one severe and ongoing event: the covid-19 pandemic. The covid-19 graduated from being a 'Chinese problem' in January that seemed to little bother the rest of the world, to a panic-inducing worldwide phenomenon by March. As the virus rapidly spread from the East to the West, governments and public health services rushed to coordinate their responses to the threat with varying degrees of severity and success. In an effort to contain the spread of the virus the UK Government followed the lead taken by most European countries and imposed a lockdown on its population and, by extension, a large proportion of economic activity. A similar approach is also now being taken in the US in an attempt to contain the outbreak, which will inevitably place further pressure on the global economy.

The speed of the contagion was matched by the rapidity of the sell-off across equity markets as investors sought to reduce risk in the face of uncertainty, as such markets suffered extreme falls and dramatically increased volatility. The UK Government has worked in lock-step with the Bank of England to provide a coordinated response to the threat posed by both the virus and the lockdown that will far exceed the UK's response to the global financial crisis. Although obviously expensive the ultimate aim of this huge economic stimulus is to keep people in jobs and ensure that companies are 'ready to go' when the crisis passes. We believe these measures should position the UK relatively well for the recovery. Regardless of how resilient or otherwise the UK is over this period the key unknown element is the length of time it will take to get the virus under control as that will be the pathway to a recovery in economic activity.

Views from Chun Lee and Robin Willis, the income portfolio managers

Whilst there has been no sector left unharmed by the sell-off, we are relatively comfortable with the largest sector exposure within our corporate bond holdings, especially national champion banks. Whilst in the last crisis, the banking system was at the heart of the problem, now it is seen as a vital part of the solution as central banks have moved swiftly to ensure lenders have the tools to continue supporting the economy. Whilst it was politically difficult to help the financial sector out of a problem of its own making in the last crisis, the current exogenous shock should ensure that domestic and globally important banks are supported by governments to ensure that the transmission mechanisms of its policies operate smoothly. In addition, the key banks now have a much greater loss absorbing capacity and have been run more conservatively than before, driven by a strict regulatory overhaul.

As risk assets cheapen, valuations have undoubtedly become more attractive within select opportunities, some of which will prove to be resilient through a downturn whilst others will bounce back strongly should the economic effects not be as severe as feared. Importantly, freshly announced measures by global central banks to support credit markets are showing signs of easing the initial dysfunction. However, at this juncture it is perhaps prudent to be patient and assess how the spread and disruption of the pandemic evolves and changes the potential for defaults, when attempting to establish where to hunt for value.

David Barron, chairman of Dunedin Income Growth – 9 April:

Since the company's year-end, the outbreaks of covid-19 around the world have unnerved markets. This has led to significant falls in the value of shares, including those of the company, reflecting real concern about the disruption to, and lower levels of, economic activity as a result of covid-19 and the public health policy responses. These do not in our view undermine the strategy we have implemented in recent years, but clearly point to heightened uncertainty about the future.

The consequences of employees not being able to get to work or of businesses not being able to meet demand for goods and services have already been evidenced in pressures on cash flows and balance sheets, especially for leveraged businesses. In addition, consumer demand is likely to continue to weaken as people are unable to go out and some parts of the economy close down. Historic monetary policy responses aimed at stimulating aggregate demand, and easing liquidity, have already been implemented, even though interest rates were close to zero in many economies. Further policy responses to support business and preserve incomes have been introduced rapidly. The effectiveness of all these measures is hard to gauge, particularly if the social distancing measures, which restrict economic activity, remain in place for a prolonged period.

As a result of lower levels of activity in significant parts of the global economy, and the total shutdown of other parts, following the actions of governments in many countries to try to control the pandemic, many companies will report much lower profits in the years ahead. As a consequence, there is likely to be real pressure on corporate cash flow. We have already seen several UK companies either passing or cutting dividend payments, even after dividends have been declared. For some UK companies, there may be government, social or regulatory pressure to suspend payments to shareholders. For all companies, careful stewardship of cash resources has become significantly more relevant than it was only a month ago. Distributions to equity investors may rank as being comparatively less important for some time. Against this backdrop, the outlook for dividends for many companies is materially less clear, for the next financial year, and possibly longer.

We do not know the length or depth of the downturn in the global economy, and many businesses continue to operate strongly, with robust balance sheets. There will be clear corporate winners and losers as a consequence of the pandemic with business weakness being exposed more rapidly than in the past. Economic and political conditions are likely to be quite different but, as always after a significant economic dislocation, there will be real opportunities.

. . . .

Alex Wright, manager of Fidelity Special Values – 28 April:

While the market recorded strong gains over the last four months of 2019, the start of 2020 has been marked by sharp declines reflecting increasing investor nervousness, as the covid-19 outbreak led to growing concerns over its impact in terms of human lives, the global economy and individual businesses.

The large majority achieved by the ruling Conservative party in the general elections in December 2019 was received positively by equity markets, lifting some of the near term uncertainty. The result meant that the UK could focus on executing Brexit, with a transition period expected to end in 2020. Overall investor sentiment was also supported by the preliminary "phase one" trade agreement between the US and China, while an accommodative policy stance by global central banks further supported stock prices in 2019.

However, the start of 2020 marked a reversal in market momentum with the FTSE All-Share Index declining by 11.9% over the two months to end of February, a sell-off that subsequently accelerated in March due to increased market volatility. The sharp share price declines seen across markets reflected growing fears over the spread of the virus beyond China's borders and its potential economic impact. A surge in cases reported globally, including a growing number of infections in the UK, spooked markets. Investors were concerned about the prolonged effect of containment measures to slow down the spread of the virus and the resulting impact on companies, jobs and the broader economy. The sharp decline in oil prices, which subsequently accelerated in March, further added to investor concerns.

The near-term economic outlook has deteriorated markedly in the wake of these events, prompting global central banks, including the Bank of England, to cut rates and pledge further monetary support, and governments to announce unprecedented fiscal measures to support individuals and companies through these challenging times. While these interventions are welcomed and signal the policymakers' preparedness to respond, the extent of the necessary covid-19 mitigation measures, and the uncertainty as to when they can be relaxed, are likely to result in a deep recession this year.

Outlook

I see the recent sell-off as a potential opportunity. This is not to downplay the near term challenges the economy, companies, markets and society itself will face in coming months. Indeed, it is now very clear that the impact on UK and global economic activity will be greater than we saw in the financial crisis between 2007 and 2009. Over recent weeks, together with Fidelity's analysts, I have been reviewing the company's holdings, and in particular their balance sheets, to assess whether they would be able to survive several months of shutdown and the resultant recessionary phase which will follow without running out of cash. I have closed positions in companies most affected by the outbreak and the oil price slump, and where the outlook has worsened beyond the short term. For instance, I have sold out of airlines (which were a small circa 1% holding), and some small companies with levered balance sheets (small positions).

In the near-term markets are likely to remain very volatile. Whilst we are now starting to see some lockdown restrictions easing, I am expecting to see a very different backdrop and level of economic activity over at least the next 6 to 12 months to the ones we have been used to. Looking further out, however, I think the sharp drop in the oil price and the unprecedented monetary and fiscal stimulus will be meaningfully positive for the UK economy (as well as the global economy as a whole) and will help to offset some of the negative effects of the lockdowns. The recent indiscriminate sell-off has resulted in some very attractive investment opportunities for selective long-term investors.

One interesting, although frustrating for value investors such as myself, aspect of the current sell-off has been a lack of change in market momentum. Normally, in dramatic changes of market direction, prior trends reverse as stocks that have previously done well sell-off. This downturn has seen the opposite with a continuation of prior trends whereby expensive companies that have done well continue to do relatively well and become relatively even more expensive. In contrast, stocks that have been performing poorly and were at low valuations have continued to underperform and become even cheaper on both an absolute and relative basis.

To conclude, while the current situation is unsettling and market volatility high, the indiscriminate sell-off is creating interesting investment opportunities. At this juncture, it is particularly important to reassess how companies are likely to fare in these uncertain times and whether they will come out of the current crisis stronger.

. . . .

David Smith, manager of Henderson High Income – 16 April:

Review of 2019

Given the outbreak of covid-19 across the world and the recent market turmoil, it is difficult to remember that 2019 turned out to be a strong year for equity markets, with the FTSE All-Share Index up 19.2% on a total return basis. The US Federal Reserve's decision to reverse its recent interest rate hiking cycle and start cutting rates was taken positively by investors and helped to offset slowing global growth. Markets were further supported later in the year by an initial agreement between the US and China on trade relations, a stabilisation in global manufacturing data and the Conservatives winning a significant majority in the UK's General Election.

UK economic growth slowed to 1.1% in 2019 as Brexit uncertainty and political paralysis weighed on corporate confidence. Despite this, the more domestically focused FTSE 250 Index (+28.9%) significantly outperformed the FTSE 100 Index (+17.3%) which contains a larger proportion of multinational companies. While the UK General Election result in December provided some political clarity and a boost to domestic cyclical companies late in the year, they started to outperform from mid-summer, after Boris Johnson became Prime Minister, in the hope that the Brexit stalemate would be resolved.

Merger & Acquisition activity picked up during the year as international investors used weak sterling and low relative valuations as an opportunity to buy UK corporates.

Outlook

After a strong year for equity markets in 2019, this year has started extremely poorly. The spread of covid-19 across Asia and into Europe and the US has unnerved investors, compounded by the decision by Saudi Arabia and Russia to abandon previous moves to support the oil price. The short-term impact on economic growth from government actions to contain the virus will be significant and most companies will no doubt experience disruption, either through a lack of demand for their products and services or via their supply chains. Volatility is likely to remain elevated not least due to the virus outbreak, but also impacted by negotiations between the UK and EU about future trading relationships, the US presidential elections and any sustained oil price war implemented by Saudi Arabia.

With this uncertain outlook in the first quarter of the year we have reduced borrowings and lowered the company's exposure to cyclical companies in favour of defensive businesses that have more dependable cash flows.

Although the outlook is particularly uncertain, there is some early evidence from China that factories in most parts of the country are now returning to production, suggesting that the spread of covid-19 can be managed. Also, governments and central banks globally have announced significant stimulus packages to help support economies while valuations have now fallen to very attractive levels. Although it is still a time to remain cautious, the recent market sell-off has created good opportunities for long-term investors, while the reduction in UK interest rates to just above zero should provide support for equities which generate reasonable dividend yields

. . . .

Manager's report for Marwyn Value – 30 April:

It is difficult to look back at 2019, and indeed the investing environment over the last few years, without reference to the current covid-19 related events unfolding around the globe.

Whilst there are numerous consequences to the current pandemic and the consequential political and economic responses, we are already beginning to see many

of the themes that have characterised the challenging investment environment of the last few years laid bare.

It has been challenging in the last few years to buy good companies, at sensible valuations. The tidal wave of capital into private equity and leverage levels surpassing those of 2007 have all contributed to average multiples paid for assets reaching unprecedented heights. By contrast, the public markets have seen increased illiquidity driven by increased regulation, fewer actively managed funds and compounded by internal imposed liquidity restrictions at many firms creating significant differences between many public and private company valuations.

Excess leverage, even for those sitting behind the covenant-lite debt that has characterised a staggering 90% of high yield debt issued in 2019, will sit very uncomfortably for companies operating with macro headwinds of the force that may come. In addition, government assistance provided over the coming months will need to be repaid in a relatively short time thereafter placing further pressure on equity investors who have already participated in recent rights issues and capital calls. We believe that in this environment, the patient investor may find exciting opportunities to deploy capital.

Whilst we do not believe the current environment is directly comparable to 2008, the years that followed that market dislocation were our best years ever and we believe that some of the key tenets of our success continue to hold. We do not believe that our opportunity will come from trying to buy businesses largely unaffected by the current environment, but by investing in those that are impacted in the short to medium term, are best of breed and are likely to see the opportunity to capitalise on their market position, relative strength and ultimate wider economic recovery.

. . . .

Guy Anderson and Anthony Lynch, managers of Mercantile – 15 April:

The covid-19 virus originated in China and has, at the time of writing, spread rapidly across much of the globe including Western Europe and the United States. This presently escalating crisis has drastically impacted both the global economy and market sentiment. A number of countries have enforced public lockdowns and either closed or tightened borders. Central banks have responded by cutting interest rates and introducing significant monetary stimulus, while governments have begun outlining plans for unprecedented fiscal stimulus. Furthermore, a collapse in the oil price, driven by reduced demand and a dispute between major producers including Saudi Arabia and Russia, has introduced another dimension of volatility and uncertainty. Share prices globally have tumbled.

As economic activity is currently so limited - with vast swathes of the global economy either no longer active or operating well below capacity - our immediate focus has shifted towards identifying potential liquidity risks in portfolio companies and positioning the portfolio with an emphasis on those companies that are more likely to demonstrate operational and financial resilience in these testing times. Despite the ongoing public health crisis and geopolitical developments, including Brexit negotiations and this year's US presidential election, we maintain our view that the favourable dynamics of medium- and small-sized companies will continue to drive superior returns over the long-term.

. . . .

Colin Clark, chairman of Merchants – 24 April:

The impact of covid-19 is a very present shadow at the moment and, as we write, markets have produced sharply negative returns in the first weeks of our new financial year. There is clearly going to be a significant impact on the economy, corporate

profitability and dividend income in addition to people's health. We are already seeing numerous company boards taking a cautious approach to payouts and some have decided to postpone or cancel dividend payments.

Our managers believe that, after the sharp pull back in the market, the UK stock market is offering good value and is one of the cheaper world markets. Against this backdrop they continue to seek out strong, structurally well positioned companies, paying above-average dividend yields, and trading on attractive valuations.

. . . .

North America

(compare North American funds **here**)

Timothy Parton and Jonathan Simon, managers of JPMorgan American – 7 April:

Market review

The S&P 500 Index ended 2019 with a return of +31.5% in US dollar terms and +26.0% in sterling terms. It was a strong performance but came from a low base as 2018 finished on a very weak note. Relative to other major markets, the US outperformed Europe as well as emerging markets in 2019, a trend that has now been in place over the last ten years.

Despite the strong market performance in 2019, it was certainly not all smooth sailing as investors faced plenty of concerns, including an inverted Treasury yield curve in the early part of the year which prompted fears of slowdown or even recession. Also adding to volatility was the escalation in trade tensions between the US and China. The summer brought with it a significant change in direction by the Federal Reserve as it moved from interest rate raising to rate cutting. In spite of this more accommodative policy shift, further trade fears and weakening global manufacturing data prompted a sharp but brief August pullback (as is quite often seen in the slow summer months).

These and other potential headwinds were nevertheless absorbed by the market and overall economic data remained quite resilient, supported by stimulative fiscal and monetary policy, both unusual to see at this later stage of the economic cycle with such historically low levels of unemployment. The consequent market rally was powerful and steady, an acknowledgement that the Fed effectively had the market's back, and a Goldilocks environment could continue. In such a liquidity-driven phase, and with profit growth subdued, the big driver of stock price gains was an expansion in valuations, as the S&P 500 ended the year with a forward P/E of 18.2x, rising above its 25-year average of 16.3x. Valuations in sought-after higher growth areas inflated considerably more.

While all sectors of the S&P 500 posted positive returns for the year, the clear leader was the information technology sector which surged nearly 20 percentage points more than the S&P 500 with a gain of 50%, and was also far ahead of the next best performing sector, communication services, which includes Google, Facebook and Netflix and posted a gain of 33%. Energy and health care names were significant laggards as oil prices and election rhetoric weighed on these two sectors.

In terms of style and market capitalisation, growth strongly outperformed value by almost ten percentage points, a trend that has been in place for several years; and large cap stocks outperformed their small cap peers.

. . . .

Jon Brachle, Dan Percella and Jon Brachle, managers of JPMorgan US Smaller Companies – 8 April:

We continue to focus on the fundamentals of the economy and of company earnings. Our expectation entering the year was for moderate economic expansion and continued earnings growth predicated in particular on a healthy US consumer. The outbreak of the covid-19 virus in China, and subsequent rapid expansion globally has injected significant near-term uncertainty into our near-term outlook in particular, though we believe the economy entered this period of uncertainty in a strong fundamental position. While nearly impossible to quantify at this point, we expect economic growth to be materially impacted in the first half of 2020, despite emergency rate cuts by the Fed and growing fiscal and monetary stimulus globally. If the virus is contained in the near term, there's a possibility for re-acceleration in the second half of the year as pent up demand is released, though the bottom is unclear at this point.

. . . .

Manager's report for North American Income – 23 April:

Review

Despite numerous bouts of volatility, major North American equity market indices posted sizeable gains over the 12-month period ended 31 January 2020. Markets were buoyed for much of the review period by generally positive economic data reports and news of a phase one agreement in the US-China trade dispute. However, towards the end of the period stock prices fell sharply on investors' fears surrounding the potential negative impact of covid-19 on the US economy and corporate earnings. These fears proved to be justified following the end of the financial year, with the stockmarket declining sharply in February and March. The depth and duration of the impact of covid-19 remains unknown, and investors broadly have taken down market exposure in the near term.

On 11 March, the World Health Organization (WHO) declared a global pandemic for covid-19. Governments globally have been working to slow the spread of the disease, implementing strict travel restrictions, closing schools and universities, and encouraging social distancing. These events, and the uncertainty about how things will continue to develop, have led to significant market volatility and forced central banks to take unprecedented action. However, as of early April, this had done little to calm market fears.

In economic news, US GDP grew at annualised rates of 3.1% in the first quarter and just over 2.0% in the final three quarters of the year as consumer spending continued to drive the US economy while corporate spending was hampered by trade policy negotiations globally. US payrolls expanded by an average of 171,000 per month during the financial year, and the unemployment rate declined 0.4 percentage points to 3.6%.

Outlook

As expected, Fed monetary policy remained on hold in January, but the subsequent easing of its benchmark interest rate to near 0% in March was clearly unexpected at the start of this year as covid-19 essentially led to an economic shutdown. The Fed has also embarked on additional QE as a means to prevent the monetary system from seizing up. The fourth-quarter 2019 earnings season in the US was largely "better than feared." The pace and the severity of the reversal, driven by the market's reaction to the spread of covid-19, is more marked than anything seen in developed markets for generations. The situation is developing so fast that it is hard for anyone to make any predictions about when a meaningful recovery will take hold.

. . . .

Europe

(compare Europe funds **here**)

Eric Sanderson, chairman of BlackRock Greater Europe – 27 April:

The covid-19 outbreak and containment measures have continued to disrupt the world's economies and asset markets, despite significant monetary steps having been taken. The scale of market moves has been reminiscent of the global financial crisis and some sectors will be particularly badly impacted. The depth and duration of the economic impact is unclear, as there is considerable uncertainty around how long containment measures will be needed and how quickly economic activity will restart.

The outlook for Europe as a whole is dependent to some extent on whether the measures put in place by the European Central Bank, the European Commission and the European Investment Bank will be enough to underpin the European economy, safeguard livelihoods, and drive the recovery. We also need to see how successful countries reopening earlier, including Denmark, Switzerland and Germany, will be in terms of containing covid-19's spread.

The Eurozone should benefit from accommodative monetary conditions and liquidity support by the European Central Bank, the lifting of the trade war uncertainty and a recovery in global manufacturing.

. . . .

Jamie Ross, manager of Henderson Euro – 2 April:

The very nature of a novel virus is that no-one really knows how fast and efficiently it will spread and to what extent we can introduce measures, including perhaps vaccines eventually, to slow its spread and its impact. The uncertainty associated with covid-19 has had a material impact on the markets that we operate in and on the specific companies in the portfolio. It is hard to think of a time when sentiment has changed so far, so fast, as it has in the last few weeks.

As the covid-19 virus has continued to spread across the globe, we have been spending a lot of time thinking about what a post-virus world will look like and what structural changes to consumer and corporate behaviour we can expect. There are many different themes to consider, but I will focus on three for the moment. First, it is clear to us that we are likely to see an increasing virtualisation of business life. Management teams will realise that more flexible working arrangements can bring multiple benefits; we will see more people working from home, smaller office spaces, more meetings being conducted online and less corporate travel. Second, we are likely to see an even faster adoption of e-commerce, with consumers increasingly preferring to transact online rather than in crowded shopping centres. There will be some individuals who have found themselves during this crisis period ordering a takeaway using a mobile app for the first time, or opting for daily essentials to be delivered rather than collecting them in person; these new habits are likely to become entrenched. Third, factory-heavy businesses will realise that it is becoming ever more important to automate as much of their production as possible to enable them to survive in these kinds of environments.

Giving an outlook at moments like this is a hard task; it is impossible to ascertain the moment when panic turns to greed and markets could yet see new lows. However, with the global, coordinated effort to slow the covid-19 pandemic, it is possible to simultaneously take the threat very seriously indeed and yet be optimistic about the future. In my view, it will pay to be sceptical in the short term, but optimistic in the long term.

Japan

(compare Japan funds here)

Manager's report for Schroder Japan Growth – 17 April:

Market background

Sentiment towards Japanese equites generally fluctuated in line with geopolitical tensions but was ultimately helped by signs of some easing in relations between the US and China and expectations for the signing of a Phase 1 trade agreement. Foreigners returned as net buyers of Japanese equities from September onwards, which also influenced the type of shares being sought and sector performance. In reaction to the market strength, the Bank of Japan stepped back from its ongoing ETF purchases in the fourth quarter of 2019 and therefore undershot its own target for the calendar year.

Japan's economic data continued to show a significant divergence between the strength in service sectors and the weakness in manufacturing. There were also signs that the long-running trend towards an ever-tighter labour market had finally reached its natural limit as Japan has effectively been operating at full employment for some time.

The main domestic events were the Upper House election in July, which was won comfortably by Mr Abe's Liberal Democratic Party, and the increase in consumption tax on 1 October. Some evidence of front-loading of demand ahead of the tax increase was visible, but it is now clear that the subsequent downturn has been greater than consensus expectations, even if allowance is made for the devastating typhoon that hit central Japan in October. In response to the weaker data the government announced a significant supplementary budget, with a particular focus on reconstruction. Investors generally responded positively to this planned fiscal stimulus but towards the end of the period, the covid-19 outbreak and associated supply-chain disruption raised fears of a second consecutive quarter of economic contraction.

At the individual stock level there have recently been several positive examples of corporate activity, which we see as a direct consequence of Japan's drive towards better corporate governance. Some of the contested situations have again focused attention on the rights of minority shareholders and the ways in which value may be realised from within Japanese companies.

Outlook

Although there could be additional downside from a more extended global slowdown, a significant earnings downturn was already priced into Japanese equities by mid-March. Although short-term earnings remain under pressure, market valuations have also adjusted quickly and the prospective PE ratio of 10.2x for 2021 and the Price-to-Book ratio of 0.85x continue to look attractive against Japan's recent ranges, and compared to other developed markets. While we are unsure of the exact path for earnings revisions in 2020, the most important point will be when investors move their forecast horizon to a more normal period in fiscal year 2021. On a relative basis, there should be a greater potential upside for small companies, given their recent sharp correction against large caps.

For now, however, we need to be aware of persistent volatility around the news flow on covid-19 and the associated policy responses. In the very near term the most likely

impact on sentiment in Japan could come from additional restrictions on domestic travel and activity within Tokyo and the current situation provides multiple reasons for companies to be extremely cautious in their forecasts for the fiscal year just starting.

There could be an additional risk for Japan from any persistent yen appreciation, although there has been no evidence of this yet. Despite the current volatility in exchange rates the yen has remained broadly in a range that should have limited incremental impact on corporate earnings.

We should also remember that the long-term structural improvements we were seeing in Japan are unlikely to be permanently reversed, even if they seem to be overwhelmed by short-term news flow. Corporate activity continued to surprise positively in the early part of 2020, with individual cases of contested takeovers breaking new ground for Japan in the past few months. We continue to see this as a natural extension of stronger corporate governance and the drive towards better capital allocation that ultimately has the potential to close the valuation gap between Japan and other developed markets.

We are particularly interested to see the near-term path for share buybacks, which hit a new record high in March. The strength of Japanese balance sheets provides a competitive advantage for Japan in the current environment and would allow companies to continue to buy back their shares at depressed levels more easily than their global peers. Although we may see some companies cutting dividends this year, we would also expect the aggregate reduction to be less severe in Japan, as was the case in the aftermath of the global financial crisis.

Of course, we understand the risk of a more serious economic impact in the near future, especially in Japan, given a high level of risk aversion and the integration with supply chains throughout Asia. Nevertheless, on any long-term time horizon, we should view sharp sell-offs as opportunities to build positions in our highest conviction ideas: the investment process focuses on strong balance sheets, quality management and improving corporate governance, which should mean the companies we own will emerge in even stronger market positions than before.

Policy

Market dynamics have tended to favour a relatively narrow range of stocks, reflecting global political and macro issues, rather than stock-specific factors that we would normally expect to drive performance. The impact of the covid-19 outbreak has obviously clouded the short-term outlook but has not led us to change our longer-term views on Japan. Even without any sharp changes in factor leadership from here, we should ultimately expect a return to a more normal environment in which individual stock factors are the primary driver of long-term stock price returns

We continue to expect that the most likely way for Japan's relative undervaluation to be narrowed will be through better corporate governance, rather than any step-change in trend growth. The most pervasive element for change is the stronger pressure being applied to company managements from institutional investors to deliver a higher return on equity and better shareholder remuneration.

Asia Pacific

(compare Asia Pacific funds **here**)

Aberdeen Standard Asia Focus – 8 April:

Even before the onset of the virus, global stock markets, Asia included, had a rollercoaster ride for the half year to 31 January 2020. Markets began on the back foot

as US-China trade friction compounded worries about slowing global growth. Optimism returned after both sides resumed talks and reached a partial pact eventually. This was further helped by monetary policy easing worldwide, while we saw additional stimulus in Asia to shore up growth.

Outlook

With events unfolding rapidly, it is more difficult than ever to make firm predictions. Governments across the world are now focusing on the health and safety of their citizens, while also introducing a variety of measures to mitigate the economic fallout. Typically, such measures have so far been a combination of a further lowering of interest rates, which we have seen across many countries, and targeted relief to particularly affected sectors. Clearly, as what short-term evidence is available demonstrates, economies have slowed dramatically as end demand has fallen sharply. Restrictions on travel and public assembly have notably hit tourism, consumption and retail. Although the consequences are often felt most acutely by small and medium enterprises (SMEs), the companies in which we invest are not in as precarious a position as SMEs in general, being to a large extent helped by their strong balance sheets and industry-leading positions.

Although it is impossible to predict timelines, the case of China does suggest how countries can tackle the problem and start to normalise. Rigorous measures imposed early on appear now to mean that daily life in China is returning to normal, with restaurants and factories reopening. Clearly, international travel restrictions still apply, and these are likely to apply for a while, to prevent re-importation of the virus. With other Asian countries taking similar measures, notably Singapore and South Korea, we see this as being the pattern emerging across the region as the year progresses.

. . . .

James Will, chairman of Asia Dragon – 21 April:

At the time of writing, the situation remains highly fluid. Financial markets, after their initial heavy falls, are seeing wild swings as optimism about stimulus is tempered by the worrying covid-19 news flow and gloomy economic data. With virus cases still rising, notably in the US and Europe, the widespread travel curbs, border closures and lockdowns of entire cities should help to stem the virus' spread, but the economic impact will be considerable. Sectors such as manufacturing, tourism and retail are likely to bear the brunt. Governments' policy support, including stimulus packages, tax relief and interest rate cuts, should help soften the blow but with the duration and magnitude of the downturn still unknown, the volatile conditions are likely to persist for some time.

Ultimately, the best way to mitigate risk in a climate dominated by fear and volatility is a continued focus on the fundamentals.

. . . .

Manager's report for Fidelity Asian Values – 29 April:

This is an unprecedented event for everyone, and investors are having to opine on a topic for which they are not trained. Even scientists and epidemiologists are not certain in terms of how things will unfold over the next few months. Having said that, undoubtedly the economic impact will be quite severe in the short-term on both demand and supply. Looking at current earnings forecasts is pointless given the fluidity of the situation. We can model scenarios but frankly the dispersion in outcomes makes them meaningless. There are a number of unknown factors. For example, as China emerges from its lockdown measures, could we have a second wave of infections? Factories cannot "work from home" so the risk of a resurgence in cases certainly exists. For the rest of the world, we do not know how long the lockdown must last and, once lockdowns

are lifted, the degree of freedom of movement that will be allowed. It's very difficult to forecast when the recovery will begin and whether it will be quick or long drawn.

My working assumptions are listed below. I would take these views with a pinch of salt as forecasting a pandemic is obviously beyond my core competence. I am by no means a trained epidemiologist.

- Short-term: The disease has now spread globally, and I would expect governments to be conservative in easing restrictions. I would expect a few waves or a continued (but controlled) flow of cases in most countries. This implies that the world economy will be on a hand brake until a medical remedy is found or nature takes a different course.
- Long-term: I think this will be contained – through natural causes or a vaccine. In two years', time, it's unlikely that there will be a significant impact on how the world functions. Some industries will change, some companies will fold; but on the whole the world should be able to return to normal.
- Economically, I expect earnings to get downgraded materially across most sectors. There will be disruption of both production and demand. Weak balance sheets should worsen, and we may see some bankruptcies of weak businesses.
- Unemployment rates will rise and will take time to bring back down. This will dampen the pace of recovery.
- Falling mortgage rates and low oil prices will boost consumer spending as we recover. However, overall, I expect heightened volatility until such time as things start to improve. Markets will react (maybe overreact) to every data point as forecasting disease patterns is beyond our circle of competence and every data point gets extrapolated.

The new economic reality due to covid-19 has had an impact on our portfolio as well. Businesses we own will be impacted either due to lack of demand and/or due to lockdown of their facilities. Most businesses that we own have low levels of debt (actually most have net cash on their balance sheets) and will be able to weather the storm. They should come out in a stronger position (as weaker competitors either shut shop or are unable to invest in the business) as the economy stabilises. However, there are a few businesses which cannot endure zero revenues. As a result, I have made the following changes to the portfolio:

- Sold out businesses which, even though they had a reasonable balance sheets, will not be able to endure the fixed cost burden during a lockdown. These were a small part of the portfolio (at about 1-2% of total assets).
- Increased the average quality of businesses that we own. There are businesses which I have known and admired for a long time, but which were historically not available at attractive prices. During this sell down, they came to prices which made sense to me and I have decided to invest in them. I have funded some of these by selling some existing holdings where I felt the stock market had not reflected the damage caused by covid-19. I am taking this opportunity to increase the quality of the portfolio without sacrificing our value discipline.

Outlook

I am unable to explain market sentiment of many stocks. There has been a dominance of growth companies, momentum strategy and stocks that fit a narrative (Technology, Bio-tech, Chinese Consumer, etc).

Stocks which are ignored or cheap, have become even more ignored. At times, the narrative of the stock market is different from the reality of business. This is true for value equities currently and cheap stocks have underperformed severely, with the

valuation dispersion expanding further in the last few months. On a relative basis, the last time small cap value stocks were this cheap was in 1999!

Over time, the quality of business and valuations will matter.

The long-term value of any business will be driven by the cash flow it generates. Short-term market opinion on the value of a business should be meaningless except its impact on investor psychology and unless we are forced to transact at these depressed valuations.

. . . .

John Russell, chairman of Henderson Far East Income – 23 April:

We are experiencing the most severe economic shock in living memory. The most recent forecast from the IMF suggests global growth in 2020 will be minus 3%, signalling the worst recession since the Great Depression.

As expected, stock markets have fallen but the speed of the fall has been truly frightening. We have not seen anything like this since October 1987 ('Black Monday') when markets in both the US and UK fell 23% in the first two days while Australia, one of the worst affected markets, fell 40%. By comparison in 2008 the S&P 500 fell 30% but over a twelve-month period. This time it took just one month. Is it any wonder investors have succumbed to blind panic?

In 1987 markets were recovering in a sustained way by November - just one month later. Usually markets recover more slowly and with higher volatility. What can we reasonably expect this time?

The current decline in economic activity is not the result of a collapse in demand but an intentional business shutdown and a collapse in supply. Companies today are much healthier than in the global financial crisis of 2008/9 with strong balance sheets and robust businesses. While unfortunately some companies in the worst affected areas; travel, pubs, entertainment, will not survive, the bulk of the business establishment is ready to restart when given the go ahead.

Things could get worse but environments of real panic, of the sort we are currently witnessing, can often create real opportunities for disciplined long-term investors.

Monetary easing and rapid fiscal expansion is now happening almost everywhere as central banks improve liquidity and limit the damage. Interest rates have fallen to a level causing real problems for insurance companies and pension funds trying to match returns with their guarantees to policy holders and pensioners.

Over the decade to December 2019, 56% of total equity return in Asia Pacific came from dividends and this is our investment focus. This may seem counter intuitive as many investors rightly perceive Asia as a region of high growth, rising middle class, high consumption growth rates and a vibrant tech sector. Why, they ask, in this environment should investors seek companies paying out high dividends which they also equate with low growth? In reality, companies paying out high dividends are often growth companies whose management teams are confident in the outlook for their company and their ability to sustain the dividend going forward and respond accordingly.

As a guide to the outlook for Asian dividends the experience of 2008 is useful. As the money dried up and the whole financial system went into lockdown companies in the MSCI Asia Pacific ex Japan Index responded accordingly - while 45% of companies cut their dividend, 32% increased the dividend and 23% stayed the same.

As we go through the crisis, we can expect enhanced volatility and perhaps further instances of panic. However, in a world of ultra-low interest rates the case for equity income investment remains strong and Asia Pacific provides opportunity.

. . . .

Manager's report for Pacific Assets – 7 April:

Last year, many companies favoured by the market delivered high returns driven by interest rate-fuelled valuation inflation. Going forward, it is hard to see such an environment repeating itself and returns are likely to be much more a function of earnings growth, which is usually the case.

The outbreak of covid-19 adds another major variable to the mix. We will refrain from making any exact predictions on how it will impact both demand and supply for the global economy and the Trust's holdings – it is too early to tell. So far, the selling has been indiscriminate and dramatic, which is often the case in the initial stages of a significant correction. We expect to see more discernment emerging as the world adjusts to the new environment of reduced economic activity. In the long-term the impacts of covid-19 will be wide and unparalleled. We are still at the beginning of the beginning.

These are extraordinary times, but we have been here before. Who would have thought that 3m South Koreans would queue up in 1997 to hand over US$2bn worth of their own gold to the Government to help pay the national debt? The history of Asian markets is full of extraordinary times. Fortunately, the resilience of Asian companies, and particularly their emphasis on net cash balance sheets, should leave good quality Asian companies well placed to weather this storm, just as they have done many times before. What we can do is ensure that the companies we own are as resilient as possible to uncertainty. Corporate memory of historic crisis, non-discretionary cash flows and strong balance sheets are all valuable assets in such scenarios.

. . . .

Robin Parbrook and Lee King Fuei, managers of Schroder Asian Total Return – 15 April:

Outlook

The first point to highlight is that any discussion of the impact of covid-19 is bordering on the realms of speculation. If the virus impact is 3 months and we relatively quickly return to normal then the long-term implications whilst still significant may be less serious. If the virus continues to spread globally and restrictive measures to restrain the virus remain in place till the end of year clearly the implications are much greater.

So, what are we doing to protect the company's investments? Firstly, we are trying not to constantly watch the depressing news headlines but instead to take a step back and think. The world will materially change post covid-19. The depth and speed of the change will depend on how long-lasting the measures to contain the virus are. Regardless of this we now believe that the crisis will mark a significant structural change in economic policy - and for historians will mark the end of the 1980-2020 period of effectively unfettered capitalism in the West. Before our eyes we can see massive government intervention in private sector operations, whether it be compulsory orders for landlords to offer rent-free periods, instructions for banks to cancel dividends, and Government directed bank lending. All of these marks the end of the mostly unfettered operation of Mr Smith's invisible hand that the managers have known throughout their combined 50-year investment careers.

It is also possible at a macro policy level that we are moving to a different era in most countries. The fusion of fiscal and monetary policy is about to become the norm and the independence of central banks, quantitative easing policies, the financialisation of assets (where policy drives asset prices not the economy) and the belief that relatively

unfettered capitalism is the best approach to economic management is coming to an end in most countries. We are in our view moving to a new era for policy making.

Whilst short-term collapsing economies are likely to be deflationary and we could see government bond yields fall further, we think the policies to offset the severe slowdown caused by covid-19 are likely to be similar, ultimately, to some form of MMT (Modern Monetary Theory - basically where fiscal expenditure is primarily financed by the printing of money). These policies may ultimately signal the end of deflation and the secular stagnation we have seen since the global financial crisis in 2008.

Other trends are likely to combine with this, including:

- The end of rising globalisation and the optimisation of supply chains. Globalisation was already starting to reverse (trade as a % of global GDP) as countries increasingly questioned an excessive reliance on China, and the complexity and risks of relying on supply chains in multiple far-flung places. Onshoring will become the increasing norm. This will call into question the development model currently pursued by many emerging economies.
- Big Government will be the new popular mantra. Again, like the trend in Globalisation this was starting anyway. Whether it be Mr Trump in the US with his populist policies or the new conservative government in the UK with their plans for a better society. Millennials and Gen Z are clearly much more open to Big Government and populism versus the Boomers and Gen X generations who remember the woes of the 1970s. Big Government will mean governments increasing control and direct capital investment, research and development expenditure, and governments owning or controlling key critical economic infrastructure (transport, utilities, telecoms, banks).
- Higher taxes - the rich will be expected to pay more, whether via income tax, sin taxes, capital gains, wealth taxes, property taxes - governments can be innovative, when it comes to taxes at least. Minimum income guarantees may also become entrenched in many countries especially those that have effectively introduced them due to the covid-19 crisis.
- Crony capitalism will be out. Buy backs will be penalised as will CEO compensation that is set at extreme levels. The trend where CEO pay goes to ever-higher multiples of average employee earnings will reverse (thank goodness).
- The Euro is finally stabilised/saved as Germany agrees to fiscal largesse and we move to a Federal Europe - without this the Euro will probably collapse if the current crisis is prolonged. MMT style policies may then engender the need for capital controls/financial repression (the forced holding of government bonds by domestic institutions such as banks and insurance companies) in many countries in order to ensure governments are not beholden to markets.

Clearly the above is speculation but we are fairly convinced by the direction of travel on the above issues albeit not the speed. In reality the world in two years time may look more like the post WW2 period when governments in the West faced with huge debt burdens and exhausted, war weary populations, looked to the policies above to create a fairer society and to inflate away unsustainable debt burdens. It also interestingly set up a policy regime not so different from that which prevails in China today, albeit with no democracy and a lack of the basic liberal freedoms we know in the West.

Moving on - what does this mean for investment? If we are correct on our thesis above it is not a backdrop in which assets generally do well. Clearly cash and bonds are unlikely to do well. Some areas of property and equities should be a better inflation hedge - but key will be to be focus on those areas less prone to government intervention.

Asian equities themselves strike the managers as one of the better places to be as the crisis unfolds and the policy response comes through. Starting government debt levels in Asia are much lower than in the West so the extent of the policy reset above may be less in Asia. Whilst not immune from the structural changes above we are less worried about the impact of the new "Big Government" on our asset class, and of course in China "Big Government" is already the norm.

Going back to the current situation in Asia what investment decisions are we taking within the company given the unfolding crisis? Key at the moment when analysing investments is cash - in a crisis cash is always king. The second key is the balance sheet and in particular the level of debt, the terms of the debt (covenants etc.) and the maturity of the debt.

However, the good news is most holdings in the company have net cash on their balance sheets. One of the positive consequences of operating in a region that is volatile and has faced several crises over the last 20 years (Asian financial crisis, TMT bust, SARS, Global Financial Crisis) is listed corporates in Asia don't trust banks and tend not to rely heavily on debt for their financial needs. They are mostly family owned corporates in Asia run with conservative balance sheets and fund investment and dividends from underlying cash flows. Debt levels within the listed Asian equity markets are the lowest of any major asset class, and interest cover is good.

This is not to say investing in Asian Equities is without risks. Bond issuance has grown over the last few years, and in particular US$ bond issuance has spiked and often this is mismatched on a currency basis as it has been for bond issues by food, beverage and tobacco companies (FBT), or property companies, that earn their revenues in local Asian currencies. We are cautious in particular on Chinese property stocks and ASEAN companies carrying US$ debt.

Other than reviewing corporate balance sheets with a fine toothcomb what action are we taking within the portfolio? With markets having collapsed in March we are starting to see some good opportunities to pick up favoured stocks. Two of the valuation indicators used in the portfolio are pointing to crisis level valuations. Both our top down indicator (CVI) and the bottom down indicator (BVI) are now at the "buy" trigger level. This is the level at which we normally remove any capital preservation strategies (futures and options) and potentially look to deploy gearing.

Thematic views

- We are looking to buy quality, growth businesses - we are not looking to buy value stocks (for the reasons highlighted in the section of our original report below). We think the current crisis may cause the trends around disruption to accelerate. A crisis is likely to mean the death of many old business models and ways of doing business. Necessity will be the mother of invention.
- We are principally looking at businesses in areas of secular growth where technology change and/or changes in consumer behaviour are driving their business. Companies we have been accumulating on weakness are companies like Cochlear (hearing aids where technology is growing the addressable market), SEA (on-line shopping in ASEAN - where the crisis we think has led to a structural step up in e-commerce activity), Mediatek (chip designer benefiting from the rise of auto electronics, factory automation, 5G handsets, and greater use of sensors), Seek (on-line recruitment in Asia and cloud based HR services).
- What aren't we buying? We are in general avoiding/cautious on ASEAN and Indian stocks. We discuss in some detail in the original report below our reasons for structural caution on these economies so we won't rehash our arguments here. But it is quite clear to us that if this crisis continues to worsen you want to invest in economies with stronger, effective governments and a

good institutional framework. This favours Singapore, Australia, Taiwan, Hong Kong and China. India and the Philippines' very inept handling of the covid-19 crisis so far demonstrates how a crisis can potentially lead to disaster and social unrest (we hope it doesn't come to this but are worried at time of writing).

- We also remain very cautious on banks and property. Banks as usual are likely to become the whipping boys in a crisis even if this time round they are not the major cause of the crisis (this is credit markets/ funds, in our view) and have much better balance sheets. They are going to be required to do national service. As appears to increasingly be the case for those evil, capitalist hoarders like landlords - will rent free periods for retailers and food and beverage operators become the norm we wonder?
- Other trends we think may accelerate because of the current crisis are online learning, home working, less commuting, e-commerce, less materialism, less foreign direct investment (putting paid to some emerging countries' growth models), more onshoring of factories to the country where their products are sold (helping some specialist capital expenditure plays in Asia).

In summary then we think the current crisis will mark a sea change in both popular attitudes and government policy making and will go down in history as potentially the end of the 1980 to 2020 period of relatively unhindered global capitalism. If we are correct that we ultimately move to MMT style policies, big government, financial repression and inflation - equities may be the least bad place to be. Within this Asian equity with much lower corporate gearing and less top down policy risk stack up reasonably well. We expect very significant volatility to come but do see good opportunities emerging in some of our favoured investment areas.

Longer term investment trends

1. China outlook - slower but better growth?

Our views on the China economy are, broadly speaking, for more of the same (assuming the covid-19 impact is limited). We do not see the economy accelerating and expect no major stimulus measures. This is based on the assumption that the People's Bank of China (PBOC) keeps the upper hand and continues to work on dealing with the excesses of the past - the huge credit bubble and subsequent bad debts created by the monetary largesse following the Global Financial Crisis (GFC).

China now appears to have contained the credit bubble and credit is growing at a more sustainable level. To give credit to the authorities, they have also started to deal with bankrupt banks and bad debts, and we are also seeing some defaults, as well as smaller bad banks being merged with larger banks. In our view this process is likely to be gradual and ongoing. While we would, perhaps, prefer a shorter, sharper shock (which might throw up volatility and opportunities), this is clearly not the way of the world in China, or elsewhere, these days. The PBOC clearly wants to deal with the mess gradually without risking panic, deposit flight, and a potential capital account and/or currency crisis. With the better banks likely to remain part of the solution, and interest rates likely to stay very low as the workout continues, we continue to avoid Chinese financials despite their apparent low valuations.

So, what does this mean for the Chinese economy and profitability? Deleveraging and excessive debt levels are disinflationary (i.e. lowering inflation) and this, combined with ageing demographics and current trends in industrial disruption (which we believe are also disinflationary), are likely to mean that growth in China will slow further. We see no reason to expect a pick-up in growth over the medium term and, despite the optimism in the stock market, we do not expect to see a rapid improvement in profitability.

Why then is about half the portfolio still in China stocks? There are some structural trends in China which we think are very supportive of growth; as a result, while old China - the banking, property, heavy industrial, oil, and cyclical sectors - may struggle, new China can still grow. While we are often critical of the Chinese authorities, sometimes command economies can quickly get good outcomes. The education system has rapidly improved over the last 20 years - whether measured by university rankings or the numbers of well-qualified graduates. A smaller but better educated and hungry workforce should mean productivity growth continues and entrepreneurship remains strong in China.

This, when combined with infrastructure that is superefficient and a rapid move to a more efficient, mobile-based economy, provides a further boost to productivity growth in China in both the industrial and service sectors. On our trips to China, we continue to be amazed by how rapidly key parts of the economy are progressing - large Chinese cities look and feel much more like first world cities than a typical city in a middle-income Asian country.

The other facet of China we continue to be surprised by is the upgrading of product quality in the industrial and service sectors. China now spends as much as the Eurozone on research and development and is increasingly a leader in many technologies; the days of China just being the low-cost factory of the world are passing. We believe Chinese companies to be key players/leaders in areas such as telecoms infrastructure, electric vehicles, white goods, electronic products, renewable power, internet gaming, and e-commerce (where Amazon is rapidly losing out in most Asian markets to competitors backed by Alibaba and Tencent). Our focus within the portfolio is, therefore, not to fixate on Chinese growth and politics but to focus on the major structural changes and the companies that are likely to benefit from this.

2. Why we have little exposure to ASEAN and India

Despite the main stock markets in ASEAN - Malaysia, Thailand, Indonesia, and the Philippines - posting relatively poor performance over the last 12 months, the portfolio continues to have effectively zero exposure to ASEAN (except for Singapore). The portfolio also has only 6% exposure to India as we struggle to justify the high valuations that Indian blue-chip stocks trade on.

The more we look at ASEAN, the more we believe the region is stuck in a classic middle-income trap. Measures of corruption and the ease of doing business remain poor across ASEAN and India. Politics appears to be deteriorating, with vested interests and questionable elements increasingly prevalent in Thailand, Indonesia and the Philippines. Populism in ASEAN is on the rise, as in much of the world. The rule of commercial law, whether it be the ease of paying taxes or enforcing property rights, is poor in much of ASEAN (especially the Philippines and Indonesia); India however comes right at the bottom of the heap, particularly in terms of the ease of paying taxes.

The consequences are disappointing investment rates, poor productivity growth and sluggish economic growth.

Our conclusion, therefore, is that, without change, the middle-income ASEAN countries and India will continue to experience disappointing growth and will end up in middle income traps similar to those of much of Latin America. The current sluggishness of many Asian economies is in our view primarily due to structural factors, not cyclical issues.

What does this mean for ASEAN stock markets? Given that most markets have been weak, are these issues at least partly reflected in prices? We are not convinced. Markets in ASEAN are heavily weighted towards banks, property and energy stocks and have almost no exposure to new economy or growth stocks such as technology and internet stocks, that is, the disruptors. Given the subdued growth outlook, and the structurally poor positioning of many companies to disruption and technological

change, we find ASEAN markets expensive. We are not saying that we will not invest in ASEAN - there are some very well-run companies there - but we need stock prices to reflect the more challenging domestic outlook.

India raises more debate. Ignoring the increasingly questionable 'edge' to Mr Modi's policies, we would accept that he has undertaken some sensible policy initiatives and that India is at a different, and earlier, stage of development to ASEAN. The country should, therefore, be able to produce reasonable growth. However, we are not seeing this at the moment.

We are not sure if the weakness in the economy is all cyclical (given the problems in the banking system) or partly structural. The consensus, especially among the Indian stockbroking community, is it is primarily cyclical and we will see a strong rebound this year.

The market, however, has made decision-making easier. India is the most expensive market in Asia despite the challenging backdrop and the deterioration in returns on equity. Profits have, in the main, consistently disappointed over the last five years and we see little prospect of a sustained turnaround. Unless we see a significant correction in our favoured blue-chip stocks, exposure to India is likely to remain below 10%.

3. Value stocks, internet stocks and disruption

Prior to the covid-19 pandemic the biggest point of debate among the Asian investors at Schroders was whether 2020 would be the year when value investing finally came back after a decade of underperformance?

We do not expect the trends around disruption to reverse; indeed, we think quite the opposite in many areas of Asia, particularly finance and retail, where we forecast an acceleration in disruptive trends. Hence, we worry much of the value universe is a 'trap'. In particular, we are cautious on traditional automobile companies in Asia. When we visit them, the perception remains that car ownership will follow historic trends despite evidence to the contrary and dreadful traffic jams. We would not be surprised if we are close to peak car ownership globally. Also, we struggle to see how most of the manufacturers will make money from electric vehicles and we expect margins on traditional internal combustion engine cars to remain under severe pressure. This is a sector we continue to avoid.

Asian banks are more interesting. Yields are attractive and the better banks are trying to adapt and roll out digital banks while addressing legacy cost issues. We have some exposure to banks in India (namely, the best private sector banks) and Singapore (which will benefit from Hong Kong's woes); however, in general, we think banking in Asia will be a tough place. We expect margins to remain under pressure as interest rates stay low and digital banks take market share. In much of emerging Asia, we think consumers who are often unbanked will skip directly to digital banks, foregoing traditional banking which often offers a poor legacy service. Therefore, we are not giving up on traditional banks but seemingly cheap valuations cannot be the only criteria to own them - they also need a niche and the ability to adapt. Well-funded digital banks and fintech start-ups may not make much money but they have the potential to be very disruptive.

Does this mean the portfolio is just full of 'sexy' internet stocks? Definitely not, as it is becoming clear that not all internet stocks are winners. Some internet stocks - such as Uber, Trip Advisor and WeWork) have not yet seen the benefits of scale drop to the bottom line.

Perhaps this is not surprising; "did travel agents and taxis ever make great returns?" Could low barrier to- entry industries in the bricks-and-mortar world remain low barrier to entry in the internet universe? This means we want to focus on internet stocks that can get scale and high user stickiness.

. . . .

Manager's report for Scottish Oriental Smaller Companies – 3 April:

Review

Asian stock markets rose over the six months ending 29 February 2020. Investor sentiment was positive for most of the period on improving US-China trade relations. However, the outbreak of covid-19 impacted stock markets severely in 2020 as concerns grew about the likely social and economic impact of the disease.

Taiwan's stock market performed best of the major markets over the period, driven by strong performance from technology stocks. China's stock markets also produced positive returns over the period. Having risen in December on an improved US trade outlook, they initially weakened under the threat of covid-19. However, the strong response from the authorities saw Chinese markets quickly rebound. By contrast, South East Asia's stock markets performed very poorly: Indonesia, Malaysia, the Philippines, Thailand and Vietnam all fell sharply. Despite being less affected by covid-19, these economies are heavily dependent on Chinese demand. Thailand was the weakest of these markets, with its large tourism industry seeing a significant downturn.

Asian smaller companies underperformed their larger counterparts. Returns were considerably worse for smaller companies in Indonesia, South Korea and Taiwan.

Outlook

The recent outbreak of covid-19 and the speed of its spread is unprecedented. Its initial impact has been severe and it is difficult to comment on the ability of governments worldwide to contain the disease or mitigate its economic impact. However, the monetary policies of the last decade have given policymakers much less flexibility than would be desired for dealing with the current dramatic slowdown in the global economy. In terms of containment, few if any, countries have the same level of control over their citizens as China does. This results in a highly uncertain outlook.

. . . .

Latin America

(compare Latin America funds **here**)

Sam Vecht and Ed Kuczma, managers of BlackRock Latin American – 7 April:

Market overview

Latin American performance was relatively volatile throughout 2019 as sentiment shifted across the region, swayed by reform news in Brazil, inflation and election concerns in Argentina, changing policy expectations in Mexico and social unrest in Chile. The region (as represented by the MSCI EM Latin America Index (Net Return)) ended the year up 17.5%1, slightly underperforming the broader MSCI Emerging Market Index, which was up 18.4%1.

Coming into the year, Brazilian momentum remained positive, as signs of an economic rebound persisted, and the market priced in a quick resolution to social security reform. However, lacklustre economic activity and delays on the reform front resulted in a sharp correction early in the year. The market rebounded in the second quarter as reforms

got back on track and a dovish central bank indicated the potential for further easing. The market performed well in the fourth quarter of 2019 following better than expected GDP growth, congressional approval of the much-awaited pension bill, and the central bank undertaking a project of foreign currency reform. Brazil ended the year up +26.3%1. Mexico ended the year +11.4%1 as the market was impacted by foreign currency depreciation early in the year and remained tempered amid concerns over Andres Manuel López Obrador's administration's policy focuses, particularly over the government's ability to balance expected infrastructure spending with surplus targets. Central bank rate cuts have been supportive, but declining GDP, and the lowest PMI (Purchasing Managers' Index) since the 2016 US elections have largely offset any impact. Colombia (+30.8%1) was the region's top performing country in 2019 due in part to healthy domestic demand, anchored inflation and oil price strength into the year-end.

On the other hand, despite a strong first half of 2019, supported by the country's reclassification to 'Emerging Market' and subsequent inclusion in the MSCI Emerging Market Index, Argentina sold off dramatically in August after incumbent president Mauricio Macri lost the primary elections by a surprisingly large margin, concerns over a potential sovereign default down the line and increased capital controls. The market lost roughly half its market capitalisation (-50.4%1) over the month, while the Argentine Peso corrected -26.3%. MSCI's decision to keep the country's 'Emerging Market' classification helped boost market performance in the fourth quarter of 2019, but the market still ended the year down -20.8%1 and was the region's biggest loser. Chile (-16.9%1) also ended 2019 in negative territory, plagued by weak sentiment surrounding tax reform earlier in the year. Persistent social unrest and increasingly violent demonstrations was the primary source for further declines and has put pressure on the government to release a social package and reshuffle its cabinet, while the Banco Central de Chile announced a foreign exchange intervention program to support the currency.

Outlook

While the political landscape in the Latin American region continues to present both opportunities and challenges in equity markets, at the start of 2020 we were encouraged as the external environment appeared to support asset prices due to reduction in trade tensions between the US and China and global coordination to maintain low interest rates, supporting economic expansion.

However, as we move through the first quarter of 2020, the covid-19 pandemic has created unprecedented market uncertainty and it is inevitable that the crisis will significantly impact the global economy. At the time of writing (6 April 2020), the MSCI Latin America index is down -45.6% year to date. Global equity markets sold-off aggressively on the back of increasing concerns over the impact of covid-19 and a significant drop in oil prices. Metals commodities have been hit hard, which we think means that the market is already pricing significantly lower global growth over the next quarters. Our base case is that covid-19 will be less of a driver of volatility in the markets within the next six months and that China and large western economies will launch significant stimulus to reverse the negative economic impact of the crisis. 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.

It is also important to reflect on the scale and speed of the current market downturn relative to prior market falls. The amount of indiscriminate selling of securities at any price is the sign of a true market panic. In our opinion, the volatility seen in markets as a result of current biosecurity fears have inevitably created dislocations in market valuations that are not consistent with long term fundamentals of the stocks, we invest

in. For example, the current value of Brazilian equites in US Dollar terms, as measured by the local stock index, is of a similar value today as it was in 2005, which in our opinion represents a tremendous opportunity given the economic advances that the country has gone through in the last fifteen years. In our view, when other market participants are fearful, is precisely the time when long term investors will benefit from being brave.

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 Brazilian Central Bank has signalled that it may take steps to mitigate the effects of the covid-19 pandemic 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 vs. 17x by mid-2014) which, in our view, may mitigate the extent of 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 vs. 2.0x by mid-2014) which may prove problematic if a downturn scenario persists for extended period. 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 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 vs. 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 (the Mexican state-owned petroleum company) 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 low level of financial leverage and the market was already trading at relatively inexpensive valuations heading into the current volatility which can limit the downside as external conditions remain challenging.

The volatility in equity markets is creating real opportunities for investors with a long-term investment horizon. At the time of this writing, we are not ready to buy widely yet, but we note that the current volatility is offering opportunities in places where business models are perceived to be ultra-resilient in the current environment in Latin America such as e-commerce, real estate, healthcare and education names, which we believe are well suited to withstand current bouts of market turbulence given robust and dynamic business models, balance sheets and management teams. We have taken an active approach to managing the portfolio by proactively positioning the company to reduce exposure to companies with high financial leverage, while at the same time,

promoting stocks which we perceive to have a high degree of visibility in respect of earnings and free cash flow generation. In addition, we have reduced portfolio beta and portfolio gearing to have dry powder to redeploy funds as opportunities present themselves. We still believe that markets have not yet fully grasped the full extent of the economic impact of the demand shock. We expect volatility to remain elevated and look forward to taking advantage of dislocations in valuations relative to underlying fundamentals.

....

Global emerging markets

(compare global emerging markets funds **here**)

Omar Negyal, Jeffrey Roskell and Amit Mehta, managers of JPMorgan Global Emerging Markets Income – 7 April:

The backdrop for the review period was one of sluggish economic growth around the world. International trade tensions - particularly those between the United States and China - continued to rumble on and dominated news flow for most of the period. The dispute only faded from the headlines in January when global news outlets began focusing on the emergence of covid-19. Although this remains a developing story at the time of writing, we already know that this public health crisis will have an enormous human cost, whilst the repercussions for the global economy will only become clearer over time; however, the virus has already prompted a dramatic reduction in industrial activity globally, with businesses badly disrupted.

China remains our largest country exposure and was also the largest relative detractor to portfolio returns over the period. US-China trade relations remained tense, not only hampering Chinese manufacturing but also thrusting the global economy into slowdown. China is attempting to refocus its economy on domestic consumption and regional trade in order to be less vulnerable to international trade politics, but it remains the world's biggest manufacturer. As such, trade collisions between it and the US (the world's two largest economies) are unsettling and have unnerved stock markets and manufacturers. Moreover, recalibrating an economy of this size to emphasise services and consumption over exports cannot happen overnight. More recently, the impact of covid-19 has seen a meaningful economic slowdown in China, with exports plummeting in the first months of 2020. This, in turn, has significant implications for supply chains around the world.

Outlook

In economic, market and political terms we are in uncharted waters. During the period we had begun to see tentative signs of emerging market companies' earnings outlooks starting to stabilise and improve, after the difficult period in which US-China trade tensions had dented both investment and consumption patterns. However, the emergence of the pandemic provides a very different context and has already impacted every investor - wherever in the world they are.

Quite apart from the human cost of the pandemic, it is clear that China and other global economies are experiencing a 'sudden shock' due to the pause in economic activity as a result of containment measures. China has experienced a sharp economic slowdown so far in 2020. Whilst we see this as a cyclical decline rather than a structural trend, the nature of this unfolding story makes it very difficult to judge the likely timing and magnitude of the slowdown. We expect market volatility to remain elevated throughout the year.

We adopt a long-term view in analysing both earnings and dividends and we position our portfolio to capture this. We are not looking to tactically reduce investment positions because of covid-19. From a dividend receipts perspective, we acknowledge that the virus outbreak could pose a challenge this year. Companies' near-term sales, profits and cash flow will be negatively affected, and this could impact dividends. As a reminder, emerging market companies generally base their dividends on a pay-out ratio, so earnings cycles do matter.

....

Vietnam

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

Vu Huu Dien, manager of Vietnam Enterprise Investments – 23 April:

Covid-19

Vietnam has undergone two waves of covid-19 outbreaks, of which the first was successfully contained before the second one hit. The second wave started on 6 March 2020, bringing significant economic and social consequences, and is still ongoing. Vietnam's officials promptly introduced a series of aid packages to minimise the economic damage caused by the pandemic.

Immediately upon the outbreak of the virus, Vietnam implemented measures to prevent its spread. This included the suspension of all international flights until 30 April 2020, measures to limit local transmission and the aggressive tracking down of related contacts. On 1 April 2020, the Government implemented the highest level of virus infection prevention - a national partial lockdown and mass social distancing for two weeks.

So far, Vietnam's drastic measures are showing promising results. As of 7 April 2020, there were only 127 active cases, and no fatalities yet. We believe Vietnam has the situation under control and expect most cities in the country to resume socio-economic activity fairly soon.

At the same time, the authorities are making efforts to stabilise financial markets. The SBV has lowered a wide range of policy rates by 0.2-1.0%, most notably the open market operations rate, which was reduced by 50 bps. It also supported funding when market liquidity dried up. And thanks to SBV support, commercial banks are able to offer 1-2% preferential credit packages (totalling US$14.5bn for tenors of longer than one year) and exercise forbearance for covid-19-affected borrowers.

Beside monetary policy, we expect strong measures from fiscal's side to be key driver. Disbursement of public investment into infrastructure is expected at US$30bn for 2020-21, equivalent to 5.5% of annual GDP. At the same time, to secure and maintain the labour force after the outbreak, the authorities announced an unprecedented package of US$2.6bn, giving monthly US$80 payments to poor and low-earning individual businesses and households in the second quarter of 2020.

Covid-19 is having a profound negative effect on the global economy. For now, Vietnam's Government is focusing all resources on controlling the spread of the disease, thereby temporarily putting a large part of the economy into a coma. However, the Government is expected to announce more large stimulus packages as soon as the epidemic is over to bring the economy back to normal. When Vietnam contains the pandemic, and the economy rebounds as expected, the country can become an economic bright spot in the world as companies shift production away from what is now recognised as having been an excessive concentration in China.

Outlook

Despite the concentration of performance in 2019, the return of a strong Vietnamese equity market was a welcome sign after a difficult 2018. The macro themes driving Vietnam's future growth appear unblemished, with strong GDP growth, relatively benign inflation, well-controlled credit and stable FX; perfect conditions for a strong equity market which continues to offer great value for growth compared to its regional peers.

An area of focus over the last few years was the Government's privatisation programme and IPO pipeline. The two-year anti-corruption probe and 2018's challenging market conditions halted much of this pipeline. However, we believe there is still a substantial pipeline coming through which will present interesting opportunities to the market. In the past, VEIL was one of the most active investors in screening, sourcing and participating in these new opportunities. The portfolio management team identified the pipeline as a great source of new investment ideas and will continue to monitor its progress closely. As part of our work with these and other companies we invest in, VEIL's portfolio management team is committed to assist with various value-added activities including advising the management on the improvement of corporate governance standards and investor relation activities. Additionally, the portfolio management team gradually works to raise environmental and social awareness among its investees.

The large-cap rally in 2019 has widened the valuation gap between large-cap and mid-cap stocks to its widest point for several years. As a result, a number of interesting opportunities have begun to appear within the mid-cap space, some of which, given the right management and financial backing, can deliver excellent long-term growth at a very reasonable valuation.

. . . .

Biotech and healthcare

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

Carl Harald Janson, manager of International Biotechnology Trust – 27 April:

Severe market volatility in the wake of the covid-19 pandemic has significantly impacted the growth and earnings potential of the global economy. This has added to the uncertainty in an already volatile market caused by Brexit and the upcoming US Presidential election.

Despite this recent market volatility, the biotechnology sector continues to have strong fundamentals. It is our view that the biotechnology sector is undervalued. The number of new clinical studies increased from 30,978 in 2018 to 32,524 in 2019 and the FDA approved a record 59 new drugs in 2018 with 48 approved in 2019, demonstrating its commitment to innovation and medical advancement.

The upcoming 2020 US Presidential election and Democratic primaries have shone a light on US drug pricing with Healthcare reform being at the centre of the Democratic primaries debate. Pricing concerns are likely to remain a focus, throughout 2020, for established drugs in competitively crowded areas, such as diabetes and inflammatory conditions, which make up a large proportion of the overall cost burden of prescription drugs. As a result, we continue to expect that the biotechnology sector will trade sideways until the market has gained more clarity regarding the covid-19 outbreak and certainty regarding the outcome of the US Presidential election in November 2020.

. . . .

Debt

(compare debt funds **here**)

William Scott, chairman of Axiom European Financial Debt – 9 April:

At the time of writing, markets in general have begun to react to the developing threat from covid-19. In origin, it is a public health crisis but it will also and inevitably have significant economic and market consequences as a result of both the voluntary choices exercised by individuals and those imposed by public authorities. These behavioural changes have already been felt among those sectors most exposed to the free circulation and congregation of people. Hotel companies, eateries, cinemas, cruise companies and airlines are all obvious candidates. Where such exposure is combined with aggressive financing, some companies will not survive at least in their current forms. It can come as no surprise that in the UK, the regional airline Flybe was an early casualty. Already fragile, the drop in passenger numbers, perhaps partly as a result of changing consumer behaviour, may well have been the final straw that broke that camel's back. Others may well follow if, as expected, the virus changes public behavioural patterns for several months to come.

In the commercial world, there is likely to be increasing dispersion of outcomes depending on the nature of customer exposure, operational gearing and financing structures. While this may very well lead to a rise in defaults by borrowers, it should not have an existential impact on most banking and other financial issuers. In general, the financial sectors are much better capitalised and more resilient than they were going into the last great market shock, the global financial crisis of 2008 and 2009. That has been the core goal of the regulatory capital changes since then, which changes the company was set up to exploit.

Nonetheless, it is reasonable to expect that some issuers will fare better than others and that there will be a greater dispersion of returns on individual instruments over the next couple of years than might otherwise have been the case as a result of the continuing evolution of regulatory change and other changes such as Brexit in its final form, whatever that form of future relationship may eventually turn out to be.

. . . .

Manager's report for Carador Income – 23 April:

Market overview

The US credit markets posted strong performance in 2019 despite lingering tensions over trade and concerns about a weakening global economy. Strong Collateralized Loan Obligation (CLO) creation and institutional demand supported loan performance of 8.2%, offsetting persistent loan retail fund outflows and negative media coverage. High yield and investment grade bonds, which returned 14.0% and 14.5%, respectively, for the year, outperformed most other credit asset classes as investors sought fixed-coupon, longer-duration assets due to the downward shift in the US Treasury yield curve.

Investor flight to quality drove dispersion in performance by credit quality throughout much of the second half of 2019, before the year culminated in a strong rally in risk assets. Within the Credit Suisse Leveraged Loan Index, higher rated loans returned 9.0% (upper tier) and 8.4% (middle tier), respectively, in 2019 versus 1.4% (lower tier) for lower rated loans. Similarly, in high yield, higher quality paper generally outperformed lower quality in 2019 with the upper and middle tiers within the Credit Suisse High Yield Index returning 15.0% and 14.3%, respectively, versus 9.4% for the lower tier.

A topical theme throughout fixed income during 2019 was the expectation for falling interest rates, with retail loan funds facing redemptions for much of the year while high yield and investment grade bond funds experienced strong inflows. Loan mutual funds and ETFs reported $38bn in net outflows in 2019 and more than $58bn in net outflows since October 2018 when expectations for near-term rate hikes peaked. In our opinion, January's modest net inflows ($780m) may be an early indication of this stabilisation, particularly when considered against average monthly outflows of $3.2bn during 2019. Conversely, retail investor demand for high yield bonds was resilient throughout 2019. Net inflows totalled $19bn as investors rotated into fixed-rate, longer-duration assets amid the declining rate environment.

Primary loan issuance slowed in 2019 due to a decline in both M&A related financing and refinancing activity, coupled with an increase in bond-for-loan refinancings and secured high yield issuance. Gross issuance totalled $392bn in 2019, a 44% decrease year-over-year, and net issuance totalled $192bn, a 36% decrease year-over-year. High yield bond issuance, on the other hand, increased year-over-year with gross issuance totalling $287bn, a 53% increase over 2018. Net issuance of $93bn represented a 27% increase year-over-year. We believe the investor preference for fixed-rate, longer-duration assets led to a relatively high volume of senior secured notes issued in 2019, which otherwise may have taken the form of senior secured loans. Senior secured note issuance increased by over 140% in 2019 compared to 2018, and it represented a greater proportion of total high yield bond issuance than it did in the prior year.

US CLO gross issuance of $118bn was healthy in 2019, down just 8% compared to record-breaking issuance in 2018.[4] Gross primary CLO issuance forecasts for 2020 were initially robust due to expectations of liability tightening. However, as a result of covid-19 and the resulting volatility within the loan and CLO markets, these forecasts are being re-evaluated in light of a halt in primary issuance in the month of March and we have begun to see the gross annual issuance forecasts be reduced by approximately 40% in the US from $90-100bn to $50-70bn.

In 2019, 43 companies in the loan and high yield bond markets defaulted with debt totalling $51.5bn, compared to 32 companies with debt totalling $43.1bn in 2018, according to JP Morgan. Although total debt involved in defaults picked up almost 20% year-over-year, energy and metals/mining defaults accounted for over half of 2019's defaults/distressed activity by volume. The par-weighted loan last twelve months default rate at the end of 2019 was 1.64% versus the 20-year average of 3.0%, and the par-weighted high yield bond LTM default rate was 2.63% versus the 20-year average of 3.1%. We expect that default rates will increase in 2020 given the disruption caused by covid-19.

. . . .

Extract from NB Distressed Debt's annual report – 15 April:

The manager currently has not experienced a significant impact on its operating model. Looking back, the manager notes that the economic impact of the 2003 SARS outbreak was manageable overall and short-term in nature but acknowledges it is too early to predict the full extent of the current covid-19 outbreak with high confidence.

. . . .

Rupert Dorey, chairman of NB Global Floating Rate Income – 9 April:

The outlook for 2020 has shifted over the past several weeks due to the impact from mandated closures and social distancing efforts to "flatten the curve" of the covid-19 pandemic. Yields in the loan market are likely pricing in severe scenarios for global GDP, but given the nature of the catalyst, it could prove to be transitory. Yield levels

are pricing in default rate scenarios that are likely to be in excess of actuals, which has historically been the case. The manager believes yields are compensating investors for an above average but moderate rise in default rates from very low levels. As we continue to be vigilant to the developments of covid-19, our primary goal remains one of avoiding default risk. While uncertainty around the duration and severity of the health crisis as well geopolitical event risk can result in heightened short-term volatility, the manager believes the company is well positioned.

Financials

(compare financials funds here)

Manager's report for EJF – 27 April:

US bank market update

During 2019, the US bank merger & acquisition activity continued apace as 266 deals were announced while the number of large bank deals (i.e. more than $10bn of assets) was the highest since 2008. Given an estimated 4,880 insured depositories at year end, the current annual pace represents a 5% consolidation rate approximately. Although we observed average M&A transaction pricing being modestly lower than previous years, stock valuations rose in the fourth quarter as the Federal Reserve signalled an end to interest rate cuts.

In our estimation, the structurally lower interest rate environment created two notable themes in 2019. The first important theme has been the continued growth of the subordinated debt market for smaller banks and the recent growth of the non-cumulative preferred market for larger banks.

Subordinated debt markets continued to be accessible at ever tighter (cheaper cost of funding) levels in 2019. As the market continues to mature, smaller issuers with below $3bn of assets could take advantage of the Small Bank Holding Group Policy Statement and use this Tier-1 qualifying regulatory capital for growth and M&A. The relatively low cost of capital also supports a compelling argument for issuing subordinated debt to refinance legacy debt securities, particularly trust preferred securities (TruPS). Indeed, during 2019, $2.9bn of sub-debt was issued by small banks where yields have generally declined from 7%+ to 5%+ for banks with fewer than $3bn in assets.

For larger banks, we have seen an increase in the issuance of non-cumulative preferred equity at levels that provide a very flexible, cheap alternative to TruPS, in addition to counting as Tier 1 capital from a regulatory perspective. Banks recognized that they could lock in an attractive fixed rate coupon in a perpetual security at attractive low levels while retaining the right to call the capital if rates were to decline. In 2019, there was $7.7bn of non-cumulative preferred issuance, a healthy increase from the $3.3bn raised in 2018.

The second theme emerging from the lower interest rate environment is that the flatter yield curve played a role in incentivising banks to merge or find other levers to offset declining revenues. As mentioned previously, 2019 saw the greatest number of large deals involving banks greater than $10bn in assets since 2008. A part of the reason for this occurring is due to the regulatory change in the SIFI designation as part of the Regulatory Relief Bill that was passed with bipartisan support in May 2018. The SIFI definition change provides a clearer regulatory paradigm for banks with less than $100bn in assets. Importantly, though, the economics of so-called mergers of equals (MOEs) can be quite powerful.

Examples of MOEs in 2019:

- TCF Financial ($23.7bn) & Chemical Financial ($21.5bn) announced 1/28/2019
- BB&T Corp ($236.8bn) & Suntrust Banks ($227.4bn) announced 2/7/2019
- First Horizon ($43.7bn) & IberiaBank Corp ($31.7bn) announced 11/4/2019
- Texas Capital Bank ($33.5bn) & Independent Bank ($15.0bn) announced 12/9/2019

US insurance market update

The secular trend for consolidation among US insurance companies continued through the year ended 31 December 2019. In 2019, there were 86 announced US insurance group merger and acquisition transactions, which represented a slight decrease from the 90 deals announced in 2018. Of note, total 2019 transaction volume was $23.3bn, which was almost twice as much as 2018's total transaction volume of $12.4bn. Given the current low-rate environment and competitive market, we expect small and mid-size insurance companies to experience pressure on their investment income. As a result, we expect further asset liability management, including potential M&A, early redemptions and expense optimisation, all of which could benefit and de-lever some of the group's investments.

Although insurance group headlines have been dominated by natural catastrophes around the globe, we believe the impact of such events on the underlying credits that collateralise EJFI's CDO equity investments is not material, as these smaller and niche insurers have little exposure to catastrophic events such as hurricanes and typhoons. Whilst the covid-19 pandemic has caused uncertainty in the insurance market as a whole, we remain confident of the enterprise risk management, strong balance sheets and capitalisation of the underlying insurance credits despite this. The situation is however very fluid and we continue to actively monitor this.

We currently retain confidence in the underlying insurance credits in the group's portfolio, even when considering covid-19, for a variety of reasons. Generally, these credits have lower loss ratios than the industry average due to the specialised nature of their businesses and long operating histories. Furthermore, while these companies tend to operate with elevated expense ratios, these ratios have trended downwards in recent years as management teams have focused on efficiencies and cost savings. In addition, given potential M&A synergies and cost benefits, we believe many of the underlying insurance credits are prime targets for acquisition or affiliation.

Bank and insurance CDO market update

Activity in the bank and insurance CDO segment remained elevated in 2019 despite some weakness in the broader credit markets. Although interest rates declined during the year, investors continued to build exposure to the asset class as it provides attractive yields with lower than average volatility.

2019 new issuance volume in bank and insurance CDOs totalled approximately $1.2bn across four transactions, two of which were sponsored by EJF. This compares to 2018 bank and insurance CDO transactions totalling approximately $1.5bn across four deals, two of which were sponsored by EJF.

Private equity

(compare private equity funds **here**)

Hamish Mair, manager of BMO Private Equity – 15 April:

2019 review

In 2019 there was plenty of evidence that investors retain a considerable appetite for investment in private equity with most investors aiming to increase their exposure to private equity. In aggregate the volume of investment was down somewhat on the immediately preceding years, but it was nevertheless a very healthy market. The asset class was pioneered in the US and UK 30 to 40 years ago and is now becoming increasingly well established as a means of financing the growth of smaller and medium sized companies internationally and across diverse industrial sectors. There are very few developed countries where there is not an active and growing private equity sector, but the degree of penetration of private equity and its uptake by the business community and investors alike varies considerably.

Our focus is principally in Europe with some investments in North America. In Europe the adoption of private equity is some way behind the US, but it is increasing and the direction of travel is very clear. Private equity is a relatively riskier asset class for investors given its innate illiquidity, smaller scale of the companies and often highly geared balance sheets, but if it is done well investors are handsomely rewarded for these risks. There are a number of compelling features of private equity including the strong alignment of interest between company management, private equity partners and investors, where all share to varying degrees in the risk of the enterprise but where all also benefit from its success.

Private equity is also a uniquely constructive form of investment where private equity specialists provide valuable strategic and operational support to management alongside their capital. It is also the case that a private equity portfolio can provide exposure to companies and industries which are not accessible through the stockmarkets providing valuable additional diversification to broader portfolios. Our aim is to capture the excellent returns that are possible through private equity investment whilst taking only moderate risk. Maintaining a well-diversified, high quality portfolio investing with highly skilled partners is essential to this aim. In the year under review the portfolio has delivered a creditable return once again building on our record of value creation for shareholders over more than two decades.

Outlook

The international economy is in the midst of a uniquely challenging period precipitated by the pandemic. A significant correction has taken place in stockmarkets and it is to be expected that this will read across into private equity pricing in due course. In the short term it may lead to some re-trading on the price of proposed deals - for both buyers and sellers. Private equity investment is made with the medium to long term in view and it is over these time periods that performance is measured.

Most of the companies in which we invest have an investment case which is predicated on long term secular growth in demand for a product or service and we expect that once the short-term challenges are behind us these fundamentals will remain intact. The specific effects of covid-19 measures restricting movement are still being assessed but it is clear that it is pervasive with few areas of economic activity unaffected. We have no more insight than anyone else, but it would be prudent to expect this disruption to continue for several months. Much depends on how quickly and how severely the virus spreads and the efficacy of government action in managing the situation. There are of course other challenges to be faced this year, including the UK's negotiation of a future trade deal with the EU.

. . . .

Clive Spears, chairman of EPE Special Opportunities – 16 April:

The outbreak and ongoing spread of covid-19 poses significant humanitarian and economic risks to the global community. Measures adopted by national governments to delay the spread of the infection will depress economic activity in the midterm and

the outlook is likely to remain uncertain and fluid in the near term. The company maintains strong liquidity of £26.4m and operates with modest committed outgoings. The company has £3.9m of outstanding unsecured loan notes ("ULNs") repayable on 25 July 2022. The company has no other third-party debt outstanding. The board has reviewed the business continuity plans of the company's key operational service providers and are satisfied of their resilience.

The manager is working closely with the management teams of portfolio companies to respond to this dynamic situation and is apprising the board regularly as the epidemiological and economic situation develops. The portfolio has taken early and prudent steps to manage its liquidity, financial position and trading outlook; these steps are under active review by the IA and the management of the portfolio companies. The portfolio has a low level of third-party leverage (0.7x last 12-month EBITDA to net third party debt) and has strong relationships with all external lenders. ESO and the IA are well prepared to support portfolio companies financially and operationally over the coming months.

Prior to the outbreak of covid-19, the conclusive result of the UK's general election in December 2019 had provided welcome political stability, following the extended Brexit negotiations earlier in the period. There were early indicators of improved domestic economic performance with unemployment achieving a multi-decade low, driving real wage growth and underpinning strong consumer spending in the festive period.

. . . .

Jeremy Tigue, chairman of ICG Enterprise – 28 April:

The economic impact of covid-19 is likely to become more apparent over the coming months and it is impossible to gauge the long-term impact on the Portfolio accurately at this stage. What we know today is that companies across the globe are being impacted by the significant reduction in economic activity, and while it is too early to assess the depth and duration of this impact, we expect major economies to experience large-scale economic contractions in the first half of 2020. Performance and the speed of any recovery will vary between geographies, sectors and companies and will be dependent on business models, end markets and government policy. In the short term, we expect the sharp fall in public markets and broader immediate consequences of covid-19 to impact valuations and slow the rate of realisations from the Portfolio.

. . . .

Manager’s report for LMS Capital – 15 April:

2019 saw a bullish start to the year as equities recovered from a sluggish end to 2018 that was negatively impacted by a global recessionary narrative coupled with ongoing Brexit negotiations in the UK. Markets were strong through most of the year, although there was a correction In October primarily from uncertainty around the US-China trade deal and concerns about the global economic outlook. The domestic environment rebounded at the end of the year after the general election that dispelled some of the uncertainty around Brexit. The UK AIM and Small-cap indices ended the year up 12.1% and 14.2% respectively, and the sterling strengthened against the US dollar hitting an 18-month high. Domestically there is more optimism that Brexit can be completed and end the uncertainty that has kept investors away from UK markets, possibly narrowing the discount to international peers. However, in recent weeks concerns about the impact of the covid-19 global pandemic has had a significant impact on investment markets and are beginning to have significant implications for the world economy as the virus spreads through Europe and North America. The likelihood of a global recession is increasing, and there remain significant uncertainties about the overall

impact that the covid-19 pandemic will have on investment markets and the economy, including the duration of any shutdown of businesses.

. . . .

Hedge funds

(compare hedge funds **here**)

Vic Holmes, chairman of Highbridge Tactical Credit – 27 April:

Since the reporting date, the emergence and subsequent escalation of the outbreak of the covid-19 strain of coronavirus has had a significant negative impact on global markets, and consequently on some of the companies held within the underlying fund's portfolio. As of the date of approval of these financial statements, the assessment of this situation continues to evolve and it may be some time before there is clarity around the full economic impact.

. . . .

Steve Bates, chairman of Third Point Offshore Investors – 29 April:

Turning to 2019, which feels like a different era, markets had been very buoyant, but it is worth recalling the gloom which prevailed at the start of the year. At that point, interest rates were on an upward trajectory and markets were unsettled by the prospect of several further rises in rates. Instead, reacting to weaker than expected economic data, Central Banks engaged in a round of coordinated easing which had been very supportive of risky assets like equities.

Outlook

The current covid-19 situation presents a significant supply and demand shock for the global economy. Despite the Central Banks efforts to mitigate a severe economic downturn, volatility persists across markets, sectors and industries. The manager expects the unpredictable nature of the markets to continue until data indicates that the virus is under control.

With chances of recession almost 100%, the manager has taken the following steps given current drawdowns and volatility: reducing exposures and looking for opportunities in credit, while remaining opportunistic when particularly high-quality companies appear to be “on sale”.

. . . .

Infrastructure

(compare infrastructure funds **here**)

Manager’s report for International Public Partnerships – 9 April:

Market environment in 2019 and future opportunities

UK

The demand for private infrastructure investment remains strong globally. The political landscape in the UK over the course of 2019 continued to impact the sector, due to the emerging policies of the UK opposition party to nationalise certain infrastructure. However, following the General Election held in December, nationalisation risk dissipated and market sentiment significantly improved.

There continues to be a number of drivers for new and improved infrastructure across the areas in which the company invests, supporting the need for private and public investment into infrastructure. For example, the Infrastructure and Projects Authority (IPA) have forecast that in the UK there is a requirement for £600bn of infrastructure investment over the next 10 years1, with contributions needed from both the public and private sectors. The pipeline focuses on the UK's roads, hospitals and schools, ensuring that modern technologies are embraced to improve productivity. The UK Budget announcement in March 2020 provided further support for infrastructure investment with £640bn of spending earmarked for roads, rail, broadband, schools and hospitals over the next five-years. The details of projects and timings are expected to be announced in the National Infrastructure Strategy at a later date.

Brexit also caused uncertainty through the year and the board consistently monitors developments as Brexit preparations progress. While we see obvious risks of possible market disruption and other issues arising from anything other than an orderly end to the Brexit transition period, as previously outlined, we do not anticipate that the company is unusually exposed to such risks, or that there will necessarily be a significant impact on the company's existing investments. However, this cannot be guaranteed and we continue to monitor developments closely as the withdrawal process continues to evolve.

Europe – ex UK

Overall infrastructure investment into European infrastructure continues to be strong and is supported by broader EU frameworks. For example, in order to upgrade its infrastructure, the Connecting Europe Facility funding programme continues to target infrastructure investment in transport, energy and digital projects across all EU Member States, while the Europe 2020 Strategy has a key role in supporting the European Commission's priorities related to smart, sustainable and inclusive growth, and the EU's Europe 2020 Strategy objectives in the area of energy and climate policy. More recently, the European Commission announced its 'Green Deal' aiming to achieve carbon neutrality in the EU by 2050. This includes a significant increase of its emissions reduction targets and the ambition to mobilise at least €1tn to support sustainable investment over the next ten years. It also intends to use a mix of private and public funds to fulfil the plan, including the use of a quarter of the EU budget although the company notes that some of these types of projects currently do not meet its risk return requirements (for example, they may exhibit demand risk or GDP correlation).

Notwithstanding this, the company anticipates there will be increasing opportunities in infrastructure that will be critical for facilitating a transition to net zero, particularly in transport and energy sectors across Europe, exhibiting investment criteria that the company will find attractive. In particular, the company is focusing on stable and well-structured Northern European economies including Belgium, the Netherlands, Germany, Austria and Ireland. These jurisdictions offer a steady flow of new primary market opportunities across all traditional infrastructure sectors.

Future success will depend on securing opportunities through bid processes, while ensuring that every opportunity fits within the company's risk and reward parameters.

Australia

Australia has a history of private sector organisations providing and financing public sector infrastructure. It has a stable and transparent legal and regulatory framework with active infrastructure financing and investor markets. Most government counterparties involved with public infrastructure procurement are rated AA+ or higher.

Infrastructure Australia sets out its medium to long-term aspirations for the country's infrastructure development in its 'Australian Infrastructure Plan'. Infrastructure investment in Australia is expected to continue at high levels, with Infrastructure Australia's Priority Infrastructure List (2019) identifying a pipeline of critical

infrastructure projects over the next 15 years with a capital value of A$58bn. By 2034, Australia's population is projected to grow by circa24% to reach 31.4m, adding to the changing and growing demand for infrastructure.

Greenfield PPP activity increased significantly during 2019 compared to the previous year, with A$11.2bn of projects closing during the year compared to A$1.5bn in 2018. The great majority of this increase in value of investment is attributable to a small number of large transport projects. We expect the development of large transport infrastructure projects to continue in 2020.

Australian States are also developing smaller scale social infrastructure projects in health, social housing and education sectors. In keeping with policy recommendations in the Infrastructure Plan, some States are also adopting infrastructure procurement models that outsource operator services to the private sector, as well as seeking private sector capital to develop the asset.

Refinancing of existing PPP projects continued at a significant level in 2019 with over A$5bn of debt being refinanced. This included refinancing of the company's Victorian New Schools PPP Project.

The company's view is positive about the prospects for further investments in the region and, whilst mindful of the recent improvement in the value of sterling since the announcement of Brexit, will continue to monitor currency volatility in respect of new transactions. Although the company remains cautious of the refinancing risk prevalent within Australia's current primary PPP market, current liquidity in debt markets is at a level that has provided the company with opportunities to manage its exposure to such risk.

North America

The US private infrastructure market is mature and large, with approximately 720 infrastructure investments executed during 20191. The US offers a wealth of infrastructure opportunities ranging across all sectors, although some US States have progressed their model for private asset ownership at a faster rate than others. The opportunity to generate higher returns than generally seen in the European markets and the ability to source projects through collaborative procurement processes makes the US an attractive geography on which to focus resource. However, the growing amount of domestic capital pursuing projects in the US and the generally lower commitment given by the public sector to following through on a privately funded procurement creates barriers to entry for many European investors.

In its most recent report card on the condition of America's infrastructure, the American Society of Civil Engineers gave the US infrastructure a D+ or 'poor' rating. The engineers estimated the cost of bringing America's infrastructure to a state of good repair (a grade of B) by 2025 at $4.6tn. President Trump's federal infrastructure programme has yet to be signed into law but promises a $1tn boost to infrastructure spending over the next decade, primarily focused on transportation.

The real opportunity in the US, however, is not in federally mandated 'mega' projects, but in areas such as transportation infrastructure including airports, ports, bridges and logistics where much of the existing infrastructure ownership is in the hands of local municipalities and other government-backed entities. Privatisation of these assets is becoming more commonplace with even smaller cities and municipalities seeking to monetise assets including utilities, real estate and civic infrastructure. The Investment Adviser actively monitors the development of these projects to assess the suitability for investment by the company.

Power and renewables have experienced substantial growth as many States have committed to ambitious carbon reduction targets. The regimes that support development and ownership of generation, transmission and distribution assets are

attractive relative to other markets and considerable short to medium term growth is expected as States use these regimes to achieve their objectives.

Canada has a strong track record of infrastructure investment and the Investing in Canada plan aims to deliver circa $180bn of infrastructure investment by 2028 to support local, provincial and territorial projects over 12 years. This includes funding in public transport, green and social infrastructure and transportation infrastructure to support trade and rural northern communities and is split equally between new investment projects and funding existing initiatives. The company has an ongoing presence in the country through two operational projects. The continued focus on expanding the infrastructure plan over the next decade allows the company to capitalise on this opportunity and develop the already existing relationships.

The ability for the private sector to participate in more North American infrastructure projects provides the company with a broad variety of investment opportunities. The company is well-positioned to capitalise on these developments through its investment adviser's relationship with US group, Hunt Companies LLC.

Covid-19

While at this stage no one knows the impact that covid-19 may have in the future including in the countries referred to above, the view of the investment adviser is that while it may impact on some infrastructure investment activity in the short to medium term, then in the medium to long term there is a likelihood of an enhanced need for health and other community protection infrastructure. Moreover, the existing pressures for the delivery of other new infrastructure will not go away. As a generalisation the immediate response of central banks to the covid-19 pandemic has been to reduce interest rates. Other things being equal, this might be expected to increase the attractiveness of revenues streams typically derived from the assets in the company's portfolio.

. . . .

Renewable energy infrastructure

(compare renewable energy infrastructure funds here)

Manager's report for Aquila European Renewables Income – 28 April:

Despite recent market developments as a result of covid-19, the long-term outlook for income producing wind, solar PV and hydropower assets throughout continental Europe and Ireland remains strong. European leaders continue to support the transition to a low carbon society through an increase of their country's Renewable Energy Share (RES). The recent agreement on the revised Renewable Energy Directive (EU) 2018/2001, which increased the overall EU) target for RES to 32% in 2030, is expected to further increase renewable energy investments in the region and contribute to the long-term goal of 75% of the EU energy mix from renewable energy in 2050.

Europe is expected to generate 87% of the electricity mix from renewables by 2050 with wind and solar PV being the most prominent. It is expected that onshore wind will contribute approximately 80% of the wind electricity provided to the European grid. Hydropower is also seen as a key source of energy, providing around 14% of electricity for the period 2018-2050. By 2030, more than half of Europe's electricity is expected to be supplied by wind and solar PV. With respect to fossil fuel, coal and gas are expected to be in constant decline from 35% in 2017 to 10% by 2032. Nuclear is also expected to phase-out from 25% in 2017 to 8% in 2050. The advancement of the renewables

market is anticipated to drive investments totalling USD 1.8tn until 2050, providing sufficient opportunity for the company's continued growth.

Governments across Europe are increasingly focused on market-based, sustainable support schemes to limit the impact on consumer bills. In response, we expect new projects to be built in locations where they are economically viable, without having to rely on government support. This trend is supported by a significant reduction in wind and solar PV Levelised Cost Of Energy over the past decade, which has allowed renewables investment activity to be focused in areas with a strong matching natural resource. For that reason, we expect Southern Europe will be increasingly attractive for solar PV opportunities, Northern Europe plus coastal areas for wind opportunities and regional specific areas characterised by high precipitation for hydropower.

Another trend we expect to continue is investor interest in long-term fixed-price PPAs to mitigate market power price risk. Whilst utilities have traditionally dominated the market, corporate offtakers are becoming more prevalent.

When considering the structure of PPAs, the views on market risk and outlook are the key driver behind approaches to power purchase, given the trade-off between security (e.g. price certainty) and potential upside (e.g. long-term prices in merchant market). Analysis of the risk profile of different products and consideration of visible, long term revenue and the potential to capture potential upside on long term prices are key to the right balance between risk and return.

. . . .

Ben Guest, manager of Gresham House Energy Storage – 27 April:

Battery storage key to the future of green energy

The importance of renewable energy is well understood by environmentally conscious investors. However, the need for storing this intermittently produced energy remains underappreciated.

Without the ability to store renewable energy, it is difficult to balance supply and demand effectively - meaning excess wind and solar generation produced at off-peak times of the day is essentially wasted.

Currently, there is no reliable alternative to batteries with the exception of the UK's pumped hydro fleet. Pumped hydro, however, behaves like a battery that can be discharged quickly but it can only be charged slowly and experiences higher per-cycle energy losses than lithium-ion batteries. Large-scale battery systems using lithium-ion technology are a reliable, cost-effective and a proven way to buy energy when it is cheap, store it and sell it back to the market at a higher price, when demand is higher or when renewable supply is lower, or a mix of both.

Government subsidies for offshore wind are driving the deployment of renewable energy in the UK. Wind capacity reached 9.8GW in Q3 2019 up by 1.7GW, resulting in offshore wind generating more power than onshore wind in Q3 2019 for the first time, and significantly more than any other renewable technology. As a result, wind generation makes up around 50% of all renewable generation today.

This growth in renewables is set to continue, led by offshore wind. Offshore wind benefits from the falling cost of wind turbines and as such it is expected that the existing subsidy pot, as it is known, will be able to fund at least 2GW of new capacity per year until the end of the 2020s.

One might ask, *"why does renewable electricity get to be used over other perfectly good electricity that could still be generated from coal or gas-fired power plants?"*

The simple answer is that the use of this growing supply of renewable energy is mandated through regulation. National Grid must, if safe to do so, prioritise power by

'Order of Merit' which is dictated by the short-run marginal cost of each technology. Renewable sources such as solar and wind have no fuel and low maintenance costs making them significantly cheaper than nuclear, coal and gas energy, at the margin. As a result, traditional baseload generation is being forced off the grid as more renewables are deployed. In fact, most renewable energy projects enjoy negative short-run marginal costs in that they would make money at negative power prices, thanks to the subsidies that they currently earn.

Thus, as renewable generation grows, gas power stations are required to produce energy less frequently. This has lowered the load factor of these traditional base-load generators to approximately 30%. However, these producers need to generate well above this level to remain profitable. Effectively, the rise of renewables is forcing fossil fuels off the grid.

Coal-fired plants have already been effectively phased out of the UK market: falling to less than 1% of total generation in the last year, with many plants having reached a natural end of life. Large scale gas-fired power plants will soon follow. This is reflected in the share prices of prominent large-scale gas generators illustrating that the value of such assets has fallen in recent years.

Additionally, the price of carbon has shot up, reducing the margin which gas power plants can make from electricity after accounting for the price of carbon. The EU emissions trading scheme, which provided corporates a lot of leeway to offset carbon emissions, led governments to sequester carbon credits, causing a threefold increase in the EU ETS price of carbon in the last few years.

The storage imperative

The disappearance of consistent baseload energy is increasing the need for flexible generation - made possible through battery storage. As the market share of renewable energy grows, the amount of temporary excess generation will get worse. By our estimates, instances of more than 10GW of excess power from renewables will occur frequently within the next four years - requiring 10GW of energy storage. In ten years, this could reach 30GW.

Industry forecasters are expecting the rise of renewables will lead to a surge in the volatility of power prices. With the current penetration of intermittent carbon-free generation in the UK energy market, we have already reached a tipping point whereby wholesale energy prices increasingly reach zero or negative levels when their intermittent generation creates supply in excess of demand. Nuclear power, whilst carbon-free, is not flexible and cannot provide a mechanism to balance the system in real time.

This is an excellent backdrop and financial incentive for energy storage operators to 'buy low' at times of overgeneration and 'sell high' when demand outstrips supply; either through participation in the wholesale market or by offering the available battery capacity to the National Grid through the Balancing Mechanism.

As GB's largest battery storage business, GRID is exceptionally well positioned to profit from the expected surge in energy storage demand. By investing in large-scale projects, the fund benefits from substantial economies of scale. This allows GRID to invest in large, operational batteries and run sites more efficiently at a lower cost.

We expect the deployment of battery storage and intermittent renewable energy generation to evolve in a complementary way. Now that renewables have reached the tipping point, we refer to above, every additional unit of power generation will cause an increasing oversupply at certain times while also reducing the market available for baseload, forcing this type of generation out of existence and creating a deeper trough in generation when renewables do not generate. Thus, there is an urgent need for

battery storage capacity to catch up to and keep up with renewable generation installations.

. . . .

Environmental

(compare Environmental funds **here**)

Manager's report for Impax Environmental – 20 April:

Climate change mitigation

The increasingly noticeable physical impacts of climate change are beginning to trigger medium-term policy commitments. If these are successfully implemented, they would be in line with pledges made in the Paris Agreement to hold the global average temperature rise to no more than 2°C above pre-industrial levels. This presents transition risks for companies, yet also leads to mitigation opportunities.

In July, the UK became the first country to legislate a net-zero emissions target, committing to become carbon neutral by 2050. In December, a similar target was agreed by the EU, despite opposition from a number of Eastern European countries that remain heavily dependent on coal-fired power generation. According to the Energy & Climate Intelligence Unit, a London-based think-tank, around 49% of global GDP is produced by states or regions which have either made such a commitment, or where a commitment is under active political discussion.

These net-zero targets are significant because they are economy-wide. No single sector is off the hook. 2050 may seem like a long way off but, for many economic sectors, decisions and investments will need to be made within the next five years if these targets are to be met. This creates a positive backdrop for IEM portfolio companies offering climate mitigation solutions. Approximately 50% of the IEM portfolio exposure is to climate change mitigation, including 8% Renewable Energy, 27% Energy Efficiency and 15% Sustainable and Efficient Agriculture.

Climate change adaption

To date, mitigation - cutting carbon emissions - has dominated the global response to climate change. Globally, we have seen a significant acceleration of extreme climate events. Australia experienced its hottest and driest year on record, and its worst ever recorded bushfire season, where more than 186,000 km2 of bush was destroyed - more than the size of Denmark. The wildfire season in California saw 7,860 fires and almost 260,000 acres burned. Also, in the US, the fourth consecutive above-normal Atlantic hurricane season, with 18 named storms, including six hurricanes, causing billions of dollars of damage. Chennai in India, which is enduring a water crisis, saw government officially declare 19th June 2019 as "Day Zero", the day when almost no water was left. As the disruptive effects of global warming are becoming apparent, investment is increasing in products and services that help companies and individuals manage that disruption and physical asset risk. With approximately 25% of the portfolio exposed to climate change adaption, one of the key focuses for Impax and our engagement with companies, is physical asset climate risk.

Adaptation presents opportunities across a number of IEM sub-sectors. There will be a need for substantial investment to make power grids more resilient in the face of extreme weather and wildfires. Similarly, we are seeing increased demand for micro-grid infrastructure and back-up power. For example, Generac (Power Network Efficiency, US), which offers an integrated generation, storage and power management product, has identified the California market as a major potential source of growth.

Penetration of back-up power systems in the state is under 1%, compared with 4% for the US as a whole.

Water infrastructure around the world will also require substantial upgrading, with declining rainfall in some regions necessitating investments to reduce waste. Conversely, flood defences and storm water management will need to be enhanced in other regions to cope with increasing and more intense rainfall and rising sea levels.

A changing climate is also increasing the incentives towards more efficient food and agricultural production. With agriculture accounting for some 70% of water use, the sector is under pressure to use water more efficiently, by use of micro-irrigation techniques, for example, while customers are shifting to less environmentally intensive inputs, such as by replacing cotton with sustainable textiles.

Outlook

As of the time of writing, covid-19 has become a global pandemic that is expected to pose unprecedented challenges to society, healthcare services and broad swathes of the economy. Equity markets are increasingly pricing in recessionary scenarios and this presents challenges to parts of the IEM portfolio. While we expect to benefit from zero exposure to Energy and Financials stocks, the structural overweight positions in Industrials and companies with smaller market capitalisations represent a headwind to relative performance against the MSCI ACWI.

There have been areas of strength for the portfolio, notably the utility, testing laboratory, environmental infrastructure and specialty chemicals holdings. At a company level, we have spent a lot of time focusing on companies' balance sheets, as those with even a modest amount of debt have severely underperformed. We are comfortable with the balance sheet strength and cash generation of the portfolio holdings, even in current circumstances.

Market conditions have led to us allocating cash to top up existing names at compelling valuations and has provided an entry point for a new filtration opportunity, which fits our focus on diversification and defensive businesses. We continue to watch central bank monetary policy; governments' fiscal policies and economic stimulus; the expansion of covid-19, government controls and scientific research; and company balance sheets and their ability to get through the economic hiatus.

We do expect certain markets (clean water, clean air, testing, climate change adaptation) to emerge stronger at the end of crisis.

. . . .

Sir Ian Cheshire, chairman of Menhaden – 28 April:

Since the year end, the emergence and spread of covid-19 and the associated measures being taken to lock down major countries (and as a result, their economies) have resulted in a significant loss of value and a substantial increase in volatility. There are therefore very few positives to be found in the short-term outlook.

However, the drive to tackle the global climate crisis continues to gain momentum and we believe that Menhaden is well placed to participate in and support the opportunities this movement will create.

. . . .

Commodities and natural resources

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

Manager's report for Baker Steel Resources – 21 April:

During the year, the mining market recommenced its recovery after a broadly flat 2018 with the EMIX Global Mining Index up 18.1% over the year in Sterling terms. This was largely driven by precious metals with gold up 18.8% and silver 15.9% in US Dollars which was reflected in the 36.8% rise in the EMIX Global Mining Gold Index (Sterling terms). Other commodities to which the company is exposed were mixed with iron ore up 27.5%, metallurgical coal down 32.9%, copper up 3.4%, tin down 12.0%, and lead down 4.7% during 2019 (all in US dollars). Palladium was particularly strong, rising 54.2% on the move to petrol autocatalysts in hybrid cars.

The outlook for mining and metals is presently uncertain and it is very dependent on the global reaction to the covid-19 virus, its duration and the scale and efficacy of any government stimulus programmes.

. . . .

Malcolm Burne, chairman of Golden Prospect Precious Metals – 27 April:

Gold and the March 2020 sell-off

Turning to gold itself, although it is performing well at the moment investors can be forgiven for finding the gyrations during mid-March in the price somewhat confusing. Instead of the price responding sharply higher to the pandemic, the opposite happened and it collapsed only to soar again almost immediately thereafter. Such volatility and swings we have seen many times before but not like this. Of course there were reasons for the roller coaster ride this time (there always are) and in this instance it was the 'dash for cash' as gold provides instant liquidity and was sold off by the leveraged players meeting 'margin calls' in equity and bond markets and to cover big losses in the initial stock market panic. The experience was not for the faint hearted! Due to the shutdown from border closures and cancelled flights, supply channels everywhere were strangled, supply routes were disrupted leading to long delays and low inventories. This critical situation caused turmoil in the physical and futures markets resulting in unusually big premiums to spot prices aggravated by huge spikes in demand. As I now write at Easter, there has been some return to normality and observers report being decidedly impressed by gold doing what it is supposed to do…provide liquidity in times of financial crises.

Now a larger swathe of investors have accepted that gold probably is the currency of last resort. This includes wealth managers, investment banks, family offices and HNW's all now increasing their weightings to the yellow metal. Seasoned gold newsletter writers, gold technical analysts and smart money are to a man bullish about golds outlook. That's a worrying sign alone but then gold bull markets are notorious for climbing a wall of worry. This recent experience has served to fuel the education debate as not enough is done by the World Gold Council to press home the vital role gold plays as a genuine hedge in times of crises. Yet still the mainstream media scarcely cover golds days in the sunshine in spite of the obvious and glaring geo-political challenges we are all now facing one way or another. This may be about to change. Gold is the ultimate hedge against currency debasement and inflation.

The largesse of the investment community in the West have at last started noticing the continued record buying by the Central Banks, particularly China and Russia in their insatiable appetite to accumulate when and from wherever they can. The widespread money printing from all the stimulus programmes could be Governments' last resort to debt monetise via currency debasement in order to inflate away the record global horrendous debt levels. The figures are now unmanageable compared to pre QE times.

All the obvious cast have their backs to the wall..US, China, Europe and Russia possibly now arguably all bankrupt!.

Inflation

The pandemic has now crystallised an almost insurmountable task ahead. Will there be an economic re-boot to the system, will de-dollarisation that threatens the petro-dollar be hastened along. The IMF was sounding the alarm bells a year ago so what now? I think the return of significant inflation must be nigh. In recent decades gold has offered protection. Thanks to Bloomberg's CPI figures we can see that inflation by decades in the US for example was 24 p.c. in the 1950's…..28p.c. in the 1960's…..158p.c. in the 1970's…. 64p.c. in the 1980's….34p.c.in the l990's…28p.c. in 2000/10….. and 9p.c. in the decade just finishing. Are we heading back to the 70's? Throughout gold has held its value and is currently at an all-time high in most major currencies bar the US and we are extremely close to the previous peak in this case too. This prospect coincides with gold being "flat out scarce" says one senior chief of global market strategist referring to the "stunning demand for bullion backed ETF's. Another comments that "the search for an economic vaccine to the virus is arguably as important as the quest for a medical vaccine.

All of golds boxes are ticked for that perfect storm" claims another highly regarded source" There is no lack of believers and it is of no surprise that bullion dealers are out of stock as waves of new investors clamour for the best portfolio insurance there is. They accept that gold preserves wealth through exceptionally difficult times and provides an inflation hedge and liquidity guarantee when needed. Therefor the circumstances that would cause all rational investors to own gold is very much intact!

. . . .

Manager's report for Riverstone Energy – 23 April:

After a precipitous decline at the end of 2018, WTI prices experienced another volatile year but ended the period at $61 per barrel, a year-over-year increase of 35 per cent. Spot oil prices rallied during the fourth quarter due to increasing geopolitical tensions between the US and Iran, in addition to progress in US-China trade negotiations. However, oil prices in 2020 have fallen precipitously as the impact of covid-19 has created uncertainty around oil demand growth while OPEC+ began to engage in a price war. Though OPEC+ has subsequently agreed to production cuts, they may not outweigh the impacts to inventory balance resulting from covid-19. Additionally, energy valuations as well as capital markets activity have continued to remain at low levels as the macro environment continues to face significant uncertainty. As a result, REL has focussed on managing its investments through the market turbulence by prioritising defensive initiatives and liquidity to preserve and maximise value.

Even though geopolitical developments supported gains in WTI prices in 2019, forward oil prices which support valuations saw limited upward movement. In 2020, the March meeting of OPEC+ resulted with a heavy increase in expected oil supply driven by Russia and Saudi Arabia. This development, coupled with the impact of covid-19 which has essentially caused the world to halt much of its economic operations, has moved both oil spot and forward prices down significantly. While investors were bearish towards energy in 2019, the recent events that have occurred are only expected to keep investors from inflowing capital into the energy industry. This dynamic has had significant impacts on capital markets and M&A activity as well as trading multiples and valuations, as energy companies have faced considerable challenges in funding growth and cash flow generation.

In the immediate future, oil prices will likely continue to face headwinds as the inventory balance remains weighted towards supply. As a result, WTI traded at $20.28 per barrel as of 31 March 2020. Future oil prices will depend on a couple of important factors that

can shift the inventory balance immensely. On the demand side of the equation, covid-19 serves as a key driver as travel bans have been enacted globally to stem the spread of the virus. The ability and speed with which the world can overcome this pandemic will be the most important factor driving demand. On the supply side, Saudi Arabia and Russia postured that they would be able to sustain a prolonged period of low oil prices, and US producers began to pullback production activity as a result. While OPEC and other oil producing nations have recently agreed to production cuts of 9.7 mmbpd, it is unlikely these production cuts alone will be sufficient in supporting higher prices without subsiding of the pandemic.

Leasing

(compare leasing funds here)

DP Aircraft 1 – 29 April:

The impact on airlines, as a result of covid-19, varies depending on route network, customer base and place of business but the impact on the whole airline industry is significant. At the outset, Chinese and Asian carriers were assumed to be the most affected but currently the negative impact on European Airlines is greater, although airlines worldwide are facing challenging and potentially existential times.

The number of stored aircraft is increasing rapidly; by way of example the number of stored aircraft went up by over 1,000 within a single day (31st March to 1st April 2020). More and more airlines are completely grounding their fleet, and in particular those carriers with no freighter business. The demand for cargo flights itself is strong as the volume of belly freight opportunities falls away with the decrease of passenger flights. Some airlines, amongst others Lufthansa and Aegean, are using passenger aircraft to transport cargo and urgently required medical equipment and protective clothing.

By the end of March 2020, IATA have forecast that due to the covid-19 pandemic, global demand for passenger air traffic will decrease by 38 per cent in 2020 and 71 per cent in the second quarter 2020 compared to the comparable periods in 2019. Passenger revenues are expected to decrease by 68 per cent and USD 61bn of cash being burned in the second quarter 2020. The Airports Council International (ACI World) expects that the recovery period may last until the end of 2021.

The airline business is a cyclical business and sensitive to external shocks, currently being reinforced by the covid-19 pandemic. Previously burdens on airlines caused through the worldwide Boeing 737MAX fleet grounding and the Trent 1000 issues will be trivial in 2020 by comparison as more than half of the passenger fleet is already considered as stored with the number significantly increasing. Even if the spread of covid-19 cases reduces and travel bans are gradually lifted, it will take time until capacity and numbers of passenger aircraft will be on pre-covid-19 levels.

Outlook

Compared to other industries and sectors, airlines operate in a very competitive environment, their profit margins are low and their operating costs significant. Fixed costs, semi-fixed costs and crew expenses amount for nearly 50% of total operating costs. Most of these costs cannot be avoided in the short-term and as revenue streams are currently marginal or non-existent, their financial buffer will be used up shortly. According to IATA, an average airline has an amount of cash and cash equivalents for about two months. This indicates that the industry will heavily rely on governmental support.

Not only current travel restrictions and closures of tourist related infrastructure but also the decrease in manufacturing and retail industries and the resulting lay-off of employees might contribute to an economic recession which in turn will impact the recovery of the airline industry. At the current stage, it is impossible to make any reliable or resilient statement on the total impact of the covid-19 pandemic or its further development. However, from a historical point of view, the airline industry has proven to be resilient and has recovered from all previous crises and external shocks relatively quickly.

Brexit

With negotiations now commencing to define the exit terms of the UK's agreed departure from the EU it is as yet unknown how these might impact travel.

. . . .

Peter Niven, chairman of SQN Asset Finance Income – 3 April:

The rapid development of the covid-19 virus and the fluidity of the situation makes it very difficult to estimate its ultimate impact at this relatively early stage, either on asset values or cashflow. We are, however, approaching all our borrowers to understand the effects the virus will have on their businesses and their ability to maintain their financial commitments to the company. Where there are strains, we may be asked to relax covenants or payments schedules and we will look at those on a case by case basis.

These effects are being felt on economies around the world and will continue to worsen until the epidemic passes; this has the potential to last for some time, although unprecedented economic stimulus by many Governments may help mitigate the full economic impact.

Portfolio

The company has a diversified portfolio across many industries, some that will be directly impacted by covid-19, including the automotive, travel, leisure and shipping industries, and others that may be indirectly impacted through any economic downturn and reduction in activity.

One example of the effects covid-19 is having, in the C share portfolio, is an automotive parts producer supplying major French car makers that has been forced to close as the plants they supply have themselves closed with no idea at this time how long that will last. Such is the uncertainty with which we and many of our borrowers are faced.

There may be some businesses that do not survive covid-19 and it is most likely that some assets will need to be repositioned or sold, which may impact value.

However, it is too early to fully understand the impact of covid-19 and it may be more severe on our borrowers than anticipated and/or it may take an extended period of time before the epidemic passes.

. . . .

Property - UK

(compare UK property funds here)

Martin Moore, chairman of BMO Commercial Property – 16 April:

It will take time for the markets to re-balance following such a major shock. Changes to lifestyles and working patterns may persist beyond the crisis period, which for property may present opportunity as well as challenges. However, the economic outlook will still be affected by Brexit and this represents another area of uncertainty. Given this

backdrop, we expect capital values to remain under pressure and rental growth, especially in retail, to be by exception. Optimising and protecting income will be paramount in the difficult period ahead.

QuotedData

QuotedData is a trading name of Marten & Co which is authorised and regulated by the Financial Conduct Authority
123a Kings Road, London SW3 4PL
020 3691 9430
www.quoteddata.com
Registered in England & Wales number 07981621
2nd Floor Heathmans House
19 Heathmans Road, London SW6 4TJ

Edward Marten
(em@martenandco.com)
Alistair Harkness
(ah@martenandco.com)
David McFadyen
(dm@martenandco.com)
Nick Potts
(np@martenandco.com)
James Carthew
(jc@martenandco.com)
Matthew Read
(mr@martenandco.com)
Shonil Chande
(sc@martenandco.com)
Richard Williams
(rw@martenandco.com)

IMPORTANT INFORMATION

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

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

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

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

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

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

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

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

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

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

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