Monthly summary | Investment companies

July 2020

Economic & Political Roundup

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

Roundup

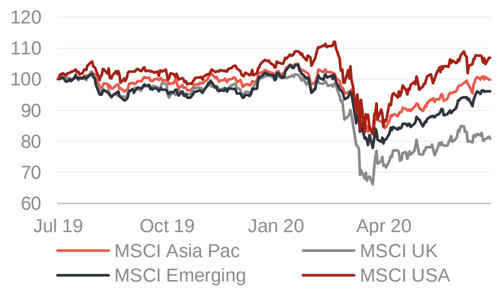
Markets were less prolific over June, as the emergence of a second wave of infections in the US raised the spectre of the implications of dialling back re-openings. It was a better month for Europe and emerging markets, led by Asia, with countries that have managed the pandemic best, continuing to re-open. Assets that are perceived to provide safety, such as gold and the Swiss franc, also had good months.

Exchange Rate	30/06/20	Change on month %
GBP / USD	1.2387	+0.4
USD / EUR	0.89	(1.2)
USD / JPY	107.94	+0.1
USD / CHF	0.9469	(1.5)
USD / CNY	7.0654	(1.0)

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/07/2019 to 30/06/2020



Source: Bloomberg, Marten & Co

	30/06/20	Change on month %
Oil (Brent)	41.1	+16.3
Gold	1,781.83	+3.0
US Tsy 10 yr yield	0.6627	+1.5
UK Gilt 10 yr yield	0.172	(6.5)
Bund 10 yr yield	-0.456	+1.6

Source: Bloomberg, Marten & Co

Global

Melting away inertia

Sue Inglis, the chair of Bankers, says that while some initial indicators show growth resuming as economies re-open, it is too early to make reliable predictions. The chair of BMO Global Smaller Companies, Anthony Townsend, notes that the withdrawal of earnings guidance for 2020, by many portfolio companies, has rendered near term valuation metrics redundant. The managers of Monks believe the crisis is likely to accelerate many changes which were already underway, perhaps most obviously in the growth of digital solutions to consumption, entertainment, healthcare and business operations. Nick Train, manager of Lindsell Train, shares these sentiments. He also hopes that the relative youth of most emerging market populations, will spare them the worst of the disease. The manager of Edinburgh Worldwide, says Covid-19 will underpin wide-ranging changes in areas such as how we shop, travel, learn, operate businesses and treat disease We also hear from James Will, the chairman of Scottish. He sees one of the long-lasting legacies of the crisis being the consequences of the 'whatever it takes' actions to preserve jobs and prevent wholesale bankruptcies.

UK

Around 160 companies in the FTSE all-share index have suspended their dividends, and the UK dividend future is estimating around a 47% cut

Eric Sanderson, chairman of Schroder UK Mid Cap, refers to the global financial crisis. He says that while recovery felt painfully slow at the time, the mid-caps that had genuine competitive advantages emerged stronger.

Miton UK Microcap's chairman, Andy Pomfret, says that whilst the government has stepped in to bridge the huge shortage of corporate cashflow for now, this is only a temporary fix. With the major setback in profitability, numerous corporates now find themselves exceptionally short of cash.

Roland Arnold, manager of BlackRock Smaller Companies, says it is important not to lose sight of other global issues that can and will drive volatility. He cites Brexit, US/China relations, and the US election, fighting a battle for market dominance with central bank policy, fiscal stimulus, and asset flows, over the coming months.

Adam Avigdori and David Goldman, managers of BlackRock Income and Growth, note that around 160 companies in the All-share index have suspended their dividends, and the UK dividend future is estimating around a 47% cut. For now, they say that the language from the majority of companies has been to suspend, rather than cut.

The banking sector is better placed this time around

The manager of Gresham House Strategic expects the national discussion around 'lives' vs 'livelihoods' to intensify. They add that 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.

Charles Montanaro, the manager of Montanaro UK Smaller Companies, notes that the bleak economic outlook sparked by the global response to Covid-19 mostly threatens businesses with structural weaknesses - poor management, a weak balance sheet, a lack of recurring revenue or pricing power.

Cyclical sectors could be sparked by improving newsflow

BlackRock Throgmorton's manager, Dan Whitestone, thinks that the improving newsflow on the virus and the easing of restrictions has the potential to benefit depressed sectors like consumer services and financials.

Peter Jones, chairman of Henderson Opportunities, says that the debts incurred in both the public and private sectors will take a long time to pay down.

The manager of Baillie Gifford UK Growth notes that we cannot wish away the fact that it is likely that the most dramatic recession in UK history is pending and will cause damage whose effects are not clear. The manger also discusses some of the 'digitalisation acceleration' themes that are widely referred to across several extracts, this month.

Edinburgh's manager, James de Uphaugh, discusses a number of themes, including consumer behaviour and working patterns; the role of the state; corporate strategies, and dividends.

Jane Tufnell, chair of Odyssean, says that despite the considerable fiscal and monetary support, it is highly unlikely that corporate earnings will suddenly bounce back to historic peak levels experienced in 2019.

Lowland's managers, James Henderson and Laura Foll, believe the material work done by companies to reduce their cost bases will result in a substantial earnings impact, once a recovery begins in earnest.

In the UK market the miners, pharmaceuticals, telecoms and tobacco stocks continue to offer healthy yields

Iain Pyle and Charles Luke, manager of Shires Income, believe that good income sources do still exist. In the UK market the miners, pharmaceuticals, telecoms and tobacco stocks continue to offer healthy yields.

Jonathan Cartwright, chairman of BMO Capital and Income, says that looking further ahead, or indeed back for historic comparisons, suggests that if companies can recover their profitability within a couple of years then current valuations are attractive, certainly relative to the ultra-low returns available from bonds or deposit rates

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Flexible Investment

The manager of JPMorgan Global Core Real Assets discuses some of the 'new normals' created by the millennial generation, which they title 'generation rent' and the 'e-commerce effect.' In-depth outlooks for the real estate, infrastructure, and transport sectors.

Commercial real estate has been hit hard

JZ Capital Partners's manager says that Covid-19 has been devastating to commercial retail real estate and may likely result in further write downs in the value of their real estate assets. Many of their retail tenants have not paid rent in April or May.

Seneca Global Income & Growth's manager reflects on how previous pandemics played out, noting that the closest scenario to the current crisis would be the Spanish Flu pandemic of 1917/18. The Dow Jones fell 33% during that crisis and, by the virus's peak, this market had already begun to recover. These painful market corrections tend to be followed by strong markets. The trust had for a long time communicated its view that a downturn was likely in 2020 or 2021, though of course nobody expected one to be triggered by a pandemic.

Some forecasters see a peak-to-trough hit to global GDP of 15%, and a year-average contraction of 8% for 2020. Such an outlook would be much worse than the 2008 Global Financial Crisis

Mike Brooks and Tony Foster, managers of Aberdeen Diversified Income & Growth, expect the near-term performance of financial markets to depend on how two competing forces are reconciled: economic fundamentals and financial market liquidity. They note that the economists in the Manager's Research Institute forecast a peak-to-trough hit to global GDP of 15%, and a year-average contraction of over 8% in 2020. This is much worse than the 2008-09 Global Financial Crisis and is comparable to wars and the Great Depression.

Katy Thorneycroft and Gareth Witcomb, managers of JPMorgan Multi-Asset, note that their base case is that this is not a typical recession, as it is combining a credit crunch with a pandemic. They would expect weakness in Q2 followed by stabilisation in indicators and a staggered increase in growth. This will all depend on how long the suspension of activity continues for and the extent of stress within credit markets.

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Biotech and healthcare

Elective procedures and clinical trials have been de-prioritised, though there has been a more limited impact on clinical trials in the oncology setting

Martin Murphy. CEO of Syncona's manager, says that as a result of rightly focusing on managing Covid-19 patients, elective procedures and clinical trials have been de-prioritised. To date, they have seen a more limited impact on clinical trials in the oncology setting, where the acute need for treatments for patients in these disease settings is more severe, whilst in indications where there is an existing treatment or a lower mortality risk, they have seen trials halted and expect them to be more gradually re-established.

Worldwide Healthcare Trust's chairman, Sir Martin Smith, discusses the fund's view that the outbreak should not have a long-term detrimental effect on the healthcare industry. He adds that there has been some temporary negative impact to commercial sales, some delays for clinical trials and a more dilutive financing environment with the decline in share prices. However, sales of drugs taken by patients at home have been minimally impacted and supply chain disruption for the sector has been largely non-existent.

Biotech is in a “golden age” of innovation

Geoff Hsu, manager of Biotech Growth, discusses the wider potential of the biotech industry, noting that the sector is in a “golden era” of innovation at the present time. Several new technologies-including gene therapy, cell therapy, RNA-based therapies, and bispecific antibodies-are just beginning to result in marketed products to treat patients. We believe we are still in the early stages of realising the full potential of these technologies, as hundreds of pipeline candidates based on these technologies are still working their way through the drug development process.

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Private equity

The manager of HarbourVest Global Private Equity says that it is likely that new investment activity and exits will be markedly down on 2019 levels in the months ahead as the industry adjusts to a heightened level of uncertainty over the economic outlook and its potential impact across a broad range of businesses, both private and public.

Private equity has thrived historically on the opportunities provided by periods of market dislocation

Standard Life Private Equity’s lead manager, Alan Gauld, says they are seeing little M&A activity in the market, as sales processes are postponed until late 2020 and beyond. This will have a knock-on impact on the level of distributions received in the short term. The decline in M&A activity will be followed by a decrease in drawdowns, albeit at a later stage in the cycle than distributions. The manager remains confident that private equity continues to offer significant opportunity for long-term value creation, noting that all the company’s private equity managers weathered the global financial crisis and can apply their lessons from that time. In the short-term their experience and expertise will be largely deployed in helping their existing portfolio companies to mitigate the impact of Covid-19. Beyond this, he adds that private equity has shown time and again that it thrives on the opportunities that present themselves during periods of market dislocation.

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Renewables

The European Commission recently announced a series of measures that prioritise ‘greener’ investments

NextEnergy Solar’s chairman, Kevin Lyon, says that the price for electricity is driven by several factors that are proving difficult to predict under the current environment. He adds that the economic shock of Covid-19 has had a profound impact on oil prices and the prices of energy. Recovery in demand for electricity will be driven by the pace of economic recovery once the effects of the pandemic subside.

Tony Roper, chairman of SDCL Energy Efficiency Income, makes reference to the June 2020 announcement by the European Commission of a series of stimulus and recovery measures that specifically prioritise 'greener' investments, so as to simultaneously address national climate related targets, building amongst other things on the widening public appreciation of the benefits of reduced pollution levels during the economic shutdown and general awareness of climate change.

Renewable assets have been delivering cash more resiliently than many other asset classes

JLEN Environmental Assets’s chairman, Richard Morse, notes that established environmental infrastructure assets have generally performed resiliently and continued to generate cash even as other asset classes and market sectors have struggled.

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Other

We have also included comments on North America from BlackRock North American Income; Latin America from BlackRock Latin American; Europe from BlackRock Greater Europe, Montanaro European Smaller Companies, JPMorgan European Growth, JPMorgan European Smaller Companies, and Baring Emerging Europe; Russia from JPMorgan Russian Securities; Japan from JPMorgan Japan Smaller Companies, Aberdeen Japan, and CC Japan Income & Growth; Global Emerging Markets from Jupiter Emerging & Frontier Income; Growth Capital from Merian Chrysalis; Infrastructure from Sequoia Economic Infrastructure Income; Commodities and Natural Resources from BlackRock Energy and Resources Income; UK Property from Schroder REIT, AEW UK REIT, Civitas Social Housing, and Custodian REIT; and European Property from Schroder European REIT.

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

Global

(compare global funds **here**)

Sue Inglis, chair of Bankers – 29 June:

Covid-19 has caused substantial disruption to individuals, companies, economies and financial markets and resulted in an immediate and severe economic contraction. As we are in the midst of a crisis that is without parallel, history is a poor guide as to what the future might look like and there is an extreme divergence among the forecasts of the longer-term consequences of the pandemic. Some initial indicators show growth resuming as economies re-open. In our view, it is too early to make reliable predictions as to the timing and shape of the recovery. We do not anticipate, however, a return to a normalised situation and pre-crisis GDP levels any time soon. Furthermore, until a vaccine is found and globally accessible, there is a risk of new spikes in the virus requiring further localised lockdowns, which are likely to delay the return to normal and cause further economic disruption.

Inevitably, the current crisis has tended to be all-consuming in recent months. We remain mindful, however, that, there are other uncertainties that may cause additional disruption in the short term, including the re-escalation of US-China trade tensions, President Trump's battle for re-election later in the year and the possibility of a "hard" Brexit at the end of the year.

The rebound of global equity markets following the earlier sharp sell-off suggests a fragile belief that, whilst the impact of Covid-19 has been shocking, it is largely temporary. In our opinion, it is too soon to judge whether this belief is well founded, and we expect, therefore, the recent elevated market volatility to persist for the foreseeable future and that markets may experience some periodic setbacks.

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Anthony Townsend, chair of BMO Global Smaller Companies – 22 June:

Giving an outlook for market performance at this stage with any degree of conviction is very tough. A large number of companies held in the portfolio have withdrawn earnings guidance for 2020, rendering near term valuation metrics redundant. The harsh reality is that profits will be sharply down for many companies this year. Against this, the dramatic scale of Central Bank and government intervention is providing a great support to financial markets and seems set to stay. With the lockdowns being eased back, share prices have enjoyed a bounce at the start of the new financial year.

There will certainly be opportunities for valuation anomalies to be taken advantage of in the coming period.

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Charles Plowden, Spencer Adair, and Malcolm MacColl, managers of Monks – 17 June:

The acceleration of demand for online goods and services has benefitted several technology holdings. An economic crisis can tilt the playing field in favour of innovation and the most adaptable companies. Whilst early days in the coronavirus pandemic, many of the portfolio's holdings have risen to the challenge. We believe that the current crisis is likely to accelerate many changes which were already underway, perhaps most obviously in the growth of digital solutions to consumption, entertainment, healthcare and business operations. There is also the possibility of significant new developments, for example in the impetus towards addressing global warming, through policy and tax changes. While the economic and political implications of the pandemic will undoubtedly be far reaching, we remain focused on the fundamental task at hand - to invest in companies with durable growth opportunities, deepening competitive advantages and rising real earnings power. We are optimistic about the opportunities which lie ahead.

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Nick Train, manager of Lindsell Train – 15 June:

We are often asked what worries us most today. Our answer is that our biggest worry remains the same question we had on the 1st January 2020 and, indeed, the 1st January 2019. Namely - Is technology change the friend or the enemy of the companies we have chosen to invest in? What does seem clear about this crisis is the way it has accelerated both the decline of some industries and business models (high street retail most obviously) and accelerated the adoption of digital tools and services. Being on the right side of this change has never felt more important.

Despite my warning above, I am going to stray into the dangerous territory of prediction. We were grateful to JP Morgan for its recent piece of research which pointed out that the age of the average European is 43 years old. Meanwhile, the age of the average inhabitant of Latin America is 31, of India 26 years 8 months and of Africa, 19 years and 7 months. There have been precious few positive surprises about this wretched virus. But tentatively, perhaps a positive surprise for the world will be that the relative youth of the majority of the world's population means that the virus' mortal effects will be less severe in the Emerging Markets than elsewhere. This may be an unexpected plus for companies that serve young consumers in these regions.

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James Will, chairman of Scottish – 15 June:

A great deal of uncertainty remains about how, and when, the Covid-19 crisis will end. In time, the worst effects of the virus will pass but there may not be a definitive end and we may, instead, have to adapt to live with it.

The virus brutally exposed several systemic fragilities which will no doubt be addressed as the lessons of the crisis are digested. Most obviously, many corporates, in their drive for efficiency, left themselves unable to weather a period of disruption without government support. Meanwhile, the failure of cross-border supply chains to provide critical items at a time of need also represents a further challenge to the trend of globalisation.

Although overlooked in recent months, the longer standing 'known' unknowns remain. The post Brexit trade talks appear to be deadlocked, the relationship between the US and China appears to be deteriorating and the plunge in oil prices has the potential to further destabilise a volatile environment in the Middle East.

A long-lasting legacy of the crisis is likely to be the consequences of the 'whatever it takes' actions to preserve jobs and prevent wholesale bankruptcies. Such a response was unquestionably required but it has had a ruinous effect on government finances and will be very difficult to withdraw. This is not necessarily bad news for equities as the potential for induced inflation could act as a catalyst for the more beaten-down areas of the market. However, at this stage, we maintain our capital preservation mindset.

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Manager's report for Edinburgh Worldwide – 8 June:

From a handful of Covid-19 cases in Wuhan at the start of January to the enforced lockdown of an estimated 3bn people by the end of April, the first few months of 2020 have witnessed a truly staggering turn of events. Even if the outcomes now feel somewhat familiar, this period of adaption for both individuals, economies and business has been swift and, in many cases, brutal. What began as a healthcare crisis is unavoidably morphing into a broader phenomenon as the second and third order effects build and extend beyond the immediate. The ramifications of this will be felt for many years to come and will touch on many aspects of life from politics through to business and from education to lasting societal and workplace change. Many pages will be written on this dramatic event and much of that will inevitably focus on the negatives, be it failures of systems and leadership or the vast humanitarian and financial cost. Without wanting to be dismissive of the many challenges ahead, we think the bigger lessons from past crises warrant a more optimistic forward-looking tone. From historical archives relating to famine, plagues and war through to more modern events such as the oil crisis, the Dotcom crash or the financial crisis, the pattern is that such events have proven to be a deep impetus for the powerful forces of ingenuity, resourcefulness and innovation. An exogenous shock of the predictably unpredictable variety invariably creates near-term challenges, but it also often acts as a potent catalyst for a long-term change in behaviours. Moreover, the bigger the shock the more profound the adaption and far reaching the response.

Covid-19, with its enforced and abrupt change in behaviours, is highly relevant in that it simultaneously strikes a direct challenge to embedded scepticism and acts to melt away inertia. The result is a removal of a bottleneck and an openness towards new and better ways of doing things. Some changes will be fleeting, but many elements are likely to be of a much longer duration and will underpin wide-ranging changes in areas such as how we shop, travel, learn, operate businesses and treat disease. Accordingly, we view a significant outcome of the current crisis as being an acceleration in the underlying rate of change occurring in the world. In the sphere of business and commerce this is likely to be expressed through a quickening in the ascendancy of digital platforms and innovative, nimble disruptors. This will be matched by a hastening in the demise of stale, structurally challenged, frequently indebted incumbents.

This acceleration will be neither uniform nor linear.

Beyond the immediate effects of the Covid-19 crisis, we believe two observations are likely to be most impactful on the portfolio over the coming years. First, as noted above, an acceleration in the rate of change is likely in many areas. Were this to simply be viewed as a bringing forward of the inevitable then the investment implications would be limited to a thesis around the time-value-of-money: something that would be helpful but not transformational. Rather, we think the bigger prize is less likely to be the growth rate itself but more the implied accelerated evolution in the competitive dynamics in areas of huge opportunity. Covid-19 is likely to be the catalyst to a massive digitally powered landgrab with the winners anointed over the next 2-3 years versus what might have ordinarily taken 10+ years. Such an acceleration will significantly limit the number of players that could feasibly enter these markets and will ensure that the spoils accrue to a smaller number of existing participants (such dynamics will likely apply in retail, software, healthcare and beyond). The strong-getting-stronger is a well-documented phenomenon observed in previous downturns. Our impression is that this is likely to be an even more prominent feature this time around.

Second, we would reiterate the earlier observation that at times of crisis enforced adaption drives a lasting change in behaviours and propels a new wave of business opportunity.

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Flexible investment

(compare flexible investment funds **here**)

Manager's report for JPMorgan Global Core Real Assets – 19 June:

Millennial Trends

The millennial generation and their preferences have created a range of 'new normals'. These are currently best reflected within our real estate allocation.

- 'Generation rent' in the United States and Asia-Pacific has changed how we think about residential real estate with big opportunities for single-family rental development and with smaller apartments in Japan.
- The 'E-commerce effect' has for some years made logistic assets the place to invest. Given the strength of e-commerce in the United States and Asia-Pacific, we are optimistic on the sector.
- Given the Covid-19 pandemic and the impact it has had on shopping habits we expect this e-commerce trend to accelerate, particularly in locations closer to urban centres that enable 'last mile' distribution and the speed of delivery so many of us expect.

Real asset market outlook

Early 2020 marked the end of the longest bull market in history. While it is difficult to predict, you can plan and, given the length of the cycle, the focus was on building portfolio resiliency. We advocated a strategic asset allocation for real assets with an emphasis on stable cash flows and income growth over price appreciation. Although we did not have insight into the unprecedented shutdown to come, this approach turned out to be correct and, if anything, has been strengthened. One could argue core real assets look even more appealing right now as investors look for asset classes which could act as a relative safe haven compared to broader markets and, given recent central bank action, are even more attractive for those searching for income. Finally, given the nature of the fiscal stimulus around the world and the possibility for turbocharged levels of demand once lockdown restrictions are lifted, there is the possibility of increased inflation over the medium term. Although this has not been a necessary consideration for investors for some time, should such a scenario arise, historically, real assets have protected against inflation well.

1) Real Estate

Coming into the pandemic, real estate was relatively fully priced; however, given the low to negative interest rate environment, real estate spreads to corporate BBBs, a common measure of value in the asset class, were at healthy levels. As this pandemic plays out, as with all asset classes, it is expected that lower leverage, income focused strategies with, on average, higher quality tenants will outperform. Looking at core sectors (residential, retail, office and industrial/logistics) we expect the retail sector to be hardest hit, whilst other sectors such as logistics should prove more durable. Outside traditional core assets there are a number of sectors which will be hit hard, most notably hospitality, however the company's core focus means it has very limited exposure to these more esoteric sectors. This pandemic is likely to expediate trends we were already witnessing in the real estate market - such as the rise of e-commerce and the shift towards more flexible working arrangements.

Of longer-term importance is how the definition of core real estate looks set to evolve. 'Core' does not just refer to assets whose returns are mainly from stable cash flows, but also refers to the central role these properties play in the functioning of an economy. As economies evolve, through technology, demographics and other structural trends, so should the definition of Core (traditionally the office, industrial/logistics, residential and retail sectors) - and so core allocations need to adapt. As with past trends in real estate, this is initially being seen in the REIT market where 'extended core' sectors have become an ever-increasing part of the investment universe - this includes property types such as single-family rentals, self-storage, bio-tech facilities and data centres. To illustrate this growth, these less traditional sectors now account for over 40% of the US REIT market capitalisation - but less than 5% of the market of the comparable private US benchmark. We expect extended core sectors to make up an increasing share of private real estate allocations as investors come to better understand these opportunities along with their risks and roles within a diversified core portfolio.

2) Infrastructure

Core infrastructure is one of real asset categories we expect to be more resilient during the current downturn, albeit there will be some differences between sub-sectors. For example, regulated utilities that provide heat, water and electricity remain essential to daily life whether at home or at work and, given their regulated and essential nature, we expect these businesses to be broadly less affected than other market segments during this period. Similarly, power generation such as solar, wind and natural gas, coupled with long term offtake agreements, should be relatively resilient. However, more GDP sensitive/demand-based assets such as toll roads, airports and seaports may struggle. This sector by sector difference advocates the need for well diversified portfolios both by asset type and by geography.

Beyond the current market environment, we continue to hear the refrain that has become increasingly frequent in the infrastructure market: 'Too much money is chasing too few deals.' Yet this narrative does not capture the full picture. Although significant capital has been raised, it is from a relatively low base, and private capital remains a small percentage of the market's overall financing. While on an absolute basis infrastructure returns have fallen over time, in our view they remain attractive relative to traditional asset classes, particularly on a risk-adjusted basis. It is our view that the most promising transactions will appear in middle-market, regulated and contracted assets in OECD markets providing a robust legal framework. Mid-market transactions represent more than 90% of all infrastructure transactions by number but a minority of the deal value, and hence they are more insulated from the typically intense competition for large, core 'trophy' assets-where the 'too much money' narrative often arises.

3) Transport

Following a year dominated by 'Trade War' discussions (although these had a less severe impact on seaborne trade than many expected - with only an estimated 0.5% decline in global seaborne trade over the year) 2020 looked to be a less uncertain year for transportation. However, Covid-19 creates new unknowns and reminds us of the advantages to a pan-transportation strategy which is not focused on any one sector or asset type. The transportation market is an incredibly diverse and nuanced place meaning different sectors will see divergent fortunes over this period. For example, whilst the aviation industry is under severe stress, this is contrasted by a more buoyant tanker market, which has benefited from the low cost of oil and acute demand for storage capacity, floating or otherwise. This has seen significant demand for the vessels as people look to buy and store oil at today's low prices - in such market environments product tankers are being utilised as a form of floating storage. Whilst the full impact of Covid-19 is yet to be known on the transportation market, we expect to see this type of sector divergence and, given the size and scale of the JPM transport platform, coupled with the longevity of the team and presence of permanent capital, we stand well placed to capitalise on dislocations as they arise.

Beyond the shorter term, a big change going on in the transportation industry is the move to a more sustainable marketplace. A great example of this is that, from 1st

January 2020, a new International Maritime Organisation regulation requires vessels to meet more demanding fuel emission standards. To comply, vessels can either switch to low sulphur fuels or they can install exhaust gas cleaning systems (scrubbers) to reduce their emissions of sulphur oxide and nitrous oxide. We expect these trends will continue, causing us to favour newer, more fuel-efficient assets. We also anticipate that several older, less fuel-efficient ships will be scrapped, potentially limiting supply. Finally, we project that average vessel speeds could slow to reduce fuel consumption again benefitting larger, newer vessels.

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Manager's report for JZ Capital Partners – 18 June:

Our US and European micro-cap portfolios performed relatively well during the first calendar quarter of 2020. To deal with the Covid-19 pandemic, we are working daily with each portfolio company's leadership team to review contingency plans and liquidity scenarios to weather the current downturn.

With regards to our real estate portfolio, Covid-19 has been devastating to commercial retail real estate and may likely result in further write downs in the value of our real estate assets. Many of our retail tenants have not paid rent in April or May.

Outlook

As we think about the outlook, it's almost impossible to project at a time when the economy is declining by 20% or more and unemployment is spiking in the United States. It is our hope that these conditions subside and reverse with Covid-19 in decline.

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Manager's report for Seneca Global Income & Growth – 16 June:

The first indications of Covid-19 related problems emerged in January via videos circulating of packed healthcare facilities in Wuhan, China, and stories of an unknown virus. Markets remained largely unaffected with most indices posting anaemic gains or modest losses. Markets viewed this as a local problem within China that was being managed by the authorities. There was some concern about supply chain disruption but nothing more serious than that. The turning point was the last week in February as Europe started to see a surge in cases particularly in a hotspot in Northern Italy. Italy would implement a lockdown for a few towns in the North some days later, but it was now clear that this was a serious and dangerous global issue and markets went into freefall.

Since then markets and economies have become a mirror image of their pre-crisis highs. A record-breaking bull market quickly reversed with some of the largest and quickest falls in living memory. The UK equity market's Q1 returns by 23 March were the lowest quarterly returns since 1720 (this is not a typing error!). We also saw some of the largest one-day market falls in S&P 500 history during March as the index fell by 12% in a single day. Demand for oil collapsed as the Saudis and Russians flooded the market with supply, causing the oil price to move into negative territory for some futures contracts as traders desperately tried to offload their exposure before the effective delivery dates of their oil. Unemployment has moved from historic lows to record highs in a number of economies. Central banks have slashed interest rates. Governments have announced record breaking stimulus packages. These developments highlight that this is not a normal situation we are witnessing. Rather, it is an extreme 'black swan' event.

History suggests that it pays to be patient and not panic when extreme events occur. The closest scenario to the current crisis would be the Spanish Flu pandemic of

1917/18. The Dow Jones fell 33% during that crisis and, by the virus's peak, this market had already begun to recover. These painful market corrections tend to be followed by strong markets. Black Monday (1987) caused UK stocks to fall 34% in a few months but was followed by a bull market that lasted over a decade. The global financial crisis in 2008 was also followed by a decade long bull market. Another virus-related crisis was SARS in 2003. This caused Asia ex-Japan stocks to fall 12% between January and April 2003 only to produce annualised returns of 36% over the next three years. Despite the prospects for a recovery, there will be a number of businesses in the market that will fail in the next few weeks and months. We have been monitoring your company's investments closely to ensure their balance sheets can withstand a prolonged lockdown. Every crisis is different, but markets do recover, and patience is key to ride through the volatility and take advantage of the valuation opportunities that are created.

Outlook

We have for some time communicated our view that we were late in the cycle and expected a downturn in 2020 or 2021. However, we were expecting a downturn rather than a pandemic induced global lockdown.

In simple terms we have a health crisis that is causing an economic crisis. The economic environment will continue to struggle until the health crisis is overcome. At the time of writing the medical side of this crisis seems to have peaked and the pressure on health systems is declining. However, a vaccine is still in the testing phase and there is still the risk of a second wave. Only once there is a degree of certainty on the health crisis can the economic damage then be accurately measured and the path to recovery effectively plotted.

This creates an extremely broad set of potential scenarios. The best option would be that we have now passed the peak of the health crisis and the initial phase of reducing the lockdown rules continues at a steady pace without a spike in new cases. Were such moves to be accompanied by the development of a reliable vaccine and antibody test, the health crisis would effectively be at an end. This would imply more of a V shaped recovery with unemployment levels sharply decreasing as life returns to some sort of normality. The opposite of this would be that a vaccine cannot be found or takes years to be safely developed. We may have to live with persistent social distancing measures that increase and decrease alongside the reproductive rate of the virus. Many industries and businesses would be crippled by this and we could enter a global depression. These scenarios are massively different, but convincing arguments can be put forward for both. Reality will probably lie somewhere between the two and we would veer closer to the more positive scenario. It is not unreasonable to expect the successful implementation of a vaccine next year. The recovery is likely to be gradual, or as the media might have it, an 'upward sloping l', 'square root' or 'Nike swoosh' shaped recovery.

Assuming anything but the worst of scenarios, at times of peak fear, such as we have recently seen, assets can be significantly mis-priced and we strongly believe this is what happened, particularly towards the end of March. Many cyclical stocks were priced almost for bankruptcy. We believe that investors' angst will ease, and money will move from government bonds back towards equity markets. From a currency perspective the 'risk off' currencies may depreciate slightly and we will potentially see sterling rise against the dollar after hitting a thirty-five year low. Cyclical stocks will begin to generate profits again which will slowly rise as consumer behaviour begins to normalise, and the more traditional performance relationship between mid-cap and large-cap stocks will re-assert itself.

After one of the most challenging periods for global markets in living memory, we are confident that the investment style headwind, alluded to earlier, of 'value' versus 'growth', to turn decisively to 'value' which, in turn, will assist the portfolio's performance.

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Mike Brooks and Tony Foster, managers of Aberdeen Diversified Income & Growth – 12 June:

The near-term performance of financial markets will depend on how two competing forces are reconciled: economic fundamentals and financial market liquidity.

In terms of economic fundamentals, GDP growth expectations have been cut aggressively in recent weeks but may be cut further as the impact of the lockdowns in various countries works through the economic system. The economists in the Manager's Research Institute forecast a peak-to-trough hit to global GDP of 15%, and a year-average contraction of over 8% in 2020. This is much worse than the 2008-09 Global Financial Crisis and is comparable to wars and the Great Depression.

In terms of financial market liquidity, central bank measures and government stimulus packages sparked a relief rally towards the end of the company’s reporting period which continued into April and May. However, as the damage to the corporate sector becomes increasingly apparent - in terms of reduced profit expectations as companies adapt to the "new normal", equity re-financing requirements to repair damaged balance sheets and, in some cases, corporate failures - we expect that this rally will abate. In the manager’s view, we are past 'peak panic', but we are yet to see 'peak pessimism'. The good news is that, while pre-crisis returns forecasts reflected high valuations in many asset classes, the impact of these recent market falls offers the prospect of materially higher returns over the medium to long term from the current starting point. This is after allowing for the disappointment of corporate failures and debt defaults. It is especially so in ABS markets, where we have retained a high level of exposure. However, at this stage, we believe it is too soon to rebuild the portfolio's equity exposure.

Instead, we continue to see good value in listed alternative investment companies. We have used these to increase the portfolio's exposure to diversifying asset classes which, in our view, offer attractive return potential.

In addition, the company’s portfolio of longer-term investments are well placed to achieve a higher level of returns going forward. In some funds, assets that have been deployed over the last three years will reach full maturity. This is particularly the case in economic infrastructure, residential and specialist property, farmland and litigation finance. At the same time, funds with "dry powder" - in private equity secondaries, healthcare royalties and Latin American infrastructure - are well positioned to take advantage of a wider range of opportunities that will meet their return targets.

Recent events have been testing for all of us and, if our economic forecasts are correct, may remain so for some time to come. This reinforces our view that the best way to approach uncertainty is to hold an actively managed portfolio of diversified assets which will provide a level of resilience in the face of further volatility and attractive return potential for when the recovery materialises.

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Katy Thorneycroft and Gareth Witcomb, managers of JPMorgan Multi-Asset – 9 June:

As headwinds from trade policy were beginning to dissipate, the outbreak of Covid- 19 has pushed the global economy into recession. The speed and depth of the 'sudden stop' in the economy is unprecedented. Consumer service sectors have ground to a halt amidst the social distancing shock and as services employment tends to be more flexible than goods employment, the current shock has been faster to hit the labour market. Our base case is that this is not a typical recession, as we are combining a credit crunch with a pandemic. We would expect weakness in Q2 followed by stabilisation in indicators and a staggered increase in growth. However, this will all depend on how long the suspension of activity continues for and the extent of stress within credit markets.

United Kingdom

(compare UK funds **here**)

Eric Sanderson, chairman of Schroder UK Mid Cap – 30 June:

It is fair to say that the characteristics the investment managers have looked for in these long-term growth opportunities - such as pricing power, organic growth and strong cash flow - did not anticipate a world where the staff of our portfolio holdings are locked out of their offices, factories and shops. Nonetheless we still consider them to be valid criteria.

There is only one relevant precedent in the company's life, but I believe it is a reassuring one. The 2007-09 Global Financial Crisis was as traumatic for mid-cap companies as the virus is today, and the company's share price fell more than has happened this year. Recovery felt painfully slow at the time, but the mid-caps that had genuine competitive advantages emerged stronger, and by 2014 the company's share price was nearly double what it had been at the 2007 peak (and nearly five times what it had been at the bottom). Balance sheet strength and cash flow are going to be as important now as then. There is also the uncertainty of the negotiations over the trading terms arising from the UK's departure from the EU. History tells us that sharp dislocation often provides great opportunities for the right mid-caps, and we want to take advantage of that.

Andy Pomfret, chairman of Miton UK Microcap – 29 June:

The decade up to 2019 was defined by extra borrowing. The surge of low-cost imports kept inflation and interest rates low. Alongside, when global growth wobbled, central banks reached for more and more Quantitative Easing so that their banks kept lending. Whilst global growth may have been patchy over this period, there was a form of economic equilibrium because whenever corporate debts became due, there was always someone prepared to relend to them. Stock markets appreciated as well, because even these quoted companies that were not generating cashflow could afford to boost their dividends using extra debt that was cheap and plentiful. Heavily cash consumptive growth stocks also performed particularly well during this period, as there was easy access to plentiful risk capital.

With the pandemic, an abrupt and deep global recession has now destabilised the previous equilibrium. Most businesses have either suffered an alarming drop in demand, or supply, or both. Whilst the government has stepped in to bridge the huge shortage of corporate cashflow for now, this is only a temporary fix. With the major setback in profitability, numerous corporates now find themselves exceptionally short of cash. So, for at least the coming year, the ongoing pressure on corporate profitability and cashflow will continue to cause many companies to radically restructure or even fail.

This is a big moment for investors, because the past decades of plentiful cash and risk capital have abruptly dried up. It isn't just that dividends are being passed. We should anticipate that quite a few companies will need emergency access to extra cash, either through dilutive rights issues, or the sale of a part or all their businesses at distressed valuations.

In contrast, many quoted microcaps enter this period of corporate challenge with three major advantages:

i. numerous quoted microcaps already have strong balance sheets as they have learnt that they could not rely on external investors to fund their growth ambitions;
ii. almost no quoted microcaps have defined benefit pension schemes, and hence they won't have to fund extra pension fund contributions; and
iii. many UK microcaps with attractive prospects are currently standing on unusually low valuations.

The conditions are now right for UK quoted microcaps not only to enjoy a period of performance catch-up, but also for the prior trend of sixty years of outperformance to resume.

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Roland Arnold, manager of BlackRock Smaller Companies – 24 June:

Never have we faced such an unknown quantity, and never have we seen these levels of government support or central bank stimulus. Given the uncertainty regarding the scope, scale, effect or implications of the virus at this stage, we have not materially changed positioning. Our unwavering focus on financially strong businesses gives us confidence in the holdings in our portfolio. The impact of Covid-19 is unpredictable, unavoidable and unprecedented, but it will get better. Our immediate outlook is for volatility to remain high as Covid-19 continues to dominate global events, but we must not allow the focus on the virus to let us overlook some of the other issues that can and will drive volatility. Brexit, US/China relations, and the US election will all take centre stage at some point in the months to come, fighting a battle for market dominance with central bank policy, fiscal stimulus, and asset flows.

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Adam Avigdori and David Goldman, managers of BlackRock Income and Growth – 24 June:

The optimism we saw at the end of 2019 quickly faded in the new year as the Covid-19 pandemic swept through economies and stock markets; equities fell significantly, the magnitude and rapidity of which exceeded the declines seen in 2008. Volatility spiked across asset classes and financial markets infrastructure came under extreme pressure. Companies faced revenue declines unlike any seen before as authorities instigated lockdowns on non-essential activity.

In response, we saw an unprecedented policy response by global governments and central banks. Using the 2008 playbook, aggressive rate cuts were implemented initially; the Bank of England cut the Bank Rate to 0.1% and the US cut interest rates to 0.25%. This was followed by significant liquidity support for financial markets and large economic packages to support employment and corporate liquidity. In the US, authorities approved a $2trn fiscal package (equating to 10% of GDP) and in the UK more than £350bn (15% of GDP) has been extended. The speed and size of government support combined with positive news on the virus led to a strong bounce in risk assets in April.

Unusually, April was a month of significant global contraction in economic activity and yet strong "risk on" market sentiment, with the S&P posting its largest calendar month gain since 1987. Oil prices saw the biggest jump in history on the news that the Organization of the Petroleum Exporting Countries (OPEC), including Russia and

Saudi Arabia had agreed to cut supply but then plunged into negative territory on the expiry of the May WTI future, as weak demand and the lack of storage available meant investors holding the May contract would be forced to take physical delivery on expiry of the contract.

In the UK, lockdown measures were extended into May after the hospitalisation of prime minister, Boris Johnson, due to severe coronavirus symptoms.

So far, approximately 160 companies in the UK FTSE have announced a cut or suspension to their dividends, including Shell's first dividend cut since the 1940s. The FTSE All-Share benchmark fell -17.0% over the six months to the end of April with Oil & Gas, Telecommunications, and Consumer Services as top underperformers and Health Care and Utilities as top outperformers.

Dividends

At the time of writing, around 160 companies in the FTSE All-Share Index have suspended their dividends, and the UK dividend future is estimating around a 47% cut. We are mindful of the scrutiny companies will face with regards to paying dividends, especially for those businesses accepting government support or cutting employee remuneration and/or headcount. For now, the language from most companies has been to suspend, rather than cut, the dividend. From here, everything will depend on the duration and severity of this crisis as to how many of these dividends come back. We will continue to monitor the potential scenarios and would hope to provide more clarity later in the year. In the meantime, we will continue to take a long-term approach to dividends and manage the portfolio for the strongest total return.

Outlook

This Covid-19 led crisis is the closest we have got to a global natural disaster in financial markets, and its impact has been immediate and severe. Entire industries are being shut down overnight with revenues effectively going to zero. It has been felt much more acutely than anything we have seen in recent memory. Whilst in 'normal' economic downturns, activity slows gradually over months, with 'lockdowns' by governments, activity has slowed very dramatically with significant variations by industry and geography.

The hit to nominal GDP from this crisis is likely to be record breaking with early estimates suggesting falls of up to 30% in nominal GDP in several developed market economies for the second quarter. Whilst the scale of this crisis has been unprecedented, we have also seen extraordinary government intervention. This should provide a cushion to businesses that are being hurt by the impact of the shutdowns. As we start to ease past the current peak in this crisis, governments now need to determine how they modify their economic support as the impact on businesses and industries becomes clearer. Fiscal policy, for example, has played an earlier, and more prominent role versus the 2008 financial crisis and we expect to see more pressure on governments and central banks to deploy their balance sheets. The role and type of economic support is likely to lead to material dispersion in returns within the market over the medium-term.

We recognise the enormous uncertainty still facing society, employers and their employees today. Whether it is the threat of a resurgence of the virus, the emergence of viable treatments and potential vaccines or the different speeds and ways in which governments remove restrictions and support. We are treading cautiously; balancing the significant long-term opportunity we see with a wide range of short-term scenarios and factors. Amongst these are the impact of widespread unemployment, the changes to both consumer and business behaviour, with regards to which products and services they consume and how they consume them, in addition to the potential for inflation to pick up. Crucially, whilst we expect that the threat from Covid-19 will be addressed, either through a vaccine, rolling containment policies or herd immunity, it is the duration of the pandemic and associated containment policies that will be crucial in determining the state of the economy and speed of recovery thereafter.

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Manager's report for Gresham House Strategic – 23 June:

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. Therefore, 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.

We expect the national discussion around 'lives' vs 'livelihoods' to intensify. The speed of transition back to normality (if in many instances this is indeed ever possible) is fraught with uncertainty. We believe it is prudent to expect, on average, economic activity to be impaired for some time based on the debt overhang this crisis is generating. The work on tests for antibodies and a vaccine is likely to be successful eventually. 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 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.

The financial requirements of companies due to Covid-19 will generate significant opportunities for capital deployment during this financial year. Abundant additional capital from public markets to support these already ignored and under-researched companies is not in evidence.

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Charles Montanaro, manager of Montanaro UK Smaller Companies – 23 June:

As we write these lines, holed up at home for countless weeks waiting for the Covid-19 pandemic to pass, it is easy to forget that the global economy only came to a halt in the final month of the fund's financial year. For most of the year, life was "normal" and equity markets were moving higher. Capital cities around the world were bustling, borders and restaurants were open, carbon emissions were on the rise and our skies were littered with airplanes.

In fact, much did happen before the pandemic hit: the Woodford debacle rocked the funds industry and served as a reminder to us all that complacency is a fund manager's worst enemy and the importance of the right fund structure for illiquid investments; Boris Johnson took over from Theresa May as Prime Minister; a General Election was held and the Brexit Withdrawal Agreement was finally passed by Parliament, putting an end to more than three years of nerve grating negotiations with Brussels and domestic political drama. Much of the political uncertainty that had prevailed since the Brexit Referendum of 2016 had been lifted by the turn of the year.

The bull market ended abruptly in February 2020 shortly before a third of humanity went into lockdown. In early March, we witnessed one of the fastest stock markets sell-offs in history as the world economy collapsed. Questions rapidly emerged about companies' liquidity and solvency. Fortunately, our "quality growth" style served us well once again and the company managed to outperform by 10% in the final quarter.

Outlook

The bleak economic outlook sparked by the global response to Covid-19 mostly threatens businesses with structural weaknesses - poor management, a weak balance sheet, a lack of recurring revenue or pricing power. However, despite our steadfast commitment to investing in high-quality businesses, we are taking nothing for granted.

Opportunities are already emerging from the darkness of the pandemic - some of our companies are seeing their competitors fail while others have been able to raise capital on attractive terms to fund future growth. As always, the strong will emerge stronger from the ashes of the world economy.

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Dan Whitestone, manager of BlackRock Throgmorton – 18 June:

In terms of Covid-19, the improving newsflow on the virus and the easing of restrictions has the potential to benefit depressed sectors like consumer services and financials. There has been a lot of disruption here and so we will have to be particularly vigilant in distinguishing between short-term share price movements against the real outlook for the businesses cash earnings. Overall though, we feel enthused by the positive developments in some key industries as this suggests that the virus crisis may have acted as a catalyst for change

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Peter Jones, chairman of Henderson Opportunities – 17 June:

The economic scars from the crisis will clearly take some time to heal and, in particular, the debts incurred in both the public and private sectors will take a long time to pay down. However, the lockdown is slowly being eased and that is the first prerequisite for economic recovery. Timing remains uncertain but once the recovery takes hold it is likely that stronger growth will emerge in certain areas of the economy. Adaptable companies which respond fast will benefit in a changed operating environment.

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Manager's report for Baillie Gifford UK Growth – 12 June:

The impact of the Covid-19 pandemic will likely be felt for some years to come. It has had tragic consequences for many families to-date whilst also shining a light on a number of professions that historically have always worked tirelessly for the good of society without the deserved recognition. We extend our sympathies to those that have suffered bereavement and our thanks to those vital workers that have carried out their duties in exceptionally difficult times. Considering the current tragic backdrop, it seems rather trivial to remind people that investment for the long-term remains our core professional focus, assimilating events and considering the implications for the portfolio, but professionally this is what we must do.

Although one can never say never, when writing future reports, we think it will be hard to match the events of the 12 months to 30th April 2020 for escalating drama. In the interim report we referred to the first half of the financial year as "tumultuous" with Brexit negotiations and global trade war concerns dominating headlines. So how on earth can one describe the events of the second half? Firstly, a snap UK election resulting in a surprisingly large Conservative majority that initially cheered markets and directly led to 'Brexit' happening, with the UK leaving the European Union at the end of January. But even those historic events were in turn superseded by the coronavirus (Covid-19) pandemic that led to most countries in the world forcing their citizens into lockdown and a collapse in economic activity. The UK stock market suffered in this latter phase and, as the chairman noted in her report, we ended in negative territory for the year.

‘Where are we going?’

Perhaps the most important question of the three we asked ourselves is this final one. Neither of the fund’s managers are fans of trying to draw lessons from the last crisis, as some commentators have done. This smacks to us of generals trying to fight the last war. In reality, all crises are unique and complicated in their origins and we have been considering whether some of the broad themes that many of our holdings play into still ring true. What we would venture is that much of our thinking here is tentative and may change as more information comes to light. The most important theme by far is the growing digitisation of the economy and our belief that many growth businesses are trying to capitalise on this. Our view is that the current crisis is akin to a shock that will likely accelerate this trend. From our own business to others that we own or observe, necessity is forcing organisations to adopt digital ways of working. This can be painful but in the long-term can unlock significant productivity gains and opportunities for smart management teams. The current crisis will also likely further entrench the "digital" habits of consumers

We cannot wish away the fact that it is likely that the most dramatic recession in UK history is pending and will cause damage whose effects are not clear. That explains why, we have so far been cautious in gearing the portfolio. One final point is worth noting. As growth investors, dividends do not hold centre stage in our approach and in our view should only flow from the profits and cash flow generated after appropriate investment back into the business. The current dividend crisis in the UK, with an unprecedented decline in pay-outs to shareholders, is therefore of less interest to us. Indeed, in several cases, we have been supportive of decisions by companies to suspend dividends given the economic difficulties and the necessity to protect the business and position themselves for the opportunities that may arise.

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James de Uphaugh, manager of Edinburgh – 12 June:

Consumer behaviour and working patterns

The length and nature of this pandemic will determine, for example, how quickly consumers return to travel – whether for business or pleasure. Companies themselves have also found that having some or all staff working from home (all in the case of the Majedie) has actually been good for staff efficiency. Technology has shown that the daily commute is not strictly necessary for large swathes of the working population. Call centres and offices in city centres are big overheads and it seems reasonable to expect many companies to reduce some of these. As employees working from home turn ever more to the convenience of home shopping, the pressure on retailers and their landlords is also likely to continue to increase.

Role of the state

Effective nationalisation of parts of the economy now appears likely. An obviously affected industry is travel; air and rail companies face increased state ownership or subsidisation, especially if national borders remain closed for a prolonged period. The cost of the government programmes to support economies, while evidently enormous, will also have major consequences in terms of future taxation. UK Chancellor Rishi Sunak unveiled a stimulus package of £330bn or roughly 16% of GDP with a commitment to provide more support if necessarily. Fiscal stimulus packages in the US and Germany have come in at about 10% and 22% of GDP, respectively. The FT, in an editorial shortly after the company's yearend, neatly summarised this new world:

Corporate strategies

At the more prosaic company level, we also expect to see major changes in how companies are managed. Notions of efficient balance sheets, implying a permanent state of indebtedness in order to maximise returns on equity, are likely to be consigned to the economic dustbin. Where previously some companies might have been condemned by some investors for holding a healthy cash balance, such criticism is likely to vanish.

Dividends

Another consequence of less efficient balance sheets, and a greater emphasis on ready liquidity to see companies through crises, is that corporates will have less money available to pay out to their shareholders. This, plus the broader economic consequences of the abrupt halt to many parts of the economy, means that the UK's 2020 dividend payments could be down by about 40% compared to 2019. We think such a decline is a reasonable working assumption for the company's holdings too. There is pressure on dividends on other fronts, too. For example, the Bank of England has instructed UK-listed banks to withhold dividends this year and put a shot across the bows of the major insurers.

More broadly, we view dividends as an output of profitability not as a payment that should be maintained at a cost to the long-term fabric of a business. Clearly in the current crisis, with corporates facing an unprecedented array of "unknown unknowns", many have decided to cancel or defer their dividend decisions. Layered on this there is also a societal dimension: those companies that either access government employment support schemes, or access or are deemed to be beneficiaries of government credit facilities, are expected to pass on paying their dividends.

Thus, the medium-term outlook for dividends remains uncertain. Much will turn on the rate at which economies recover. While we expect the companies in the portfolio to emerge from this crisis stronger, it is unclear at what rate their dividends will grow. We do not underestimate the economic damage of the Covid-19 recession, which sadly is likely to be far ranging and severe. In such an environment, even the strongest of companies will, sensibly, seek to preserve cash even if that means reducing or cancelling dividends. The company's dividend income will also be under pressure compared with historic norms. While we have some short-term flexibility to support dividends through use of its distributable reserves, we will be working with the board in the months ahead to help the board decide what might be a sustainable level payout for shareholders. We expect to be able to say more about this by the time of the Interim results in November.

Conclusion

Drawing all this together, governments around the world have put in place important schemes to support companies and employees through this period of economic uncertainty. We are thinking carefully about what the 'new normal' will look like. In a rapidly changing environment, we believe it is more important than ever for our fundamental research to be stock driven. We believe that our experience in dealing with periods of market dislocations, our liquidity advantage and our fundamental research process will help us navigate the company through this period of instability. We are already beginning to see which management teams are being most pro-active for corporate life post Covid-19. Our aim is to position your assets to benefit from this change in the corporate landscape through a portfolio dominated by companies that will thrive as the world economy emerges from this crisis. We are optimistic that such a portfolio will support attractive returns to shareholders – through both capital and income – over the medium to long term.

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Jane Tufnell, chair of Odyssean – 9 June:

The coming weeks and months will determine what sort of recovery domestic and international economies, and individual companies, will experience following the lockdown actions taken by numerous governments. Despite the considerable fiscal and monetary support, it is highly unlikely that corporate earnings will suddenly bounce back to historic peak levels experienced in 2019.

It is possible that the considerable change people are experiencing, both in terms of their work and their consumption habits, will lead to changes in living and buying behaviours. Agile management teams managing high quality companies will benefit from these changes. Less robust business models and businesses are likely to suffer permanent damage.

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James Henderson and Laura Foll, managers of Lowland – 5 June:

The sentiment is fragile with concerns that there might be second waves of the infection. However, companies have been adapting fast to the changed circumstances and have reduced their cost bases materially. When the economic recovery happens, we therefore expect the earnings impact of a rise in sales to be substantial. Many companies have also raised equity in order to emerge from the crisis with a better balance sheet and stronger competitive position.

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Iain Pyle and Charles Luke, managers of Shires Income – 4 June:

There is no denying that we face a challenging period for income investing. A significant proportion of companies within the FTSE 350 index have cut or suspended dividends in response to the impact of the Covid-19 virus. That breadth of income reduction is unprecedented, and it has happened in a relatively short period since the first effects of the virus were felt. For example, the collapse of the oil price has resulted in Royal Dutch Shell, a company that has been viewed as a touchstone for dividend security, significantly reducing its pay-out to shareholders. Nor have the cuts been focused on those industries directly impacted. While we would expect companies in the travel, leisure and retail sectors to be feeling the full force of the UK's lockdown, the impact is felt much more widely. As well as those companies that have had to cut dividend payments, we have seen as many who could continue to pay but have chosen to conserve cash ahead of a period of great uncertainty.

In this environment, it is certainly hard to find reliable sources of income, but they do exist. In the UK market the miners, pharmaceuticals, telecoms and tobacco stocks continue to offer healthy yields. As managers of the portfolio we need to strike a balance between owning these stocks and protecting income, versus crowding into sectors. We also need to be careful not to sell stocks that have good long-term prospects and will likely return to paying dividends in the not too distant future. For most positions held in the portfolio, balance sheets are in good shape and earnings are expected to cover dividends from 2021 onwards. How quickly dividends return will depend on the duration of the current measures and the need for companies to rebuild balance sheets once the worst is over, together with greater clarity around the UK's post-Brexit trade deals.

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Jonathan Cartwright, chairman of BMO Capital and Income – 1 June:

We should expect substantial changes in businesses' organisational structures and work practises. The timing of these is, of course, uncertain, but there has never been an occasion when so much collective effort on a worldwide basis has been directed at a single problem. Governments have very difficult choices to make in the meantime in how to handle the outbreak, aiming for a balance between allowing people liberty and businesses the ability to operate, whilst protecting against a resurgence of the disease.

For most companies, financial results for 2020 will be affected by the impact of the pandemic, but, assuming this is an exceptional period and therefore not likely to be repeated, the adverse impact should not be significant when viewed from a longer-term valuation perspective. Looking further ahead, or indeed back for historic comparisons, suggests that if companies are able to recover their profitability within a couple of years then current valuations are attractive, certainly relative to the ultra-low returns available from bonds or deposit rates. Although the current crisis may be all enveloping, we are mindful other issues such as Brexit and international trade disputes have potential to cause additional disruption.

Approaching half of all UK listed companies have cut, deferred or cancelled their dividend payments in response to the crisis and this figure, for now at least, is only increasing. When and at what level dividends restart will depend both on the speed of the economic reset and the financial situation the individual companies are in. Increased debt levels are to be expected right across the corporate sector and this would suggest dividends are likely to be at lower levels, at least until the extra debt is repaid.

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North America

(compare North American funds **here**)

Tony Despirito, Franco Tapia, and David Zhao, managers of BlackRock North American Income – 24 June:

Aggressive and coordinated monetary and fiscal policy measures helped to stabilise U.S. financial markets in the final two weeks of the first quarter (to 31 March 2020). The Federal Reserve (the Fed) twice cut its benchmark interest rate in March to a current range of 0.0% to 0.25% for overnight bank lending. Furthermore, on 23 March 2020 the Fed declared an unlimited balance sheet expansion for the foreseeable future. These actions helped to improve market liquidity across credit markets, as many investors sought to reduce risk levels in their portfolios. Fiscal policy legislation also eased market fears, including the unprecedented U.S.$2trn stimulus package announced on 27 March 2020 to support individuals and businesses. This translates to roughly 10% of annual U.S. gross domestic product (i.e. the market value of all final goods and services produced in the country).

Outlook

Our 2020 base case was for slow but positive U.S. economic growth and for U.S. stocks to grind higher on the back of a strong U.S. consumer and supportive monetary and fiscal policy. Stocks have tumbled amid the current global health crisis, a tail risk no one could have predicted a few short months ago. Volatility never feels good, but the foundation underlying it is important. Daily market moves in response to the Covid-19 outbreak have matched the scale of those seen during the global financial crisis. But this is not 2008. The Covid-19 shock is not one caused by a crisis in the core of the financial system and for this reason the U.S. economy is on a much stronger footing to endure the current economic disruption.

Make no mistake, the economic and earnings impact from the crisis are real. Trading volatility is likely to persist as investors recalibrate expectations for corporate earnings and global supply chains. However, our long-term conviction in U.S. stocks remains steadfast. It bears reminding that the value of a company is the net present value of its future cash flows. We expect earnings to be hard hit in 2020, but ultimately see Covid-19 as a transitory event. One or two quarters of lost earnings, although painful, should not materially change the long-term earnings power of our portfolio holdings.

Importantly, we are encouraged by the swiftness, magnitude and coordination of monetary and fiscal policy deployment. These efforts have helped to stabilise financial markets while governments pursue coronavirus containment measures. We are watching closely for visibility into the effectiveness of these containment efforts. The gradual reopening of economies is an important upcoming litmus test, with a second wave of infections a key outstanding risk to our market outlook.

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Latin America

(compare Latin America funds **here**)

Sam Vecht and Ed Kuczma, managers of BlackRock Latin American – 18 June:

Latin America equities outperformed broader Emerging Markets in May. The positive performance was led by Argentina, Brazil and Mexico, and was driven by a global rebound and slight increase in mobility trends after distancing measures started to be lifted. Latin American currencies also strengthened in this environment.

The coronavirus and associated Covid-19 disease has spread throughout the world, prompting "social distancing" and often strict government control measures throughout developed and emerging markets, Latin America included. Whilst China has been gradually easing restrictions since late February, most other emerging economies are still passing through the "peak lockdown" phase. Policy responses have been considerable, but many markets in Latin America — notably those reliant on foreign capital flows — face constraints in the scale of their response, in addition to questions about the robustness of their health systems. We expect lockdowns to ease modestly by June and more significantly in the second half of the year. Most governments plan to do so on this timeframe, though it should be noted that almost everywhere, government control measures have been kept in place longer than originally envisaged. Activity in the industrial sector and in parts of services where "Social distancing" is less of a concern should rebound relatively quickly. Still, we do not expect most economies to return to their pre-crisis level of GDP (Gross Domestic Product) until 2021. The extent to which policy action now limits business bankruptcies and a breakdown in the labour market will be an important differentiator of the speed of recovery.

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Europe

(compare Europe funds **here**)

Stefan Gries, manager of BlackRock Greater Europe – 18 June:

Europe ex UK markets continued to perform strongly during the month. Markets were up on rising consumer confidence and the relaxation of lockdown measures in several European countries. The announcement of a €750bn EU recovery fund was further taken positively by the market. The fund would be made up of €500bn in grants and €250bn in loans, with countries hit the hardest by the coronavirus including Italy and Spain benefiting the most. While this proposal needs to be passed by each EU member's parliament, France and Germany backing this concept is seen as a positive sign.

The utilities sector led the market in May. Industrials, technology, consumer services and basic materials also outperformed over the month, as we saw cyclical names benefiting from an early re-opening across many European countries with very little signs of a second wave of the Covid-19 virus, yet.

Outlook

The current global economic downturn is politically induced; a consequence of governments taking actions to preserve life due to the outbreak of a global pandemic. As a result, assessing the shape of the economic recovery will likely come down more to health and disease related data than traditional indicators or outlook for profits for specific companies.

We remain relatively optimistic about the resilience of the global economy, noting this has been a recession for services, not goods. Our views are informed not by traditional macro data, but by dialogue with our companies and unstructured data which we often use to corroborate or challenge their assertions. At BlackRock, we have invested significant resource in tracking of disease related data points by region in order to understand the potential fallout and indeed the speed at which economies can start to normalise. Overall, we can observe that most datapoints seem to have bottomed, with a pick-up now evident globally. Stimulus measures thus far have been sufficiently substantial to help consumers and SMEs get through the lockdown.

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Manager's report for Montanaro European Smaller Companies – 18 June:

The bleak economic outlook sparked by the global response to Covid-19 most threatens businesses with structural weaknesses - poor management, a weak balance sheet, a lack of recurring revenue or pricing power. However, despite our steadfast commitment to investing in high quality businesses, we are taking nothing for granted.

From the very first day of lockdown, our analysts have been working remotely. Aside from this change it has been business as normal. We have learned how each company is coping in this new reality and checked that management and staff are safe and well.

Opportunities are already emerging from the darkness of the pandemic - some of our companies are seeing their competitors struggle while others are even seeing demand for their products and services increase. As always, the strong will emerge stronger from the ashes of the world economy.

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Stephen Macklow-Smith, Alexander Fitzalan Howard, Michael Barakos, and Thomas Buckingham, managers of JPMorgan European Growth – 15 June:

This demand shock (from Covid-19) created a supply shock as companies raced to cut capacity, shutting outlets and factories and taking advantage of government schemes to furlough staff. In the background there was a financial shock to contend with as companies and individuals sought to delay payment of rents, interest on debt, and short-term liabilities and this had knock-on effects in the banking system.

Governments and central banks responded with commendable swiftness to mitigate the damage, but the inevitable corollary was an expansion of government debt (in many cases by up to 15% or 20% of GDP) and of central bank balance sheets, and it is unclear how this debt will be serviced in the years to come. In the short term, rates of interest on government debt plunged as sovereign bonds played their role as a safe haven. In the equity world there was a very sharp sell-off - the Europe index took 16 days to fall 37% to an intraday low on the 16th March 2020. This was sparked by uncertainty about the scale of the problem and by fears that corporate profitability would be dramatically impacted by the external shock. At the same time we saw a positive oil price shock as tension between global producers sent the oil price tumbling to unheard-of lows (at one point the price was briefly negative) and while this is good news for consumers, it is very bad news for the Energy sector, which is a large source of dividend income.

Outlook

While we can feel some comfort that the extraordinary effort to find a cure or a vaccine is likely to bear fruit, we still have the after-effects of the shock to live through, notably to company business plans. The burden of enforcing social distancing is likely to fall on companies, and although transactions are likely to recover, they will struggle for many months to get back to the levels they saw in 2019. There will also be longer-lasting effects on sectors such as Transportation (air traffic is down 90%), Energy (where companies need a $40 oil price to restart dividend payments), and Retail (online shopping and delivery is likely to have taken an unassailable lead over the High St and this has implications not only for retailers but also for Real Estate companies who act as retail landlords).

The scale of monetary expansion is likely to provide support for risk assets, as is valuation - even at reduced levels of dividend the yield attractions of equities over cash and fixed income are manifestly obvious. We have to consider, though, an increased volume of issuance as companies seek to shore up their balance sheet - this means that where companies were net buyers of their own stock the flow will reverse for the foreseeable future. We also have to see just how bad the hit to profits will be and given the levels of unemployment the purchasing power of the consumer will have been damaged. Furthermore we have the political threat of the US Presidential campaign, in which there is likely to be a lot of sabre-rattling about trade relations with China, and then the likelihood that if neither side in the EU/UK trade negotiation asks for an extension there will be disruption to trade flows.

For all our confidence about recovery in the medium term we are likely to have a volatile few months in prospect. In the medium term, however, the sell-off in equity markets has brought an end to one cycle and heralded the start of a new one. At the same time the fact that interest rates are at or near record lows means that investors looking for income are forced to take on more risk, either by buying corporate bonds or by buying equities. The end of the cycle also means that as growth recovers so will profits, and we are likely to see at least a few years of economic expansion. As confidence in growth recovers so will confidence among investors, and accordingly we feel that the next period may see equity returns which are markedly higher than the thin gruel of the last five years.

Edward Greaves and Francesco Conte, managers of JPMorgan European Smaller Companies – 12 June:

The world has rarely looked less certain. It is 100 years since we last faced a pandemic and so there are no easy formulas to be followed. Thankfully, as we write the number of new deaths has rapidly declined as a result of the severe lockdown measures, but the economic costs are considerable. Despite record falls in GDP and record rises in unemployment, European markets have recouped about 40% of the fall that took place from mid-February to mid-March as a result of unprecedented government and central bank support. This is a trend we expect to continue albeit with considerable volatility.

Matthias Siller, Maria Szczesna, and Adnan El-Araby, managers of Baring Emerging Europe – 3 June:

The outbreak of Covid-19 brought an end to one of the longest periods of global economic expansion in history. While the duration and severity of the upcoming recession is difficult to gauge and the socio-economic consequences remain very much in a state of flux, we are of the opinion that the sharp declines witnessed on Emerging European Equity markets provide attractive investment backdrop for long term investors. Clearly, individual economic sectors will be affected to varying degrees but, as an overarching principle, we are of the opinion that Covid-19 will amplify many existing secular economic trends and reward prudently run companies with market share gains while rooting out weaker players. In this vein, corporate earnings will once again become the decisive determinants of share prices and dividend recovery across the Emerging European universe. By harnessing our investment approach, paying close attention to key areas such as balance sheet strength and the viability of business models, we believe that we will be able to effectively capture the companies that are able to adapt to the recessionary environment to not only gain market share, but capitalise on the current crisis to exit in a position stronger than before. Furthermore, we expect that companies' commitment to improving ESG standards remains a decisive value driver in an environment where investors will scrutinise business models more closely than ever. We note that many companies now communicate initiatives in a clear and transparent manner, setting goals which we believe increase the sustainability of their business models, a development we welcome.

Ultimately, we believe that Emerging European markets will succeed in managing the enormous humanitarian challenge while preserving their vast economic potential for four reasons. Firstly, from a macroeconomic perspective, overall debt levels across Emerging Europe remain low on a corporate, household and sovereign level, especially when compared to developed market peers, allowing crucial breathing space in a difficult economic environment. Secondly, the dependence on international funding flows is low and, in the case of Russia, approaching non-existent. It is important to note that Turkey's external foreign exchange funding needs remain an outlier, but manageable sovereign debt levels and a flexible, highly competitive corporate sector make a strong case for the sustainability of Turkey's business model to the international investment community. Thirdly, the relative valuation of Emerging European Markets versus Developed European securities continues to appear very attractive on both a price-to-book and price-to-earnings basis. This suggests investor expectations for the asset class remain overly depressed, despite the more favourable medium-term growth outlook. Fourthly, we believe that many multinational companies will seek to diversify global supply chains, bringing production hubs closer to home – a trend that stands to benefit the new EU member states and Turkey.

Russia

(compare country Specialist: Europe ex UK funds **here**)

Oleg I. Biryulyov and Habib Saikaly, managers of JPMorgan Russian Securities – 15 June:

Economic and political uncertainties overshadowed global markets over the six months, with the period from late January onwards dominated by the outbreak of Covid-19. The prevailing backdrop was not at all supportive for the Russian economy nor for its investment markets which were troubled by the impact of a deepening global economic slump and oil prices falling below a level anyone imagined possible. Over the period, the Russian rouble was one of the worst performing currencies against the US dollar.

Throughout 2019, a material slowdown in global trade and weakening demand for major commodities had created headwinds for corporate profitability but the Covid-19 pandemic took this to another level. This public health tragedy swiftly suppressed global demand across sectors and commodities, creating huge challenges for Russia in its wake. The outbreak hit the country later than many other territories but there had been more than 360,000 infection cases by the time of this report, with Moscow at the epicentre. This 'perfect storm' of freefalling commodity prices and very real disruption shut down huge swathes of the Russian economy and civil activities. By the end of April, Russia had posted its worst ever drop in retail sales and unemployment had risen to its highest level in 4 years.

These are extraordinary times for oil prices, so pivotal to Russia's fortunes, as the world's largest energy exporter. The unprecedented recent price weakness reflects a global economy that has effectively come to a halt, with businesses closed, travel suspended and people staying indoors, in concerted efforts to combat the virus. There was also the added complication of a price war initiated by Saudi Arabia, after production curtailment negotiations fell through in early March; this alone sent the crude oil price down by more than 50%, an historic decline. At the time of writing, prices have made a tentative recovery but remain well below their average price over the last 5 years.

The Covid-19 crisis prompted the world's central banks and governments to announce multiple stimulus packages. These included fiscal aid, further interest rate cuts, as well as plans to inject more money into their economies, to alleviate market stress and cushion the financial blow of enforced lockdowns. Russian measures were more conservative than its global peers, perhaps because the government is reluctant to dip too deeply into its reserves until the future direction of travel for oil prices becomes clearer. Nevertheless, the stimulus package saw the government ramping up spending to support impacted businesses and individuals, whilst the Bank of Russia cut its key interest rate by 0.5% to 5.5% in late April.

By the end of April, global financial markets had stabilised, calmed by the plethora of financial measures unveiled by global authorities. In Russia, markets bounced back, with some commentators judging that the Russian economy would be relatively well placed to weather the economic fall-out, largely thanks to its significant reserves. Although equity valuations recovered somewhat investors remained cautious.

Outlook

On a short-term view, the biggest risk for Russia is how long the coronavirus persists and how widely and deeply its impact spreads. Uncertainty will continue to weigh heavily on Russia's prospects (with market volatility an inevitability) until there is a gradual restoration of the normal order. Until such time, we will consider volatility as an opportunity to buy favoured stocks at attractive valuations.

Looking forward, we expect to see:

- Continued weak demand for oil in 2020, which will be a challenge for many Russian companies. We expect firmer prices in 2021, driven by production cuts, politics and an upward spike in demand, all of which will be positive for the earnings of Russian companies. Between now and then oil price volatility is almost guaranteed.
- Interest rates to fall by a further 0.5 to 1% over the next 6 months, to stimulate spending and investment, and buoy the market.
- The rouble likely to depreciate further until the latter part of 2020.
- The geopolitical risk environment around US/European Union sanctions remaining fluid, a situation we will continue to monitor. Russia's economic links with the European Union will be pivotal to resolving the Russia-Ukraine stalemate.
- Companies' earnings per share likely to be anywhere between 35-50% lower than they were in 2019. This will be painful in the short run but should lay the groundwork for future opportunities.

Notwithstanding the challenges that lie ahead, we believe that Russia still offers the potential for attractive investment opportunities, even if some patience may be required on the part of our investors. We are proud of our track record and continue to be very selective about the companies we invest in from across the Russian market, prioritising well-managed businesses that have robust balance sheets and the potential to deliver decent dividend yields.

Japan

(compare Japan funds **here**)

Eiji Saito, Naohiro Ozawa, and Michiko Sakai, managers of JPMorgan Japan Smaller Companies – 26 June:

Covid-19 and its aftermath have cast a huge shadow over Japan's economic outlook. The situation remains fluid, but its risks dominate our thinking at the present time. The pandemic has already delivered a massive shock to global equity markets, with Japan and most other global economies stunned into recession. No one knows how long it will last but we do know that the investment landscape has altered materially.

Pre-Covid-19 economic forecasts no longer have relevance. Japan's businesses are sensitive to economic cycles so a failure to achieve a positive outcome from here would undoubtedly pose a headwind. Both global and domestically focused companies could face big earnings declines and production and consumption are likely to be hit, with corporate earnings coming under pressure. Indeed, analysts have already been aggressively cutting earnings forecasts.

Whilst we acknowledge that investors will need to maintain a patient attitude during this unprecedented period, we believe that the problems will ease with time. We may see industry consolidation and productivity growth through trends such as diversifying production sources, adopting flexible working practices and better use of information technologies. As always, we believe it is important to focus on quality companies with structural growth potential.

It is important to highlight that valuations of Japanese companies remain reasonable, both lower than historical averages and below those of most other major markets. Japanese companies typically have significant cash on hand, and now have the strongest balance sheets among developed countries. The country remains focused on its long-term goals of achieving sustainable and broadly-based growth, driven by digitalisation, free trade and the Japanese government's major corporate governance and stewardship reforms.

In our view, the fundamental long-term outlook for Japanese smaller companies remains positive and we see no shortage of exciting investment opportunities. Not least as in Japan, in sharp contrast to other developed economies, it is the smaller more entrepreneurial companies which are at the forefront of the trend to digitalisation and broader IT innovation.

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Manager's report for Aberdeen Japan – 17 June:

For many of Japan's companies, Covid-19 is expected to have a significant impact, at least in the near term. While earlier assessments of the impact were focussed on a disruption of the global supply chain for a handful of industries, the spread of the pandemic has now affected the operations of every industry across the globe. The implications will be far-reaching. Whilst fiscal and monetary stimulus will help to support global economies, the more important factor will be how quickly infections have been contained and economic activity can be restored.

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Manager's report CC Japan Income & Growth – 16 June:

Japanese companies are arguably more accustomed to challenges presented by the current pandemic than their international peers due to the long period of financial repression in Japan and the nation's susceptibility to natural disasters. These are often cited by Japanese corporate managers as reason for taking a more cautious approach to total shareholder returns. This prudence has been vindicated by the ability of most of these companies at least to expect to maintain dividend payments for the current fiscal year at a time when dividend cuts are becoming commonplace amongst their peers in Europe particularly, but also other regions.

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Global emerging markets

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

Ross Teverson and Charles Sunnucks, managers of Jupiter Emerging & Frontier Income – 22 June:

While the fourth quarter of 2019 was a period of relative calm, with Emerging Market equities ending the year in positive territory for the year, the first quarter of 2020 saw the outbreak of Covid-19 bring a high degree of uncertainty and volatility to markets. Despite originating in China and having a material negative impact on Chinese economic activity in the first quarter of 2020, markets other than China bore the brunt of the pandemic in terms of equity market impact. Smaller emerging and frontier economies, where there is less scope for fiscal and monetary stimulus, as well as larger informal sectors, have been more affected by lockdowns and social distancing measures in the short term. However, in many cases, younger populations and lower levels of indebtedness should mean that these economies are also well positioned to recover once the impact of Covid-19 subsides.

In terms of sector performance, the energy sector was the weakest sector within Emerging Markets, declining by 34.6% over the period, as crude oil prices were driven down by a perfect storm of rising Saudi supply and rapidly declining demand, due to Covid-19 lockdowns and restrictions coming into effect around the world. The only sector within Emerging Markets to post positive returns over the period was the healthcare sector, which returned 4.0%. However, the technology sector also proved more resilient than in past periods of heightened volatility, declining by only 3.1%, as higher demand for semiconductors, servers and online services, driven by the working from home phenomenon, helped to offset weaker consumer demand for other products.

Outlook

While the current environment presents significant challenges to many Emerging and Frontier Market companies, we believe it is also important to recognise that valuations are very low relative to history for many companies and sectors within the asset class. These low valuation levels at which many of the portfolio holdings currently trade only ever tend to be reached during periods of heightened uncertainty, but it is also the case that they have typically created compelling long-term buying opportunities in Emerging and Frontier Market equities.

Biotech and healthcare

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

Martin Murphy. CEO of Syncona's manager – 11 June:

The Covid-19 pandemic has had a significant impact on all levels of society and continues to represent an unparalleled challenge to public healthcare systems globally, with resources rightly focused on managing Covid-19 patients. As a result, elective procedures and clinical trials have been de-prioritised whilst the pandemic is managed.

Once the Covid-19 situation has stabilised, specifically the work environment once global economies have exited the acute lockdown phase of containment, clinical development activity across the industry will continue and our companies will progress their clinical trials. To date, we have seen a more limited impact on clinical trials in the oncology setting, where the acute need for treatments for patients in these disease settings is more severe, whilst in indications where there is an existing treatment or a lower mortality risk, we have seen trials halted and expect them to be more gradually re-established. We have largely been able to progress pre-clinical work and the development of manufacturing capabilities and supply and expect this work to continue.

The pandemic has brought the life science industry to the forefront of global events and we have seen the importance of continuous and rapid innovation in this sector.

Sir Martin Smith, chairman of Worldwide Healthcare Trust – 3 June:

The World Health Organisation first declared Covid-19 a world health emergency in January 2020. Since the virus was first diagnosed in Wuhan, China, it has been detected in over 190 countries and has claimed many thousands of lives. It is clear that the pandemic has had a far more severe impact on markets than previous virus outbreaks, with governments having taken unprecedented measures to contain the SARS-CoV-2 virus. However, despite significant negative economic implications in the short to medium term, resulting in high levels of volatility in world markets, our manager believes that the effects of the outbreak should not have a long-term detrimental effect on the healthcare industry. Indeed, they believe that healthcare, as a defensive sector, should prove more resilient economically during and following government-mandated lockdowns than other parts of the economy.

There has been some temporary negative impact to commercial sales, some delays for clinical trials and a more dilutive financing environment with the decline in share prices. However, sales of drugs taken by patients at home have been minimally impacted and supply chain disruption for the sector has been largely non-existent. The U.S. Food and Drug Administration (FDA) has stated that it intends to adhere to drug approval timelines, and most healthcare companies have sufficient cash to avoid any imminent financing needs. Overall, our Portfolio Manager believes that any headwinds should be manageable for the sector.

Our manager's strategy in light of the coronavirus outbreak remains largely unchanged. They are fundamental stock pickers and have been capitalising on market volatility to improve the quality of the portfolio and add to their best ideas. They have neither made significant changes to the overall structure of the portfolio nor altered their emphasis on emerging biotechnology and emerging market stocks. They are encouraged by the healthcare companies attempting to develop potential treatments and vaccines for Covid-19, but they have not actively sought out these companies, as the likelihood of success and the revenue potential from these therapies remains unknown.

Outside of the coronavirus pandemic, our manager believes that all of the fundamental investment themes for the healthcare sector remain intact: unprecedented innovation based on novel technologies, a collaborative FDA proactively approving new drugs, compelling valuations relative to historical norms, and expected continued merger and acquisition (M&A) activity.

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Geoff Hsu, manager of Biotech Growth – 3 June:

Biotechnology as a sector had a somewhat tepid first half of the financial year, followed by a much stronger second half that was abruptly cut short by the Covid-19 related market correction in March. The sector generally underperformed the broader markets in the first half due to general macro concerns about the U.S. economic outlook and concerns about the potential for drug pricing regulation. Macroeconomic concerns included fears that an escalating trade war between the U.S. and China would lead to a slowing of economic growth. Even though biotechnology's exposure to U.S.-China trade was virtually non-existent, these broader economic concerns led to weakness among all growth stocks, including small and emerging biotechnology companies. During the first half of the financial year, concerns about biotechnology also emerged due to drug pricing rhetoric from President Trump and the progressive Democratic presidential candidates, Elizabeth Warren and Bernie Sanders. Even though no legislation was ever passed, policies proposed by the Trump administration included international reference pricing for Medicare drugs, inflation-based price caps on drugs, and potential government negotiation of prices directly with biopharmaceutical companies. In addition, during this period, Democratic candidates Warren and Sanders expressed their desire to lower drug prices in the U.S. and implement Medicare For All, a single-payer government-run healthcare system. The rhetoric on drug pricing from both Trump and the Democratic presidential candidates created a "political overhang" on the biotechnology sector that dampened performance for the group.

The second half of the financial year saw a strong rebound in emerging biotechnology stocks, driven by several positive clinical catalysts and a resurgence in biotechnology mergers and acquisitions (M&A). The political overhang also began dissipating, as centrist Democratic candidates like Joe Biden and Pete Buttigieg began gaining in the polls. Those candidates were viewed as less likely to adopt extreme drug price controls if elected.

Innovation continues to drive sector performance

Innovation remains the core driver of biotechnology industry performance, and we continue to believe the sector is in a “golden era” of innovation at the present time. Several new technologies-including gene therapy, cell therapy, RNA-based therapies, and bispecific antibodies-are just beginning to result in marketed products to treat patients. We believe we are still in the early stages of realising the full potential of these technologies, as hundreds of pipeline candidates based on these technologies are still working their way through the drug development process. Many of these drug candidates have already achieved proof of concept in human clinical trials.

Not only do we believe these new technologies will result in therapeutics delivering substantial clinical benefits for patients, we also believe many of these therapeutics can generate substantial revenues, in many cases exceeding $1bn in peak worldwide sales. While pricing concerns will always be a topic of discussion among payers, we continue to believe that truly innovative products that are superior to standard of care and address an unmet medical need will be able to command premium prices.

Friendly regulatory environment continues under FDA leadership

Over the past three years, we have witnessed positive developments at the FDA that have accelerated the drug development and review process and brought innovative products to market more quickly than in the past. One of President Trump’s primary strategies for controlling drug price inflation has been to encourage the FDA to approve more drugs to increase competition in the marketplace. As a result, the first FDA Commissioner Trump appointed, Scott Gottlieb, implemented several policies to expedite innovative drug development, including greater interaction between the FDA and sponsors to streamline the clinical trial process, increased flexibility by the FDA on the endpoints required for approval, and modernisation of the FDA’s evaluation and analytical tools. Gottlieb announced his retirement in March 2019 and was temporarily replaced by interim commissioner Ned Sharpless, who continued Gottlieb’s policies. In Dec. 2019, Stephen Hahn, an oncologist from the MD Anderson Cancer Center, was appointed the permanent FDA Commissioner. He has largely continued the FDA’s proactive policies towards new drug approvals. These initiatives have helped to reduce the time, cost, and approval risk for new drugs in development, which has benefited the biotechnology industry. In fact, the first three years of the Trump administration have been the most productive in FDA history in terms of new drug approvals. In addition, we believe the FDA’s current efforts to accelerate the development and approval of Covid-19 related treatments and vaccines could also introduce new approval paradigms that could expedite the development of non-Covid-19 related drugs after the outbreak subsides.

Covid-19 impact and outlook

No discussion of the financial year would be complete without addressing Covid-19 and the impact of the Covid-19 pandemic on the markets, the biotechnology industry, and the portfolio. It is clear that the novel Covid-19 is having a much more severe impact on economies worldwide than previous virus outbreaks, with governments instituting lockdown measures that have significantly curtailed economic activity. Despite the severity of the economic downturn, our view remains that the outbreak will ultimately be temporary and should not have a long-term detrimental impact on the biotech industry.

The U.S. stock market suffered a substantial decline from late February to late March as the Covid-19 spread to Europe and the U.S. The biotechnology sector and the company’s performance also declined substantially over that period, with higher-beta emerging biotechnology stocks declining more than the lower-beta large-capitalisation biotechnology stocks. In response to the slowing economy, the U.S. government took unprecedented actions to stimulate the economy, including the Federal Reserve's implementation of "unlimited" quantitative easing and passage of a U.S.$2trn fiscal stimulus package, the largest in U.S. history. In part due to this dramatic financial intervention, the markets and the biotech sector recovered sharply from the lows of March. By the end of April 2020, the NASDAQ Biotech Index had actually exceeded its pre-Covid-19 highs.

The impact of the Covid-19 on the biotechnology industry has been much less severe relative to other parts of the economy. Most biotechnology companies are considered essential businesses, so they have been able to operate under the Covid-19 lockdown measures. There is likely to be a temporary negative impact to drug sales with the curtailment in doctor and hospital visits, as well as some delays in clinical trials, but for the most part, the headwinds seem manageable for the industry. First quarter earnings for large capitalisation biotechnology companies were generally strong, and sales of drugs taken by patients at home should be minimally impacted, as they can receive those drugs by mail without seeing a physician. Supply chain disruption for biotechnology has been largely non-existent, and the FDA has continued to adhere to its drug review timelines. The financing environment for biotechnology has been surprisingly robust, with several companies executing successful IPOs and follow-on offerings in March and April. We believe biotechnology can be a defensive sector for equity investors during this economic downturn.

At the time of this report, it appears that new cases and deaths from Covid-19 have been declining in some of the epicentres of infection, including Italy, Spain, and New York. Focus has now turned to how best to reopen economies in a safe way, and we believe general stock market performance looking forward will hinge on how well those re-openings proceed. Other near-term events that could improve market sentiment include the implementation of broader antibody testing to allow governments to design optimal reopening strategies, positive data points from clinical trials of treatments and vaccines for Covid-19, and the arrival of summer, when warmer weather may help attenuate further spread of the virus.

Outside of the Covid-19, all of the fundamental investment themes for biotech remain intact: unprecedented innovation based on novel technologies, a friendly FDA proactively approving new drugs, compelling valuations relative to historical norms, and expected continued M&A activity.

Ultimately, we are confident that the biopharmaceutical industry will be able to find effective treatments and vaccines for Covid-19. The speed with which various treatment candidates and vaccine approaches have entered clinical trials has been impressive, and we may very well see an effective vaccine emerge by the end of 2020. We think the biopharmaceutical industry's public image may actually be strengthened by the ongoing crisis. If a biopharmaceutical company successfully develops a treatment or vaccine that curtails the epidemic, society may develop a greater appreciation for the value to humanity that the industry provides.

Private equity

(compare private equity funds here)

Manager's report for HarbourVest Global Private Equity – 24 June:

Market review of 2019

Private equity fundraising hit record highs in the US and Europe in 2019, totalling $301.3bn (2018: $197.8bn) and €86.4bn (2018: €69.7bn), respectively, across a total of 291 funds (2018: 294). This reflected strong demand from investors and increased recognition of private markets as an attractive means by which to access diversified global growth and outperform public markets.

These record totals were achieved despite a slightly lower fund count than in the previous year, indicating that investor capital has been chasing fewer but larger funds. Fundraising in Asia Pacific fell 48% year-on-year to $53.0bn, led by declines in China-focused and pan-regional funds. It is important to note, however, that 2018 was a record year for fundraising in this region, and 2019 was still the second strongest year historically.

US and European private equity investment activity remained robust in 2019, totalling $627.3bn (2018: $730.3bn) and €453.5bn (2018: €464.5bn), respectively, across 8,329 deals (2018: 9,340). This fell short of 2018's record-setting pace as dealmakers focused on limiting risk as rhetoric escalated around a possible cyclical peak and imminent downturn, fuelled by ongoing trade disputes and geopolitical ambiguity creating an uncertain market backdrop. However, average deal sizes remained high across these regions as the dynamics around a favourable financing environment and heightened competition for deals continued, as well as the growth in demand for well-established, recession-resilient companies. Company valuations in these regions ended the year above their pre-Global Financial Crisis levels, requiring managers to be disciplined in selection. Software deals, which typically attract higher valuations, grew as a proportion of total transacted deal value in both the US and Europe at 17% (2018: 13%) and 24% (2018: 17%), respectively. Investment volumes in Asia Pacific were 21% lower year-on-year, largely due to a slowdown in large late-stage technology financing rounds in China.

Exit value and volume were materially lower across all regions in 2019. Estimated exits in the US totalled $318.2bn in value and 1,035 in count representing declines of 28% and 17%, respectively, compared to 2018. The Europe and Asia Pacific regions were also subdued; European exits declined 22% in value and 24% in count whilst Asia Pacific exit value fell 29% year-on-year. Market anxiety due to recession risk, geopolitical issues, and a desire by GPs to hold assets for longer as well as participate in add-on deals all contributed to the slowdown.

Following the onset of the Covid-19 pandemic in the early part of 2020, we have begun to see the impact, with lower deal volumes across all regions. The pandemic has highlighted how the health of the global economy is deeply reliant on the continued day-to-day functioning of society at the micro level. The profound effects of social distancing measures have delivered an exogenous shock to the global economy and financial markets. Companies operating within certain sectors, particularly those considered "non-essential", have been adversely affected by restrictions enforced by governments around the world as they attempt to limit the spread of the virus. As a consequence, it is likely that new investment activity and exits will be markedly down on 2019 levels in the months ahead as the industry adjusts to a heightened level of uncertainty over the economic outlook and its potential impact across a broad range of businesses, both private and public.

Covid-19 update

The World Health Organization classified Covid-19 as a pandemic on 11 March 2020 - approximately six weeks after HVPE's financial year end. The full impact of this on HVPE's portfolio is difficult to forecast, given the complex interplay between unprecedented top-down actions from governments and central banks on the one hand, and myriad specific responses from businesses and consumers on the other.

Alan Gauld, lead manager of Standard Life Private Equity – 18 June:

Scenario planning is especially important in times of crisis. We have stress-tested the portfolio in a number of scenarios, incorporating our experience of what happened to the company during the global financial crisis. We believe that the company has sufficient liquidity to service its commitments and has comfortable headroom on covenants relating to its revolving credit facility. However, the Covid-19 crisis is a unique, fast-moving situation and we will continue to regularly model out different scenarios for the portfolio as new developments arise.

We are seeing little M&A activity in the market, as sales processes are postponed until late 2020 and beyond. This will have a knock-on impact on the level of distributions (i.e. cash) that the company receives in the short term.

The decline in M&A activity will be followed by a decrease in drawdowns, albeit at a later stage in the cycle than distributions. This time lag is due to (i) the widespread usage of bridging facilities to fund investments ahead of capital being drawn from investors; (ii) new deals signed before the impact of Covid-19 became evident and not yet formally completed; and (iii) the need for managers to inject further capital to support some of their existing portfolio companies in the near-term. As a result, we expect that the company will draw on its revolving credit facility within the next 12 months.

We believe it is prudent to slow down new investment activity in the second half of the financial year. New primary fund commitments and co-investments are likely to be pursued only on an opportunistic basis as we take stock of the effects of Covid-19. We expect that activity levels in the secondary market will not recover significantly until the latter part of 2020 or early 2021, as potential sellers assess their own position and wait until private equity valuations stabilise.

We are also not forgetting about responsible investment at this time of difficulty. Investments made by the company have been subject to due diligence around Environment, Social and Governance factors and that remains the case for all future investments the company will make. We are watching the behaviours of our private equity managers and underlying portfolio companies closely at this time and expect them to act responsibly. We will be quick to raise issues with private equity managers that are falling short of acceptable standards.

Despite the unprecedented situation around Covid-19 and the strong headwinds that we are currently facing, we remain confident that private equity continues to offer significant opportunity for long-term value creation. All of the company's private equity managers weathered the global financial crisis and can apply their lessons from that time period to the Covid-19 situation. In the short-term their experience and expertise will be largely deployed in helping their existing portfolio companies to mitigate the impact of Covid-19. However, private equity has shown time and time again that it thrives on the opportunities that present themselves during periods of market dislocation. We expect this time will be no different

Growth capital

(compare growth capital funds **here**)

Manager's report for Merian Chrysalis – 26 June:

Equity markets performed strongly across most of the period, with the NASDAQ reaching an all-time high in February 2020, and the UK market benefiting from the Conservative party's comprehensive victory in the general election in December 2019. However, the focus of the equity markets quickly turned to the spread of Covid-19 through Q1 and the human and economic ramifications of the virus. This profoundly affected global markets and equities suffered steep declines as countries went into lockdown to contain the outbreak. Oil prices also plunged as the virus weakened the outlook for demand, at the same time as there was a breakdown of an agreement between producers to constrain supply.

Across the private markets, Covid-19 negatively impacted deal flow and the ability of companies to raise external capital. We saw a marked decrease in the number of deals we were shown by advisors through Q1 2020 as investors turned their attention to the demands of their existing portfolio and its capital requirements. During the period, we assessed 45 deals, of which 27 fell in the quarter to December 2019. Notwithstanding the decrease in deals, we successfully closed a new investment in Wefox which we consider to be a highly attractive investment.

Covid-19 has amplified and demonstrated the importance of focusing on businesses with strong fundamentals. Much of our investment effort is dedicated towards identifying those companies with structural growth opportunities, proven revenue generating ability, and robust underlying economic drivers. This decreases the reliance on the state of the general economic environment to drive returns

Infrastructure

(compare infrastructure funds **here**)

Manager's report for Sequoia Economic Infrastructure Income – 25 June:

Economic infrastructure debt is a stable asset class typically characterised by high barriers-to-entry and relatively stable cashflows and includes sectors such as Transportation, Utilities, Power, Telecommunications and Renewables. Economic infrastructure is often supported by physical assets, long-term concessions or licenses to operate infrastructure assets and these companies frequently operate within a regulated framework. This is especially true in the cases of the Utilities, Telecommunications and parts of the Power sectors.

A characteristic common to economic infrastructure sectors is that they earn their revenues from demand, usage or volume. This means that the project's revenues are linked to its utilisation, such as a toll road where revenues are dependent or partially dependent upon traffic volumes. This is in contrast to social infrastructure, such as schools and hospitals, which are often compensated for the physical asset simply being available for use.

To mitigate demand risk, economic infrastructure projects are typically less highly geared than social infrastructure and have higher equity buffers, more conservative credit ratios, stronger loan covenants, and higher levels of asset backing for lenders. Economic infrastructure also provides higher returns than social infrastructure and is a much larger market.

These characteristics of economic infrastructure - stable cashflows, high barriers-to-entry, physical assets, equity buffers and lower gearing - all form the bedrock upon which the company's investment opportunities are based and analysed. This is not expected to change, regardless of what is going on in the markets, because these core features of economic infrastructure all contribute to strong fundamentals that are critical for weathering storms.

With that said, economic infrastructure debt is not immune to market volatility

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Renewable energy infrastructure

(compare renewable energy infrastructure funds **here**)

Kevin Lyon, chairman of NextEnergy Solar – 30 June:

The ongoing Covid-19 situation is unprecedented and the effects on electricity demand and prices in the short- and medium-term, and on the economies in our key markets, remain uncertain. We continue to monitor closely macro and micro economic indicators and governmental information to assess the potential future impact on the company's activities. Nonetheless, the company will continue to focus on generating attractive financial returns for our shareholders, while having positive social and environmental impacts.

The price for electricity is driven by a number of factors that are proving difficult to predict under the current environment but is ultimately dependent on the supply and demand for electricity. On a macro level, countries have operated different processes towards the lifting of the lock downs, and the change in the number of Covid-19 cases affects governmental intervention and consumer confidence. The economic shock of Covid-19 has had a profound impact on oil prices and the prices of energy. Recovery in demand for electricity will be driven by the pace of economic recovery once the effects of the pandemic subside.

We will keep under review deployment of ancillary solar technologies to mitigate the generation risks of individual assets, whilst adapting our portfolio to the changing dynamics of the solar markets in which our assets are located.

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Tony Roper, chairman of SDCL Energy Efficiency Income – 18 June:

The details of how we emerge from the crisis associated with the Covid-19 pandemic remain unclear, but in many of the company's target markets there is likely to be a focus on the most effective way to re-start and re-invigorate stalled economies. In June 2020 the European Commission announced a series of stimulus and recovery measures that specifically prioritise 'greener' investments, so as to simultaneously address national climate related targets, building amongst other things on the widening public appreciation of the benefits of reduced pollution levels during the economic shutdown and general awareness of climate change. For example, the European Commission's proposal for its recovery plan places the "European Green Deal", which includes the "Renovation Wave" targeting energy efficiency for buildings, at the forefront of investing in the future as well as recovery. Efficient, cheaper, cleaner and more reliable energy solutions should be more attractive to government, businesses and investors than ever before.

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Richard Morse, chairman of JLEN Environmental Assets – 11 June:

While the Covid-19 pandemic has introduced a significant level of uncertainty into the global economy, established environmental infrastructure assets such as those favoured by the company have generally performed resiliently and continued to generate cash even as other asset classes and market sectors have struggled. Investors have noted this, and the listed renewables sector is expected to continue to see investor support.

In the UK, there were also positive signs that the government was becoming increasingly committed to tackling climate change. The UK became the first major economy to make a legally binding commitment to reaching "net zero" carbon emissions (compared to 1990 levels) during the period, and there have also been positive signals regarding the inclusion of onshore wind and solar in future government subsidy rounds. While detailed plans addressing how "net zero" is to be achieved are still forthcoming, particularly for sectors previously considered hard to de-carbonise such as heat, it is very likely that the paths to "net zero" will require increased investment into environmental infrastructure.

Some of this investment will be into established technologies such as wind and solar that have already become core holdings for investors. As in recent years, the board continues to see fierce competitive pressure in these markets, even as power price forecasts have reduced. It remains to be seen whether the Covid-19 pandemic leads to a re-evaluation of returns available, but the early signs do not suggest this.

Bioenergy assets remain attractive to the company. The agri-anaerobic digestion sector has been a fruitful one for JLEN in recent years, and further opportunities are available. Well-positioned food waste AD assets, such as the Bio Collectors investment, continue to be of interest in the light of legislative changes covering food waste collection, although the impact of the Covid-19 pandemic will need to be factored into any investment case. Biomass and energy-from-waste plants are also of interest, although large UK transactions attract significant investor interest and competition.

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Commodities and natural resources

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

Tom Holl and Mark Hume, managers of BlackRock Energy and Resources Income – 16 June:

Global equity markets continued to recover in May as signs of activity restarting and the hopes for antiviral treatments and a vaccine improved equity market sentiment. For reference, the MSCI All Country World Index rose by 4.2%. Elsewhere, tensions between the US and China escalated as markets reacted to China’s move to impose new national security legislation on Hong Kong. China also dropped its annual gross domestic product (GDP) target and instead adopted a target to keep urban unemployment below 6% and promised monetary policy support of credit growth “significantly higher” than last year.

Against this backdrop, oil prices experienced their best month on record, with Brent and WTI (West Texas Intermediate) indices rising by 88.6% and 78.9%, to end the month at prices of $37/bbl and $35/bbl respectively. The oil price was boosted by anticipation of improved demand after some lockdown measures were eased globally, in conjunction with OPEC cuts being implemented. The US oil and natural gas rig count also slipped to 333 by the end of the month, plummeting from 835 in early March. Mined commodity prices were up almost across the board as positive economic data from China indicated a recovery in industrial activity. For example, the Caixin China Manufacturing Purchasing Managers' Index rose to 50.7 in May, up from 49.4 in April. The copper price rose by 3.7% over the month, whilst the iron ore (62% fe) price rose by 21.3% to $102.5/tonne. The iron ore (62% fe) price was boosted by improving steel demand as well as supply concerns as Covid-19 cases began to rise sharply in Brazil.

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Property - UK

(compare UK property funds here)

Duncan Owen, manager of Schroder REIT:

The immediate outlook for the real estate market and economy is highly uncertain due to the covid-19 pandemic. We are assuming the UK economy enters a recessionary period with an increase in unemployment and reduced occupational demand, leading to falling capital and rental values. The extent of the downturn, and shape of the recovery, should become clearer as the lockdown eases over the coming months. Whilst we are expecting the sharp economic slowdown to be followed by a slow recovery, the current situation has accelerated the already identified structural changes and mega themes which have been central to our strategy.

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Alex Short, manager of AEW UK REIT:

It is expected that UK commercial property investment volumes will fall to levels last seen during the 2008 financial crisis during Q2 and Q3 of 2020. The full impact of the current crisis is yet to become clear; but the recovery in the UK commercial property investment market will likely mirror that of the UK economy. Thereafter we expect certain characteristics of the market to return, potentially more forcefully than before. These include a polarisation of the market between the best and worst performing sectors, with occupier demand being driven by structural forces as much as by the health of the economy in general. A clear example of this has been the growth of online retail at the expense of physical stores, which has seen a divergence in the capital values of the retail and industrial warehousing sectors.

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Paul Bridge, chief executive of Civitas Social Housing's manager:

Today there is a structural shortage of properties that are capable of hosting mid-to-higher acuity care within local community settings. Such properties are not always available and so are typically highly regarded by both care providers and local authority health commissioners. The drivers of demand for the company's portfolio are very much settled within the healthcare sector in the UK and result from long standing government policy to seek closure of remote hospitals in favour of community provision.

The trend for community provision has become established in the UK over the past 25 years and reflects much broader societal change in the manner that care is delivered for people of working age with lifelong care needs. What has developed more recently over the past 10 to 15 years has been the emergence of specialist housing associations that deliver the augmented property services and who, in turn, enter into leases to secure available properties for their underlying tenants without any form of public funding.

Whilst this is an important development, the time is now right to broaden the nature of the company's lease counterparties to include entities such as the NHS and other care providers that are in receipt of government funding as well as leading charities and other not-for-profit entities such as community interest companies.

This initiative is likely, over time, to better reflect the increasingly mid-to-higher acuity focus of the company's property portfolio and also move the dialogue forward with greater focus on the underlying care. It will also offer alternatives to entering into leases with housing associations where that is felt appropriate or it is required.

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Richard Shepherd-Cross, manager of Custodian REIT:

A simple return to pre-COVID-19 pandemic normality by early 2021 appears unlikely. Nevertheless, we still regard commercial real estate as an important and necessary asset for occupiers. Over the course of the next 12 months there may be opportunities in retail warehousing if market sentiment continues to weaken and pricing over-compensates. Strong locations should still see demand from retailers and retail warehouse parks could yet make for a compelling investment, benefiting from large sites close to town centres with free car parking for customers and easy loading and servicing for retailers. These factors should make the stores complementary to online shopping and suitable for use as urban logistics hubs for the retailers.

Good quality offices in regional markets that can offer flexible accommodation, especially on flexible lease terms, are likely to be attractive to occupiers. The covid-19 pandemic lockdown has shown a real benefit to employees, both commercially and socially, of an office providing collaborative space and a hub for doing business. However, the increased ability to work from home, with enhanced connectivity from video conferencing and document sharing, has opened up the possibility of more remote working. It is too early to tell which of these trends will have more impact but going forward we expect in-demand offices to fall into two categories, much the same as retail: prime, town centre offices offering meeting rooms, collaborative spaces and flexible hot desking combined with widespread remote working; or out of town, conveniently located, well-connected, lower cost space. We are conscious that obsolescence can be a real cost of office ownership, which can negatively impact cash flow and be at odds with the company's relatively high target dividend. The need to provide either good value out of town space or flexible town centre space could be a cost to landlords and this will need to be reflected in either price or rent.

Industrial and logistics properties have been the best performers in real estate markets and the company's weighting of 46%, by value, to the sector has supported returns during the year. We expect this sector to remain in sharp focus and believe there is still some rental growth potential and refurbishment opportunities.

The covid-19 pandemic has shone a light on the everyday rent collection and asset management of the Custodian REIT property portfolio. Once rent collections return to normal and the free cash and undrawn debt of the company can be deployed, we expect to take advantage of the re-pricing that is likely to be a feature of the market and deliver positive returns to shareholders.

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Property – Europe

(compare European property funds **here**)

Jeff O'Dwyer, manager of Schroder European REIT:

While high-frequency indicators show that activity is returning, it seems somewhat slower than anticipated. Consumers remain cautious and the ongoing uncertainty weighs on business investment. Latest data for China and the US is also suggesting a sharper decline in economic output than previously anticipated. As such, the investment manager's house view is turning from a V-shaped recovery scenario to a U-shaped forecast with activity to increase again in the second half of the year, but at a slower pace than originally anticipated. The full impact of the crisis will depend on whether the huge package of tax breaks, loan guarantees and compensation for short time working announced by the EU and by national governments succeed in keeping businesses afloat. If they fail and there is a wave of insolvencies, then unemployment will be permanently higher, and the recession will be deeper and longer.

The outlook for real estate markets remains uncertain. The impacts of covid-19 have yet to fully play out and the depth and recovery of global GDP cannot be predicted with any confidence.

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QuotedData

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