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INVESTOR

Economic & Political Roundup

Monthly roundup | Investment companies | October 2020

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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.

Exchange rate	30/09/20	Change on month %
GBP / USD	1.2920	(3.4)
USD / EUR	0.8532	+1.8
USD / JPY	105.48	(0.4)
USD / CHF	0.9209	+1.9
USD / CNY	6.791	(0.8)

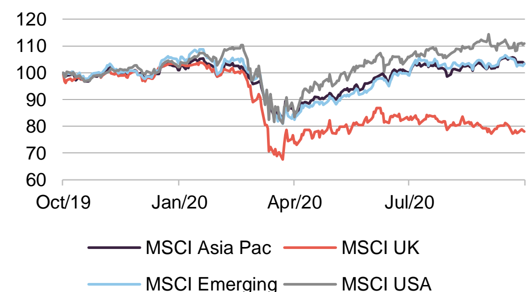
Source: Bloomberg, Marten & Co

Roundup

The summer cheer was replaced by concerns over the inevitability of a second wave and the realisation that COVID-19 will be with us for some time to come. Elsewhere, the lack of progress in defining the path towards Brexit weighed on sterling.

MSCI Indices rebased to 100

Time period 01/10/2019 to 30/09/2020



Source: Bloomberg, Marten & Co

	30/09/20	Change on month %
Oil (Brent)	40.95	(9.6)
Gold	1885.82	(4.2)
US Tsy 10 yr yield	0.684	(3.0)
UK Gilt 10 yr yield	0.229	(26.4)
Bund 10 yr yield	(0.523)	31.4

Source: Bloomberg, Marten & Co

Global

Mindful of non-COVID risks

Tim Woodhouse, Rajesh Tanna, and Helge Skibeli, managers of JPMorgan Global Growth & Income, are of the view that this crisis does not resemble the global financial crisis - they do not see existential threats to the financial systems. Instead, they view this as a shock that has taken us to the beginning of a new business cycle.

Christopher Mills, CEO of North Atlantic Smaller Companies, notes that as worldwide schemes to protect employment are unwound and unemployment rises, it is hard to be overly optimistic about corporate profits in most industries.

Zehrid Osmani, manager of Martin Currie Global Portfolio, provides an in-depth review of the pandemic's economic impact on the likes of the US and China, to-date. Zehrid touches on several factors making it had to plot the shape of the economic recovery. The manager also discusses his outlook for equities in this low-yield setting, while flagging up some geopolitical risks lurking in the background.

Simon Edelsten, Alex Illingworth, and Rosanna Burcheri, managers of Mid Wynd International, discuss why they believe inflation could rise over the next year or two, albeit from a very low base.

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September's highlights

In addition to the global funds, this month's highlights include:

UK

A long period of sub-par growth, limited inflation, low interest rates, and high corporate debt awaits?

David Barron, chairman of Dunedin Income Growth, says that the prospects for global growth were modest and arguably deteriorating before COVID-19.

Charles Luke and Iain Pyle, managers of Murray Income, believe it is likely that that the post-pandemic environment will be characterised by a long period of sub-par growth, limited inflation, low interest rates, and high corporate debt. The managers also flag up the unclear trajectories of Brexit and the US election. The managers expect a premium to be placed on companies possessing attractive yields, sound growth prospects and strong balance sheets.

In the wake of the accelerated shift to online retail, the bankrupting of landlords is helping to reset rents to more justifiable levels

Steve Tatters, manager of Aurora, estimates the government has so far spent £50-60bn to support the solvency of UK businesses. He says this has kept businesses from going bust, but it has not helped profitability. Steve adds that households have lost £50bn of income so far versus a total net wealth of over £12trn. Looking at the shift to online retail, the manager says that it has accelerated the process of resetting rents to levels justified by the realities of the shift to online. Because of the rigidity of commercial leases (upward only rent changes) and the rates system it is happening through the bankrupting of landlords.

The manager of Crystal Amber says that while huge central bank stimulus has injected liquidity into global markets, some institutional investors, who had pulled back from smaller companies before the pandemic have not returned.

The large fall in dividends has taken the true yield on UK stocks to between 3-4%

Philip Remnant CBE, chairman of City of London, believes that the large fall in dividends paid has taken down the true yield of the UK equity market to between 3% and 4%. Even at such levels, this remains significantly more than the main alternatives of fixed interest and bank deposit rates.

The manager of Aberdeen Smaller Companies Income says that while many companies have experienced sharp earnings declines this year, taking into account the rebasing of dividend expectations in the near-term, over the long run it should create sustainable income streams with better dividend cover. Within the expectation that recessionary times are coming globally, the manager expects the UK to suffer materially, with unemployment at unprecedented levels. Whilst government pledges to do what it can with areas like VAT cuts & stamp duty changes, the manager adds that we are yet to see how demand returns and what shape the recovery will be. This recession will certainly be more 'main street' than 'Wall Street.'

Brexit and the US election bring the risk of greater volatility over the coming months. On the former, the possibility of a hard Brexit remains

Margaret Littlejohns, chair of Henderson High Income, says that the UK's withdrawal from the EU at year end, a possible escalation of trade tensions between China and the US and the US government election itself in November are all likely to contribute to volatility and nervousness in the markets.

Liz Airey, chair of Standard Life UK Smaller Companies, reflects on the slow progress of the Brexit negotiations. Given the limited time to complete them, the possibility of a hard Brexit remains.

North America

Canada is a leading incubator for innovation and technology

The manager of Middlefield Canadian Income notes that the vast majority of Canadian and U.S. dividend payers maintained their payout levels as their share prices continued to clawback losses throughout the second quarter. The manager adds that central bank policies are expected to remain accommodative and GDP growth is positive in most regions. Canada remains a leading incubator for innovation and technology.

The chairman of North American Income, James Ferguson, says that unemployment benefits in the US have begun to roll-off and an additional stimulus package is likely to be needed for many who have been unable to return to work. If future stimulus remains held up by political wrangling in Washington, there are greater concerns with regards to the health of the consumer in the near term. James also touches on the incentive to continue some of these programmes as we enter the November election season.

E-commerce penetration in the US had hitherto been unusually low

The manager's report for Baillie Gifford US Growth pays significant attention to the widespread adoption of e-commerce in the US, where penetration levels had previously been unusually low. Prior to the pandemic, e-commerce comprised just 16% of retail sales in the US. In the outlook section, the manager notes that innovation is speeding up and spreading out to sectors which have hitherto been untouched by the digital transformation.

Asia Pacific

China is on pace to become a superpower by 2030

The manager of Pacific Horizon outlines how the 'old order', including both public and private institutions in the West, was tested and found wanting, socially, politically, morally and economically. In contrast, the Asian model, so far, has held up relatively well. China, the epicentre of the viral outbreak, is still on pace to become a superpower by 2030.

Discussing the potential impact of a second wave, Susan Platts-Martin, chair of Witan Pacific, says that hope lies with greater preparedness, improved understanding and treatment and the accelerated pace of vaccine trials. She adds that China may be one of the few countries to grow its economy this year.

Domestic retail investors have been driving the moves in the Chinese and North Asian markets

Robin Parbrook and Lee King Fuei, managers of Schroder Asian Total Return, notes that Chinese A-shares have been looking increasingly frothy since May, and this froth has now spilled over into the broader China markets and now appears to be spreading to parts of the Taiwanese and Korean equity markets. The driver of the recent moves in the Chinese and North Asian markets has principally been domestic retail investors.

India

India is benefitting from the diversification of global supply chains

The manager of India Capital Growth reflects on the pandemic, noting that India's recovery rate is rising, and its fatality rate remains low (at 2%) by global averages. It would seem that some combination of a young and resilient population and a warmer climate are ensuring, for the time being at least, that India is managing better than many had predicted. The manager also discusses the long-term opportunity India has as part of the diversification of supply chains that had become overly reliant on China. The manager notes that India's labour cost is now one-third of China's, and we are already witnessing global corporates using India as an

alternative hub, albeit in niche sectors today. India-based manufacturers of active pharmaceutical ingredients and speciality chemicals, in particular, are seeing gains in market share.

India has been benefitting from the fall in oil prices. At current prices, it will save around $30bn annually

The manager of Ashoka India Equity says the economy could contract by a mid-single digit figure this year. On the plus side, India benefits from the fall in oil prices, given that it imports over 80% of its requirements. At current levels, with Brent crude prices of around $40/bbl, India is expected to save approximately US$30bn annually.

Other

We have also included comments on the flexible investment sector from Livermore and CIP Merchant Capital; Europe from European Opportunities: Latin America from Blackrock Latin American; global emerging markets from Africa Opportunity and Gulf Investment; Japan from AVI Japan Opportunity and Baillie Gifford Shin Nippon; South Korea from Weiss Korea Opportunity; Vietnam from Vietnam Enterprise; the debt sector from M&G Credit Income, CVC Credit Partners European Opportunities GBP. Marble Point Loan Financing, Blackstone/GSO Loan Financing, CQS New City High Yield, Biopharma Credit and NB Global Floating Rate Income GBP; private equity from Oakley Capital Investments and HgCapital Trust; hedge funds from Third Point Offshore Investors; the leasing sector from Tufton Oceanic Assets and DP Aircraft I; insurance and reinsurance from Life Settlement Assets A; biotech and healthcare from RTW Venture; infrastructure from International Public Partnerships; renewables from Bluefield Solar Income, US Solar, Octopus Renewables Infrastructure, Aquila European Renewables Income, Greencoat Renewables, Foresight Solar, and Gresham House Energy Storage; the environmental sector from Menhaden; commodities and natural resources from CQS Natural Resources Growth and Income and Baker Steel Resources; UK property from BMO Commercial Property, Aberdeen Standard European Logistics Income, Triple Point Social Housing REIT, UK Commercial Property REIT, Standard Life Investments Property Income, Real Estate Investors, Supermarket Income REIT, and GCP Student Living; and European property from Phoenix Spree Deutschland.

Global

(compare global funds **here**)

Tim Woodhouse, Rajesh Tanna, and Helge Skibeli, managers of JPMorgan Global Growth & Income – 24 September:

We do not yet know what the state of the world will be when enhanced unemployment schemes disappear, or when Central Banks are unwilling to provide a further backstop to markets.

The biggest single uncertainty of course is the resurgence of COVID-19, and the timeline to delivering a vaccine. We are hopeful that the vast amounts of money currently focused on finding a vaccine will be successful, and in the meantime must rely on governments to support their citizens. The trajectory of job losses is hard to forecast, but we suspect that once furlough schemes end, we do see another step up in unemployment. However, this crisis does not resemble the Global Financial Crisis - we do not see existential threats to the financial systems we rely on. Instead we have experienced a shock, and as a result we are at the beginning of a new business cycle. Be prepared for volatility in the next few months but be confident in the outlook.

Regardless of our short-term view on markets, we feel confident that equities remain an attractive asset class over the long term.

. . . .

Christopher Mills, CEO of North Atlantic Smaller Companies – 16 September:

Stock markets, and in particular the United States, have performed extraordinarily well given the damage done to public finances and the economy. As worldwide schemes to protect employment are unwound and unemployment rises, it is hard to be overly optimistic about corporate profits in most industries. We do, however, expect a modest level of corporate activity which might give some underpinning to equities.

. . . .

Zehrid Osmani, manager of Martin Currie Global Portfolio – 14 September:

The year 2020 is far from over, and yet it will go down in financial history, and broader human history, as an unprecedented year. Had policymakers not taken action to go into lockdown in order to contain the contagion risk and to give the healthcare infrastructure time to build some resilience, the coronavirus pandemic would have undoubtedly turned into a much more severe global health crisis. As a result of what was almost a globally synchronised shut down of both supply and demand, the world fell into one of the deepest and most rapid recessions in history. Below, we flesh out a few points on the recessionary environment, as well as highlight some areas of opportunities we foresee in the post-pandemic world, within our three long-term mega-trends thematics framework.

GDP downgrades significant

China's GDP fell by 10% in the first quarter (quarter on quarter), with other countries' GDP dropping even more significantly in the second quarter, as further economies globally entered into lockdown. The US economy shrank by 9.5%, whereas the more cyclically sensitive European region got hit even harder, with the EU's GDP

dropping by 16.2% in quarter two. Meanwhile, the UK GDP drop was even more severe still, coming in at 21.7%. China is expected to be the only major economy to achieve a positive annual GDP growth in 2020, forecast at c.2% (Bloomberg consensus at the time of writing), while European GDP is expected to decline by c.8%, with the UK dropping by c.9% and the US by c.5%

Policy responses have been rapid and decisive

Policy responses globally since March have been commensurate with the magnitude of the economic and social- economic crisis, with central banks cutting rates aggressively, and injecting ample amounts of liquidity into the system, while governments unveiled sizable fiscal stimuli. Central banks have been successful at averting a funding crisis which could have created an increased risk of credit defaults. Governments have, at times, pledged around (or more than) 10% of GDP for some of the major economies, which shows the magnitude of the policy response.

Improving leading indicators could give the impression of a V-shaped recovery under way

Economic leading indicators have been improving sharply, having fallen to significantly weak levels in March-April. This could give the illusion of a sharp V-shaped recovery being under way, but we would caution against such optimism. We expect continued improvement in leading indicators over the next few months as economies continue to adjust to the post COVID-19 crisis. However, we believe that the shape of economic recovery is highly uncertain as a result of several factors:

1. the slower activity, as a result of both supply and demand being impacted negatively by social distancing;
2. an underlying deterioration in the labour market leading to a negative feedback loop on consumer confidence and therefore economic activity;
3. a lack of clarity on the speed of channelling the sizeable fiscal stimuli into the real economy; and
4. pandemic relapse risk that could push economies back into lockdown. A more gradual recovery is a more prudent assumption in our view, and is our core scenario regarding economic activity, with a possible return to previous levels only by 2022.

Sizeable earnings downgrades now potentially coming to an end, providing some support

Earnings downgrades have been sizeable through the thick of the crisis, with estimates cut by c.25-35% compared to pre-pandemic levels depending on the region, with the more cyclical parts of the markets experiencing earnings downgrades of much more than the market average. It feels like we have gone past the worst of the storm in terms of corporate earnings. We can see more supportive near-term trends in terms of earnings momentum from here, although we need to remain vigilant given risks associated with policy implementation.

Low yields environment is a challenge for investors and provides support to equity markets

Given the sharp recessionary environment and the aggressive monetary policy easing, bond yields globally are at very low levels, which is reflecting both the uncertain macro-economic outlook and the low inflationary backdrop. It is providing an added challenge for investors seeking yield, but at the same time making equity markets' earnings yields relatively more attractive. Importantly, given the extremely low bond yields environment globally, equity valuations are supported by the better

earnings yield they offer investors in relation to government bond yields. Within the valuation topic, it is also worth highlighting that the valuation spread between growth and value is very pronounced, and is likely to be an important focal point for the market, potentially leading to periods of style rotation, although we believe that these are difficult to predict and time accurately.

Geopolitical risks remain omnipresent

On the geopolitical front, there are plenty of risks that remain present; this brings uncertainty and could keep market volatility high. The China-US tensions are widening, and have become not only trade tensions, but also broader geo-political tensions, spilling over into national security considerations which have the potential to impact sectors such as technology and 5G telephony. In turn this could potentially slow down the pace of investment, or make it more complex as a result of likely technological divergence away from harmonised global technological standards. The 'China-rest-of-the-World' tension could be another development that brings increased geopolitical risk, given the focus on national security and national interests, as seen with the decision by the British government to ban Huawei as a technology provider for 5G telephony, in a similar vein to the US.

The US elections will be an important focal point for the market in the second half of the year, potentially contributing to social unrest and increased market volatility, should protracted vote re-counting delay the final outcome to year end. It is worth flagging that should Democratic candidate Joe Biden win the election and also achieve a Democrat majority in both Congress and the Senate, he will be able to carry his policy plan more readily. This will include increased tax on corporates and households which could weigh on corporate earnings, and increases in minimum wages, which could weigh on corporate margins. Biden's pledge on infrastructure spending might be more front-end loaded, and therefore more supportive for near term economic activity, and his focus on sustainability through green energy and lower carbon intensive projects would be negative for Energy and some Utilities companies in particular - two sectors to which there is no exposure in the portfolio. An expansion of Medicare healthcare coverage would be a positive for our Medical Technology exposure, and a potential negative for Pharmaceutical companies to which there is no exposure. Should Trump win the election, and the Republicans keep a majority in the Senate, the market is likely to see this as more akin to the status quo compared to the current situation.

The UK Brexit risk remains omnipresent, even if the pandemic crisis has taken market attention away from it. The pandemic crisis has potentially delayed the pace of progress in both the UK and EU parties working towards an agreement on time for the end of the year's exit from the EU trading bloc. There is therefore a non-negligible risk that the UK drops out of the EU without a trade deal in place, which could weigh on economic sentiment and is likely to impact economic activity negatively for both parties, although the UK is likely to be hit more negatively in our view. This will be an important focal point in the run up to the end of the year for the markets - we remain cautious on the outlook for the UK economy as a result of this uncertainty, and see this as an important event risk for the market to bear in mind.

Emerging market geopolitical risks predominately reside in the handling of the pandemic crisis, which could lead to sizeable economic pressure on some parts of the population. This could have spill-over consequences, both in terms of erratic policy actions, social unrest, and ultimately, could lead to less stable governments in some countries. The other geo-political risk for investors to consider is that policy makers' more active engagement in helping economies navigate through the crisis will in due course lead to a need to assess how the fiscal stimuli are funded.

There is in our view an increased risk of higher tax rates in the mid-term, both personal and corporate. We have already adjusted our long-term estimates across all companies that we cover, with the assumption of a two-percentage point higher corporate tax rate across the board.

Post-pandemic world opens opportunities for long term investors

Potential opportunities post-pandemic crisis could materialise in some of the following areas:

5. increased infrastructure spend to boost the economy, notably railway and 5G infrastructure;
6. increased spend in healthcare infrastructure to both make the public healthcare sector more prepared for future pandemics, and to increase investments in homecare and telemedicine;
7. improvements in food hygiene and general hygiene;
8. increased investment in cybersecurity given the acceleration in pace of migration to digital economies;
9. increased investment in robotics and automation as corporates tackle the need to make their supply chains more robust; and
10. increased incentives in sustainability, whether it is social sustainability or greener solutions in transport, infrastructure and construction in particular.

On the negative risks, there are areas of the economy facing a high degree of uncertainty, such as transportation, tourism and hospitality sectors. There is also a higher likelihood of increased tax levels, both corporate and household tax, in the mid-term, which could weigh on economic activity in due course. We have therefore already taken the prudent approach of increasing our corporate tax rate assumptions in our financial projections for all companies that we hold in the portfolio. Finally, productive capacities will likely be an important area of reassessment, with the risk of onshoring trends increasing operating costs for corporations as a trade-off for more control of their supply chains.

Outlook

In summary, the crisis has brought many challenges, and an increased level of uncertainty looking ahead. Our predictions are for increased market volatility given the uncertain shape of the economic recovery, bringing a healthy bull-bear debate within the market. We forecast a gradual economic recovery, rather than a V-shaped recovery, with a possible return to previous activity levels only by 2022. We predict that economic leading indicators will continue to recover over the months to come, but that improvements will become more gradual from here, rather than the initial V-shaped rebound we have seen so far.

On the corporate earnings front, we believe that the bulk of the earnings downgrades has now come through, and there is a more supportive earnings momentum from here, although this is highly dependent on shape of the economic recovery. We believe that the low rate environment will be prolonged, given the lack of inflationary pressures, the strong underlying deflationary pressures, and the lack of growth in the long-term.

On the geopolitical front, the US presidential election will be an important focal point, and remains a highly uncertain outcome at this stage, even if polls are showing a big gap opening up between both candidates. The geopolitical tensions between China and the US, and China and the Rest of the World, will remain centre-stage, which brings another dimension of unpredictability.

Simon Edelsten, Alex Illingworth, and Rosanna Burcheri, managers of Mid Wynd International – 4 September:

We are wary that interest rates have again been cut to levels which force investors to take risk. The UK government 10-year bond today (22nd July 2020, Bloomberg), yields all of 11 basis points per annum. So, investors are pushed into equities and other riskier assets whether they want the risk or not. No doubt much of this pressure has resulted in some shares, such as Amazon and perhaps Orsted in wind power becoming very fashionable.

We are also wary that governments are pledging very large amounts of spending when government debt levels are already very high. The lockdown itself has produced a deflationary shock and rising unemployment; there will no doubt also be many small businesses which struggle to survive. The government spending cannot help all of these, nor do large-scale infrastructure projects create jobs in the way they did in the 1930s. The money issued by government in this period may well look for a home and, after years of inflation levels falling, we may see inflation rise over the next year or two, albeit from very low levels.

Such a reversal would prove a challenge firstly for investors in traditional government bonds (who may look at the 11 basis points on offer with fresh eyes), but also to equity investors who believe past winning investments will simply carry on winning.

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Flexible investment

(compare flexible investment funds **here**)

Manager's report for Livermore – 28 September:

We continue to monitor the COVID-19 pandemic situation closely, with a focus on the impact on the company's CLO and US senior secured loan portfolios. The spread of the virus, government policy responses and changing demand patterns are expected to have a negative impact on the operations and earnings of some of the borrowers in the CLO portfolio. We have been in close contact with managers of its individual CLO positions and is tracking the level of rating downgrades of underlying loans to CCC+/Caa rating and a worsening default outlook. A significant concentration of CCC+/Caa rated loans can turn off the distributions to the equity and lower mezzanine tranches of CLOs and would result in significant drop in the market values of those CLO portfolio constituents. The full extent of the impact will depend on the length and severity of the crisis and is expected to vary widely between sectors and companies.

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Manager's report for CIP Merchant Capital – 24 September:

Despite the recovery across certain geographies and sectors, in particular in the US driven by the performance of tech stocks, we still see many of the potential threats, resulting from the pandemic and resulting economic recessions, being present for the foreseeable future. The full impact of the pandemic and the various restrictions and economic stimulus that have been put in place are not likely to yet be fully reflected in the majority of companies financial results and will only start to become evident over the remainder of the year and into 2021, as the various stimulus schemes, such as furlough schemes implemented across Europe, begin to come to

an end. Governments have sought to fight back against the fall in economic output and reduction in aggregate demand through unprecedented stimuli, and central banks are also doing their best to ease conditions in financial markets. As is evident, however, the situation remains unclear and we believe the markets are currently pricing an outcome more favourable than that which might be experienced in the coming months.

UK

(compare UK funds **here**)

David Barron, chairman of Dunedin Income Growth – 23 September:

As we look forward into the rest of the year and into 2021, the key is really whether the recovery that is underway can be sustained and, ultimately, what level of output can be reached. The prospects for global growth were modest and arguably deteriorating prior to the development of COVID-19 and so we wait to see what impact this has over the longer-term dynamics.

Charles Luke and Iain Pyle, managers of Murray Income – 23 September:

The first six months of the annual results period to 30 June 2020 witnessed equity markets progress gently higher with the domestic and global economies performing anaemically despite a backdrop of very modest levels of unemployment and low interest rates with the latter in particular boosting investor sentiment. In the UK, concerns regarding Brexit and the potential market-unfriendly nature of a Labour government were important factors in prompting Sterling to weaken and consequently helped to buoy those companies with overseas earnings. The failure of Parliament to agree on a withdrawal agreement resulted in the resignation of Theresa May as Prime Minister. Her successor, Boris Johnson, was more successful and with the prospect that the most negative Brexit scenarios would be removed, domestic assets responded positively. The Conservative Party majority in the General Election provided a further fillip to domestically exposed UK companies. Although we entered 2020 with valuations at high levels, investors took comfort from the prospect of easier fiscal and monetary policy, an improving trade backdrop and an environment in the UK seemingly set fair for domestically-focused companies to benefit. Internationally, the ongoing trade dispute between the US and China provided the main area of focus with signs of progress and delay affecting sentiment. Concerns over the impact on the global economy, and in particular manufacturing, led the US Federal Reserve and the European Central Bank to reduce interest rates. Towards the end of the calendar year, a sense that a lasting trade agreement would be possible buoyed markets.

It was impossible to predict COVID-19 and its impact on the global economy. The slow realisation of the potential impact on health and economies caused some weakness in markets during late January and early February, but as the virus spread outside China to South Korea, Iran and to Italy in particular, the dawning of the consequences resulted in a collapse in share prices in the last week of February and first three weeks of March. Volatility soared together with safe-haven assets such as US Treasury bonds and gold while shares and the price of oil plummeted, the latter compounded by the initial inability of Saudi Arabia and Russia to reach an agreement to cut production. There is an apophthegm that 'markets stop panicking

when governments start panicking' and we have seen a very significant fiscal and monetary response from governments and central banks around the world including a reduction by the Bank of England of the base rate to 0.1% and further UK government and sterling corporate bond purchases. This, together with an acknowledgement that social distancing can halt the spread of the virus, has brought some calm to markets but the longer term effect of the virus on the global economy is as yet unknown.

Economic data for the year prior to the virus is effectively redundant and the severe economic impact of the immediate aftermath of the virus is only now becoming clear. In the UK, GDP for the second quarter of 2020 is estimated to have fallen by a record 20.4% following a 2.2% fall in the first quarter. Bank of England forecasts suggest that GDP is not likely to exceed its level in the final quarter of 2019 until the end of 2021, yet this might well be optimistic. Domestic unemployment has increased but the true picture will only become clear once the support from temporary government furlough schemes (which have benefitted close to 10m workers) is removed with estimates pointing to a 7.5% unemployment rate by the end of the calendar year. CPI inflation was 1.0% in July and is likely to trend lower in the short term given the impact of the virus together with lower energy and VAT rates.

Overseas, the economic landscape paints a broadly similar picture, albeit not quite so bad. Global GDP is estimated to have fallen 9% in the second quarter of 2020, considerably worse than during the global financial crisis. In the second quarter of calendar 2020, Euro area GDP is estimated to have fallen by 12.1% and US GDP by 9.5%. A significant outlier has been the performance of the Chinese economy, which having been the first country to suffer and together with robust enforcement actions and stimulus, emerged more quickly with a strong recovery exhibiting GDP growth of 11.5% in the second quarter.

Outlook

Uncertainties abound. Although the trajectory of an economic recovery will be dependent on a range of factors including further government support, the magnitude of any second wave of the virus, the timing and availability of a vaccine, and behavioural changes, it seems likely that the post-coronavirus environment will be characterised by a long period of sub-par growth, limited inflation, low interest rates, and high corporate debt. In addition, the end of the transition period for Brexit adds a further layer of ambiguity regarding our future relationship with the EU and as a consequence of those negotiations, the rest of the world. Furthermore, the outcome of the upcoming US election is too close to call. In these difficult circumstances we believe that companies with attractive dividend yields, sound growth prospects and strong balance sheets are likely to be prized more highly than ever.

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Steve Tatters, manager of Aurora – 22 September:

When we look at the business sector, we can see the government has done a lot to support the solvency of businesses some of which helps with profits like the furlough scheme, rate relief and self-employed support. We estimate the amount spent so far to be £50bn to £60bn. The rest of the support is some form of a loan, whether it is tax payment delays, or government guarantees for loans. It keeps businesses from going bust, but it doesn't help with profitability. So, company profits have taken something like a £40bn to £50bn net hit already (£100bn less £50bn to £60bn), that is a 50% hit for a quarter. Companies have survived by borrowing and not paying

the other two buckets in this way of measuring GDP, i.e. rent and interest, but that doesn't stop them being owed. The losses that companies suffer fall to shareholders. Some companies can draw on their prior reserves of capital and many have come back to shareholders for more equity. £14bn so far in the UK. We have been dealing with capital requests on a daily basis, there will most likely be many more to come to fill that hole.

When considered at a top down level this all looks manageable. Households have lost £50bn of income so far versus total net wealth of say over £12trn, and households with the lowest incomes and no savings have had their income fully supported. At an individual level there will be some that are very badly impacted. For the corporate sector not only is aggregate damage very bad, but the distortions mean the damage has fallen disproportionately on those businesses who could not switch to an online model or stay open. Some of those sectors were already going through difficult times, like retail, hospitality and travel, and so the lockdown has pushed businesses over the edge or is leaving them crippled with excessive levels of debt. It has accelerated trends already underway, exposed underlying frailties and triggered a cathartic purge.

Slowdown and temporary interruptions can be recovered from, but when whole businesses fail or downsize then there is a permanent loss of economic activity. The recovery from there needs those voids to be filled by growth of the survivors and new entrants, which will create employment for those that lost their jobs. This process takes longer, but there is no reason to believe it will not happen again this time as it has every other downturn.

The shift to online retail has accelerated the process of resetting rents to levels justified by the realities of the shift to online. Because of the rigidity of commercial leases (upward only rent changes) and the rates system it is happening through the bankrupting of landlords. COVID is likely to accelerate that and we believe the government is about to allow retail stores to be converted to residential, which will really accelerate the switch. Anyone who visited Phoenix 10 years ago would have found us in the only road full of commercial premises in Barnes outside of the high street. If you come now you will see three quarters of the street has been converted to residential following that short period when conversion was permitted. If the government allows it then much retail space will end up as something else. We don't think it will be the end of the shop or the high street because there are still some things that the online experience cannot replace, and which consumers enjoy. (Even during lockdown, when the initial rush had passed and there were online alternatives, many could be seen queuing outside food shops).

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Manager's report for Crystal Amber – 21 September:

Prior to the pandemic, and aside from the already well documented effects of COVID-19, many UK domestically focussed businesses suffered from Brexit related uncertainties. This also adversely affected the appetite of potential corporate acquirers. Increased redemption pressure also affected several small and mid-cap fund managers and resulted in reduced demand for, and a surge in the supply of shares in many listed companies

Huge central bank stimulus has injected liquidity into global equity markets. Despite this, some institutional investors, who had pulled back from smaller companies prior to the pandemic have not returned.

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Philip Remnant CBE, chairman of City of London – 18 September:

Looking forward, there are an unusually large number of uncertainties, which mainly relate to COVID-19. It is possible that there could be a second wave of infections in the autumn/winter. If so, governments are likely to try to implement local rather than nationwide lockdowns which would be less damaging for the economy. Alternatively, it may be that the worst of the virus has been seen and there are strong hopes for an effective vaccine in 2021. The policy response to the lockdown has been extraordinary, but it is not clear what will be the long-term effect of the build-up of government debt or how the central banks will ever reduce their stock of government bonds. Another major uncertainty remains the future trading relationship between the UK and the European Union, which is scheduled to have been agreed by the end of 2020.

UK companies responded to the crisis with a wave of dividend cuts, omissions and cancellations. In the July/August half year reporting season, there were tentative signs of an improving mood. The large fall in dividends paid has taken down the true yield of the UK equity market to between 3% and 4%. This remains significantly in excess of the main alternatives of fixed interest and bank deposit rates. To the extent that confidence grows that a base has been found and the market is set to return to dividend growth, UK equities could achieve pleasing returns.

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Manager’s report for Aberdeen Smaller Companies Income – 17 September:

This year will see the biggest hit to dividends in generations, but given the specific driver of 2020's issues, investors should look beyond this. Many companies have experienced sharp earnings declines this year, and whilst the rebasing of dividend expectations is painful in the short term, in the long run it should create sustainable income streams with better dividend cover. This resetting, together with the economic damage, means forecasts for dividends are gloomy overall in the market. Link Group dividend monitors caution that it could take until 2026 for UK dividends to return to their 2019 level.

Companies with strong ESG credentials have also shone through. High quality management teams are generally more cautionary over capital allocation, and retain strong balance sheets. Experienced management teams who have managed their businesses through downturns before have been extremely valuable. We have seen senior management pay cuts and bonuses deferred, to help support cost bases and more junior employees. This is the behaviour of management teams incentivised for the long term. Businesses have strived to protect the morale and mental health of their workforce with online support to keep people engaged, training and development programmes, and worked to support their return to work. The sense of employee loyalty generated has been impressive. The pandemic has cost lives; but businesses have sought to look after families where possible, with the employees the heart of their businesses. This theme will continue as workplaces being to adapt to new working practices, with a strong focus on quality of life improvements where possible.

While we don't take macroeconomic driven decisions or time the cycle, the past 6 months has been challenging to navigate, and we have continued to focus on company specific decision making. The pandemic has accelerated change; often we heard the phrase 'we have done 8 month's work in 3 weeks'. Strategies, business models and investments based on steady changes were thrown into chaos in a short period of time. We are mindful of the direct impacts, namely lower interest rates for longer, more government debt and pressure on profit margins. We have

been having conversations with our companies around efficient capital allocation, and management of cost bases. Many companies have had to invest to position themselves strongly for the changes and challenges they face. A focus on sustainability has also increased in management strategies.

Certain sectors may see structural change. Changes in behaviour may persist; the way we work and spend our leisure time may permanently change. The furlough scheme may have kept workers in jobs in sectors where demand won't return. Commercial property already knew that online retail and flexible working were important trends for their businesses; now those trends have accelerated faster than they had planned for. A recovery to pre-COVID times will also need confidence in public health, and household finances to improve in order for demand to return, whilst balance sheets will take time to repair. All of this will create both scars and opportunities for smaller companies.

It's clear that recessionary times are coming globally. The UK economy will suffer materially and unemployment will be at unprecedented levels. Whilst government pledges to do what it can with areas like VAT cuts & stamp duty changes, we are yet to see how demand returns and what shape the recovery will be. This recession will certainly be more Main Street than Wall Street; stock markets have already recovered to high levels whilst the scenes on the high street, consumer spending and potential unemployment levels remain gloomy. There is a risk now there is a disconnect between some stock market valuations and the outlook for economic growth.

The effects of COVID19 will be deep and widespread. Poorly capitalised companies and those with limited runway are at risk of failure as the support schemes end. Other risks in the market going forward come from a second wave of infections, the US elections in November and escalating US/China trade wars. Currently there is little evidence of a meaningful second wave post the lifting of lockdowns across Asia and Europe, with breakouts being controlled at local level. In the event of true second wave, most countries are now better placed to manage it in terms of healthcare capacity and treatment. The news on a vaccine is also promising although that might not be this year. The US elections are close to call so will become a bigger focus next quarter, whilst Trump may well see negativity towards China as his best chance of winning.

More generally we feel that economic cycles will be shorter, sharper & more volatile. The last bull market was extended and settled. The market has had a strong bounce so we fear valuations aren't braced for further bad news. There are many risks in the current environment but also opportunities for smaller companies.

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Margaret Littlejohns, chair of Henderson High Income – 11 September:

At the beginning of the year when COVID-19 had only appeared in Asia, it was difficult to imagine its imminent transformation into a rapidly spreading pandemic or the subsequent dramatic fall in equity markets across the world. While markets have since recovered from their lows and investors have benefited from the generosity of central banks and governments, which has supported asset prices, there are still many challenges ahead. Monetary stimulus is likely to continue, as the US Federal Reserve has pledged future support, but the emergency fiscal measures introduced by governments to alleviate the economic crisis will gradually be withdrawn. A potential second wave of the virus, the UK's withdrawal from the EU at year end, a possible escalation of trade tensions between China and the US and the US government election itself in November are all likely to contribute to volatility and

nervousness in the markets. The economic outlook and the timing and speed of any recovery are uncertain, so we remain cautious in these circumstances.

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Liz Airey, chair of Standard Life UK Smaller Companies – 9 September:

While the future is always, by its very nature, uncertain, visibility is particularly foggy at present. The outcome of the US presidential election in November will inevitably have far-reaching implications for geopolitics given the very different stances of the two candidates. Closer to home, the Brexit negotiations appear to be making slow progress and given the limited time to complete them, the possibility of a hard Brexit remains. These events are coming on the back of the COVID crisis, which caused much of the global economy to come to a sudden halt. The level and speed of the return of economic activity in many sectors is unpredictable given that the virus has not been overcome, there is no vaccine and there is a great deal of concern about the likelihood and impact of a second wave.

Against such a backdrop, it must be assumed that the UK's path to recovery will be patchy and may suffer setbacks before it is fully established. But, the COVID crisis has affected different sectors in different ways. Some areas of the economy effectively stopped and will remain fragile for some time, while others have been beneficiaries from the move to homeworking.

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North America

(compare North American funds **here**)

Manager's report for Middlefield Canadian Income – 18 September:

Global markets sold-off sharply in Q1 2020 as the COVID-19 pandemic began to spread throughout the world. Economic activity came to an abrupt halt as governments imposed measures aimed at reducing the rate of infection. In response to the pandemic, central banks and governments around the world were quick to act in lowering short-term borrowing rates and implementing unprecedented levels of fiscal stimulus. These efforts helped equities recover nearly all of their losses during the second quarter, with many stocks currently trading at or near all-time highs. Despite having been down almost 30% at its lows, the S&P TSX Composite returned -5.3% while the S&P 500 Index returned +3.6% during the first half of 2020 (in GBP).

The U.S. Federal Reserve has enacted a broad array of measures to stem the economic damage from the pandemic, including a $2.3trn lending program and reduction in the federal funds rate from 1.5% to 0%. U.S. monetary policy was matched by significant fiscal stimulus in the form of the USD$2.2trn Coronavirus Aid Relief and Economic Security Act with an expectation of additional stimulus from Congress before the end of September. In Canada, fiscal stimulus has exceeded CAD$900bn to provide economic support to both consumers and businesses impacted by the pandemic while the Bank of Canada has reduced the overnight rate from 1.75% in March to 0.25% currently. North American stock prices reacted favourably to the unprecedented stimulus measures and rebounded sharply at the end of March. The vast majority of Canadian and U.S. dividend payers maintained their payout levels as their share prices continued to clawback losses throughout Q2 2020.

The recovery in equities has been led by the Information Technology sector, best represented by the NASDAQ Composite which returned 20.5% in GBP for the six months ended 30 June, 2020. The pandemic has accelerated the trend of employees working from home, thereby driving demand for data-reliant services such as streaming, cloud storage and virtual communication.

Outlook

Looking ahead to the second half of 2020, we believe the long-term outlook for North American equities is positive. In the short term, however, there are various risks we are monitoring in addition to the ongoing effects of the pandemic. The U.S. election in November, a pending Brexit deadline and the deterioration of U.S.-China relations could all serve as catalysts for heightened equity market volatility in the latter half of the year. Notwithstanding, central bank policies are expected to remain accommodative and GDP growth is positive in most regions. Canada remains an attractive jurisdiction for investment and is emerging as a world-class incubator for innovation and technology.

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James Ferguson, chairman of North American Income – 18 September:

As many countries, including the US, began their phased-in re-openings of their economies during the second quarter, the market has been more optimistic that the economy can eventually move past the impact of the initial lockdowns. With the reporting of some of the larger retail companies a few weeks ago, the US corporate earnings season has all but come to a close. Generally, financial performance throughout the earnings season fared better than the market had initially feared and was helped by the government's stimulus package, which benefitted consumer health and provided a lifeline to many businesses.

Despite the recent performance, visibility regarding future earnings remain cloudy as a lack of systemic approach to containing the pandemic fuels concerns with regards to the likelihood of a second wave. In the US, unemployment benefits have begun to roll-off and an additional stimulus package is likely to be needed for many who have been unable to return to work. If future stimulus remains held up by political wrangling in Washington, there are greater concerns with regards to the health of the consumer in the near term, but we understand the incentive to continue some of these programs as we enter the November election season.

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Manager’s report for Baillie Gifford US Growth – 3 September:

Pandemics have been a regular occurrence throughout human history. However, no two viruses are the same and the economy is more interconnected than ever before. We ought to be humble when thinking through the long-term implications of such a complex situation. What we can say with conviction is that we will come through this and, when we do, the world will have changed.

The lockdowns have disrupted regular patterns of demand. Consumers have turned to online services for their shopping and entertainment needs. Workers have embraced digital collaboration tools, for example video-conferencing, to stay connected with colleagues. Patients have increasingly been meeting with their doctors via telemedicine services. On the other hand, demand for real world services, for example travel and entertainment, has been negatively impacted. Most of our holdings have been beneficiaries of these shifts, although some have been on the wrong side of them. It has been encouraging to see so many of them

supporting the economy, but the crucial question for us as long-term investors is whether the current period will lead to any enduring changes.

Prior to the pandemic, e-commerce comprised just 16% of retail sales in the US. Globally the figure is even lower. The low penetration is surprising given the advantages of e-commerce relative to bricks-and-mortar retail. Online offers access to lower prices and greater selection, and it is often more convenient. It is not better in every situation, but its advantages argue for greater adoption than what we see today. So why is it that, in the US (one of the most mature internet markets in the world), over 80% of shopping is still done offline? Habits and inertia are major factors. Consumers mainly shop offline because that is the way they have always shopped. Behaviours are slow to change. Hence why the rise of e-commerce has been slow and steady rather than explosive up until this point.

However, the lockdowns have forced consumers to change their habits and shift their purchases online. E-commerce penetration rose as much in the first half of 2020 as it did in the prior five years combined. Amazon had to hire an additional 175,000 workers just to keep up with demand. Wayfair's revenue growth rate accelerated from around 20% year-on-year in the first quarter to 90% year-on-year in April. Given the advantages of online shopping, some consumers may continue with it even as the offline world re-opens. The old habits have been broken. Rather than a demand spike, what we may be seeing right now is pull-forward of the future.

Habit-breaking forces are also underway in the world of work. Why is it that most workers still come together in the same place at the same time, five days per week? This structure made sense when jobs were primarily concerned with making physical things. However, in today's knowledge economy, there are many jobs which do not require colleagues to be together in space and time to collaborate. Remote working is not optimal in every circumstance, but the flexibility that it affords is better for some. Many companies have learned this first-hand as they have moved to home-working in response to the pandemic.

Outlook

The world remains under great stress, but innovation continues at pace which bodes well for the long term. Indeed, it was remarkable to see, in the midst of the pandemic, SpaceX successfully transporting crew from the Kennedy Space Center to the International Space Station. This was a first for a private company. As we have said before, innovation is speeding up and spreading out to sectors which have hitherto been untouched by the digital transformation. This is creating a rich pipeline of ideas across a broad range of business models and industries.

Europe

(compare European funds **here**)

Alexander Darwall, manager of European Opportunities – 23 September:

The economic backdrop has changed. The IMF's April 2020 forecasts underscore the view that Europe has been more badly damaged than other regions of the world. The IMF expects world GDP to contract by 3% in 2020; and it expects a 5.8% bounce in 2021. Their forecasts for the EU are a 7.1% contraction in 2020 and a 4.8% improvement in 2021. To judge from the IMF's forecasts, the big winners are China and other Asian economies. These, according to the IMF, will grow their economies by more than 1% this year and by more than Europe again next year.

We anticipate a severe squeeze on consumer spending in the West. In its place, government spending and intervention is increasing. The EU has agreed a stimulus package of €750bn. Individual states are also boosting their spending. Negative interest rates reflect both governments' need to finance huge spending programmes and the difficulties of the private sector. The ECB's main refinancing rate remains 0% as it has been for the last four years; and 3-month Euribor was -0.31% at the end of May 2020, almost the same figure as a year earlier. There is an expectation that European corporate earnings will collapse this year; most analysts' forecasts are in a range of -20% to -30%. There is greater uncertainty about the earnings recovery in 2021, which is currently forecast to be in the range of 10%-25%. Any recovery is challenged by the duration and intensity of the COVID-19 crisis. There are many industries where pricing discipline is holding well. However, this discipline will be tested without a marked economic recovery. We seek to identify businesses where pricing power is more assured.

In many respects we are entering a new era. COVID-19 increases costs for businesses and consumers; debt levels are very high; interest rates are likely to remain low in the near term; the public sector is expanding; and protectionist instincts are intensifying.

Asia Pacific

(compare Asia Pacific funds **here**)

Manager's report for Pacific Horizon – 29 September:

Who would have predicted twelve months ago that a viral pandemic would lead to such massive fear and probably the greatest quarterly collapse in US GDP in history? The old order, including both public and private institutions in the West, was tested and found wanting, socially, politically, morally and economically. In contrast, the Asian model, so far, has held up relatively well. China, the epicentre of the viral outbreak, is still on pace to become a superpower by 2030. In the 'old economy', especially financial companies, we saw a collapse in share prices and corporate earnings. In the 'new economy' throughout the world, transformational technology helped ease the passing of the old 'normality'.

With the accelerated growth of the online economy (ecommerce, cloud and gaming) catalysed by COVID-19, the outline of the new order became clearer. In contrast, the consequences of monetary and fiscal reactions to the worldwide lockdowns, plus the political and social upheavals these will bring, have only just begun to filter through to asset prices.

The global bond market is implying, via negative interest rates, asset destruction on an unimaginable level (the assumption is that money today is worth less than money in 10 years' time). To look back invites oblivion, to stand still is death. Surely embracing the new and going for growth is the only way out? Well, possibly.

The economic chaos and destruction caused by COVID-19 has ended a long positive economic cycle. Since the start of the pandemic, many businesses, previously kept alive by freely available cheap money, have failed. The pandemic has done what central banks have been afraid to do: create a Schumpeterian capital cycle where the role of the entrepreneur and innovation is paramount at the expense of entrenched, stale incumbents. This economic collapse has freed capital to work better for humanity. That is the good news. The possible bad news would be

governments not allowing the market to allocate this capital effectively, intervening instead.

For equity investors the main point is that the East looks better on most metrics than the West (given government debt levels, the price of money, regulation, etc), supported by some of the strongest growth drivers globally. These range from the continued rise of the Asian middle class and consumer, to Asia's central role in supply chains, world trade and globalisation. Clearly the latter has recently come under pressure, especially with deteriorating US - China relations; however, it is also providing great opportunities for parts of Asia. Vietnam is one of the biggest winners of these trade disputes as it increasingly becomes one of the world's most important manufacturing centres, capturing much of the manufacturing capacity leaving China.

The start of a new cycle is almost always very positive for business owners. In fact, we would argue that this is possibly one of the best times to be a business owner in Asia: demand for products and services may have collapsed, but many competitors are insolvent, corporate profits are at a very low percentage of GDP, costs can be cut and when growth returns, operating leverage will be significant. We believe that the USD will probably be weak by historical standards, and capital will flow to Asia. Business profits have already bottomed and will rise rapidly from here. Old entrenched businesses may reinvent themselves and embrace the new and begin afresh.

The real excitement lies in ecommerce. The ASEAN online markets have less than half the penetration of their Chinese counterpart and are showing much faster growth. We see gross merchandise value potentially soaring from US$32bn in 2020 towards US$200bn by 2025 and SEA Limited emerging as the leading ecommerce platform in the region.

There is significant potential for positive returns from the Asia Pacific region in coming years. We believe that China especially, but the whole of Asia more generally, will emerge from the COVID-19 situation stronger and with better business models than most of the West. We see a high likelihood of a China-led economic expansion and believe this is a good time to be a long-term investor in Asian equities.

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Susan Platts-Martin, chair of Witan Pacific – 15 September:

This was an extremely volatile period. The optimism of the US/China trade deal at the end of last year was immediately replaced by COVID-19 concerns as the virus spread across the world causing a global pandemic and several hundred thousand fatalities. However the sharp sell-off (the company's benchmark fell 21% from the peak in late January) was less than most western markets suffered - helped by the resilience shown by major markets such as Japan, China, Hong Kong and Taiwan which reacted with swift policy responses, and containment measures once the severity of the virus was recognised. There was a large divergence in the performance of the various countries in the region with China and Taiwan returning 20% and Indonesia down 18%.

Cyclically exposed markets, and those seen at higher COVID-19 risk suffered large drawdowns (India -30%, Indonesia -40%, Australia -35%) at the lows. The markets rallied strongly from the low point but are still down -7%, -18% and -7% respectively over the period. Japan has lagged the bounce but is flat over the period having fared relatively well at the start.

Outlook

The threat from the virus is ongoing as a second wave of outbreaks appears likely while many populous countries, including USA, Brazil, India, Russia and South Africa, have still not contained the first wave. Hope lies with greater preparedness, improved understanding and treatment and the accelerated pace of vaccine trials - which will be pivotal in delivering a lasting improvement in sentiment. According to the World Bank forecasts, the global economy will shrink this year as a result of COVID-19 and we may experience the deepest recession since the second world war. China may be one of the few countries to grow its economy this year.

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Robin Parbrook and Lee King Fuei, managers of Schroder Asian Total Return – 11 September:

With COVID-related demand destruction still very prevalent, given the rapid spread of COVID-19 in many emerging countries and the risks of secondary spikes in developed countries, profits in many sectors in Asia will continue to face significant near-term headwinds. Nevertheless, the recent sharp recovery in markets shows that many investors are instead placing a great deal of hope on a 2021 recovery, along with the reassurance that central bankers and politicians will do "whatever it takes" to backstop the economy and markets. Or perhaps many investors now correctly recognise that if doing whatever it takes means money printing, then equities may be preferable to cash…

The recent optimism has led to some outsized gains within selected parts of the markets. In particular Chinese A-shares have been looking increasingly frothy since May, and this froth has now spilled over into the broader China markets and now appears to be spreading to parts of the Taiwanese and Korean equity markets.

The driver of the recent moves in the Chinese and North Asian markets has principally been domestic retail investors.

For those who can recall 1999/2000, the current environment will bring back memories of the TMT bubble. And of course, true to form, the ever-creative sell side are creating new valuation measures and challenging each other to come up with sillier price targets for many stocks in these sectors.

The bubble-like conditions in these sectors are quite big for some individual stocks. Biotech stocks are probably the silliest. There are plenty of examples, but a couple stood out for us. One has quadrupled its market cap since its IPO in mid-June; it has no revenues and just a pipeline of which only one or two drugs look potentially material as of today.

Another biotech firm's share price has risen over 20 times this year. We've struggled to find much information about its business, but this firm with a market cap of $6bn appears to have 60 employees and no revenues.

How dangerous is this bubble?

Up until early July, the excesses were mostly concentrated in second tier companies, so we were reasonably relaxed that the downside risk overall was not huge. However, we are getting increasingly concerned about the internet sector, particularly in China. China is c.40-50% of most of the standard benchmarks used by Asian funds and internet stocks on their own are around 40-45% of the MSCI China index. So, a bubble spreading to this sector does create risks of significant market falls.

Initially, with Chinese tech giants Alibaba and Tencent not participating in the froth, we felt relaxed that overall market risks was not serious, but these two have now joined the party. In the first week of July Alibaba's market value rose by US$120bn, approximately the combined value of HSBC Bank and Jardine Matheson.

So, alarm bells are ringing. At least for Alibaba and Tencent, the network effects and investment strategies of these companies may justify some of the strength in their share prices. For many other internet names, though, a clear speculative fervour has taken hold. We question whether network effects that you get in e--commerce, online media etc. are anywhere near as strong in bike-sharing, taxis, food delivery, hotel booking, group buying and so on. Certainly, in the US it is very much the case that "not all internet stocks are created equal". Will China be so different?

Many other sectors are moribund. ASEAN markets are struggling, Australia is doing nothing; property, banks, cyclicals, industrials, oil & gas remain very out of favour. This again is similar to the bubble at the turn of the century. The retail investor only wants to chase hot themes and stories.

So how worried should we be and how long might these conditions last?

As highlighted above, with the froth spreading to wider areas of internet and technology, we are now concerned about risks to the downside. Our feeling, purely based on past experience of retail bubbles in Asia, is this will get bigger before it bursts. We would expect, however, the bubbly conditions to remain pretty confined to the BEVI sectors.

For those willing to look away from the herd, opportunities in Asia are to be had, such as in great bank franchises or quality resource stocks offering a 7% dividend yield… but that is so passé of course…

Latin America

(compare Latin American funds **here**)

Ed Kuczma and Sam Vecht, managers of Blackrock Latin American – 10 September:

Performance in the Latin American markets was volatile through the first half of 2020. Equity markets started the year strongly, confirming the nascent recovery in global growth, but subsequently faltered as fears around the COVID-19 pandemic escalated. During the first quarter of 2020 equity markets sold-off aggressively on the back of concerns over the impact of COVID-19 and a substantial drop in oil prices on the global economy. Metals and commodities prices were hit hard as markets priced in expectations of significantly lower global growth. Later in the period Latin American equities rallied from sold off levels driven by a global rebound and a slight increase in mobility trends after distancing measures started to be lifted; optimism that COVID-19 cases had peaked and that from here economies would gradually reopen and economic activity normalise helped equity prices to partially recover.

The MSCI EM Latin America Index (Net return) benchmark ended the period down by 35.2% (in US Dollar terms with dividends reinvested), underperforming emerging and developed markets. Weak commodity prices put pressure on local currencies in the Latin American region and exacerbated market falls. All countries in the region

posted negative returns during the six months under review. Argentina was a relative winner during this period, outperforming in the region although markets still ended the period down by 12.8%. Markets in Colombia and Brazil were worst hit by heightened COVID-19 concerns and severe declines in oil prices following Saudi Arabia's price war with Russia in March.

Outlook

Latin American economies bottomed through April and May amid social mobility restrictions imposed as a result of COVID-19. More recently governments have begun to gradually open their respective economies, albeit at different rates and with the pandemic only now showing signs of stabilizing in terms of new cases and deaths. Looking ahead to the second half of the year, official second quarter GDP figures and monthly economic data indicates that of countries in the region, Brazil has experienced the lowest level of economic slowdown, with Peru at the other end of the scale.

Brazil

The Brazilian government's aggressive fiscal programs, including the 'corona voucher' transfer to low income families, meant that not only was Brazil the best performing economy in the second quarter, but that it suffered the shallowest drop in output during the pandemic apart from Chile. Retail sales in Brazil through June 2020 were back to their average pre-crisis levels, whereas other countries were at least 15% below that level. Although Brazil's aggressive fiscal programs have supported growth, there are costs associated with this stimulus. While government support for low-income families has been economically and politically successful, it will also push the primary budget deficit to approximately 15% of GDP this year and gross debt close to 100% of GDP. With the need to reduce spending, the government is debating a redesign of its fiscal and social policies for next year, which may help diminish the government deficit to close to 5% in 2021, partially curbing a quickly deteriorating public debt trajectory. While there are risks to the medium-term fiscal outlook, an excessively fast decrease in fiscal support could also threaten the recovery next year. The economy's ability to balance between fiscal sustainability and a fiscal cliff of rapid spending contraction will be an ongoing challenge for the country. Given the recent strength in consumption-related numbers and business leading indicators, 2020 growth forecasts have been revised upwards by economists and a robust recovery is expected for 2021; we see some upward risk to that forecast.

Mexico

Mexico has taken a much more conservative fiscal stance than Brazil and has refrained from providing households and firms with substantial levels of COVID-19 specific support. It is not clear that such fiscal austerity in the face of the worst economic slowdown on record will pay off. Mexico was late to see an improvement in manufacturing having kept factories closed through May and has witnessed a sharp loss of employment (seven million jobs through June 2020), particularly in micro-businesses. These are jobs that may not come back quickly if firms are forced out of business, lowering Mexico's ability to generate growth going forward. Even in the absence of aggressive fiscal stimulus, Mexico faces major fiscal challenges. By the government's own admission, its stabilization funds will be mostly used up this year, while Pemex continues to deteriorate both financially as well as operationally. Moreover, private investment remains side-lined partly on account of uncertainty over the direction of government economic policy. In this context, it is difficult to see what the catalyst for growth in Mexico might be, likely resulting in a slower post-COVID-19 recovery than its peers.

Chile

The three major Andean countries (Chile, Colombia and Peru) have found themselves trying to cope with the COVID-19 health emergency while at the same time addressing long-dated domestic issues that may hinder the pace of recovery. In Chile, while activity numbers have shown a modest but sustained improvement since June, the tight political schedule of coming months may weigh on investment decisions in the next months.

Peru

Peru remains the worst performing economy as the Latin American region emerges from the COVID-19 pandemic, having imposed the strictest shutdown in the region, although its recovery is also the sharpest now that it has started to reopen. Economic recovery is reliant on the speed of reactivation in key sectors such as construction and mining. However political discord over strategies to deal with the economic emergency is feeding a climate of political uncertainty as the country moves towards general elections in April 2021.

Colombia

Along with its Andean peers, Colombia appears to be over the worst part of the COVID-19 shock on the economy, although the country has less fiscal room for manoeuvre than Chile and Peru. With public debt rising above 65% of GDP in 2020 the Colombian economy faces an uncertain future.

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Global emerging markets

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

Manager's report for Africa Opportunity – 28 September:

The COVID-19 pandemic and the global outbreak of national lockdowns account for the sharp market declines of H1 and the depreciation of many African currencies. The Zambian kwacha depreciated by 23% against the US dollar, the Botswana pula by 10%, and the Kenyan shilling by 5% to cite a few examples.

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Manager's report for Gulf Investment – 28 September:

2020 saw GCC countries implement widespread policy measures in a bid to limit the spread of coronavirus infection and also support their economies. These measures include large public events cancellations, air travel bans, and schools and government office shutdowns. Large economic stimulus packages have been announced, with a major focus on health spending, social assistance, and private sector (SME) support. Central banks have cut rates in line with emergency cuts by the US Fed. With proactive management of the epidemic, the GCC countries have begun reopening the economy in a phased manner.

GCC Reopening plans:

Saudi Arabia executed a 3-phase reopening plan starting in late May 2020, of which the third and last phase started on June 2021, where all curfew restrictions were lifted and the situation was allowed to return to normal. Domestic travel started to return to normal, while bans on international travel and religious pilgrimages were

maintained. On 23 July 2020, the authorities announced the opening of land borders with Kuwait, Bahrain and the UAE.

The UAE began gradual reopening of shopping centres and other businesses from the end of April. Several airlines have resumed a limited number of regular passenger flights. Public sector employees returned to work with full capacity from mid-May 2020. Dubai reopened to international tourists from 7 July 2020. Restaurants, coffee shops, cafes and other licensed food outlets in Abu Dhabi are now allowed to operate at 80% capacity.

Qatar charted a plan to reopen the economy in mid-June, where some mosques, stores in malls and selected parks were allowed to open. Further restrictions were lifted in July 2020. Phase 3 of reopening was started on 1 August 2020, permitting flights from low-risk countries as well as the full-reopening of shopping malls. Economic activity is expected to back to normal in phase 4 starting on 1 September 2020.

Kuwait started reopening on 31 May 2020 with a reduction in the curfew to 12 hours. In later phases, it plans to allow gradual opening of public and private sector offices, and then opening of hotels and resorts.

Oman ended the lockdown in Muscat in May 2020 with activity resuming from the start of June 2020. Private sector employees are allowed to return to their offices and government agencies begun their regular operations. In June, the government further opened up commercial and industrial activities.

Bahrain authorities have permitted reopening of retail stores with some strict operational conditions.

OPEC+ and rebalancing the oil market

In April, the OPEC+ countries agreed to a new and much more extensive round of cuts, in an effort to rebalance the market. This has resulted in a supply cut of 9.7m bpd in May and June 2020. Given these cuts aren't enough to compensate for the short-term demand shock from lockdowns, Saudi Arabia has voluntarily reduced its production by a further 1m bpd for June. Next phase of OPEC+ deal is expected to see cuts in production narrowing to 7.7m bpd starting August 1, from the current level of 9.7m bpd agreed in April. Consensus now expects oil prices to average above US$40 for 2H2020 and average around US$50 for 2021.

Growth is expected from 2021

Against the backdrop of an uncertain global environment, we believe that the regional economies will begin to recover, with focus on fiscal and monetary measures. Stabilization of the oil market post the OPEC+ deal should provide some support, and large capital reserves will help in maintaining key public spending. The IMF expects the region to grow at 2.1% in the year 2021 after contracting by 7.1% in the year 2020.

GCC countries to curb spending and seek additional revenue

Saudi Arabia announced ~US$26bn spending cuts on major projects while announcing new fiscal measures to raise more non-oil revenues and rationalize spending. These will mean cuts and delays in capital spending, removal of cost-of-living allowances for public sector workers and VAT hikes from 5% to 15%.

Qatar plans to postpone US$8.2bn worth of yet to be awarded contracts on capital expenditure projects. Kuwait government also agreed to cut the government budget for 2020-2021 by at least 20%.

Dubai has been hit hard by the outbreak as economic activity in vital sectors such as tourism and transport came to a standstill. Government has asked all agencies to postpone all un-awarded construction projects until further notice and not to allow any cost increases for ongoing construction projects

Oman announced reduced spending in the 2020 budget by 10%. Bahrain announced that it would cut current spending excluding wages and transfers by around 30%.

Announced measures could help offset losses arising from reduced oil exports but the aggregate GCC deficit is still expected to deteriorate from 2.1 % of GDP in 2019 to 10.5% of GDP in 2020.

GCC countries financial reserves

GCC countries have built up financial reserves in past decades and now collectively have assets worth over US$3.0trn, which is over 200% of their combined GDP. This gives further financial flexibility, if needed.

Countries with fiscal buffers (Kuwait, Qatar, Saudi Arabia, UAE) are better placed to accommodate rising deficits than those with limited space (Bahrain and Oman).

Regional governments are working hard to soften the blow through fiscal measures and central bank liquidity support. These efforts will be further supported by low debt to GDP ratio and high credit ratings.

This can be witness by successful return of Qatar, Saudi Arabia and the UAE to global capital markets in April, issuing a combined US$24bn, and recent gains in most GCC equity indices.

The GCC banking system remains solid, with strong liquidity and capitalization, and relatively low non-performing loans. Support measures introduced by GCC authorities to back banking system amount to 10.7% of GDP, or ~US$147bn.

Industry Consolidation and Diversification

The pandemic has had the effect of hastening consolidation in some sectors with companies seeking to form stronger entities in order to gain market share and improve operational efficiency. Going forward, we believe consolidation is going to accelerate in multiple sectors in order to increase profitability.

We believe that although there are challenges, the worst phase of the crisis is now over and this should present GCC economies an opportunity to accelerate the process of diversification away from oil. Rapid, inclusive and well sequenced policies will help GCC economies emerge stronger and more prosperous.

Risk of second wave and new lockdowns

Fear of a second wave of infection is rising in some countries which are executing reopening plans, such as in some parts of China, India, Europe and the US. Rising infections may trigger new lockdowns and pose a risk to the path of recovery.

Other developments:

GCC IPO market

The GCC is expected to see a modest recovery in initial public offerings (IPOs) in the second half of 2020. There were just two in H1. Saudi Arabia and the UAE are expected to lead IPO activity with eight IPOs to be launched by these countries in 2020 or early 2021.

GCC Banking consolidation

The NCB-Samba merger may herald a new wave of bank consolidation as banks seek to improve competitiveness, reduce operating costs and boost capital amid slowing economic growth. The merger will create a national champion with assets of US$147bn that will be better able to fund Saudi Arabia's massive infrastructure projects. In Qatar Masraf Al Rayan bank and Al Khaleej bank agreed to initiate talks on a possible merger. If agreed, the merger will create the third largest bank in Qatar with an asset base of US$45bn.

Debt ratings

Moody's has cut Saudi's outlook to "negative" from "stable" while affirming the sovereign credit rating at "A1". Higher fiscal risks due to lower oil prices, and uncertainty about the government's ability to offset the oil revenue losses and stabilize its debt in the medium term has led to the negative outlook.

Fitch has downgraded Bahrain's credit rating to "B+" from "BB-" with a "Stable" outlook. The downgrade reflects the combined impact of coronavirus pandemic and lower oil prices on the economy, which is expected to cause noticeable rises in the budget deficit and government debt and will pressure already low FX reserves, triggering sharp GDP contraction.

S&P Global has downgraded Kuwait's long-term sovereign credit ratings to "AA-" from "AA" with a "stable" outlook as low oil prices are expected to have negative economic and fiscal implications given its high reliance on hydrocarbons. Moreover, Kuwait is also lagging in reform momentum when compared to its regional peers. Moody's credit rating for Kuwait maintained at "Aa2" with "under review" outlook. Additionally, Fitch's credit rating for Kuwait was maintained at "AA" with "stable" outlook.

Moody's downgraded Oman's credit rating second time this year to Ba3 and changed its outlook to "negative" citing its low fiscal strength will likely place pressure on its finances. Moody's rating for Oman is now on par with S&P Global Ratings of "BB-" and one level below that of Fitch Ratings of "BB". Both S&P Global Ratings and Fitch Ratings have also downgraded countries rating with "negative" outlook.

UAE to develop new gas field

ADNOC and the Dubai Supply Authority signed an agreement to develop a newly discovered 80trn cubic feet gas reservoir in the Jebel Ali area. As UAE is dependent on imported natural gas, successful development could make the Emirates self-sufficient.

GCC Outlook:

As COVID-19 cases are declining in GCC, we believe that economic recovery is now gaining a foothold and will extend into the second half of 2020. Proactive measures taken by the GCC governments to address the pandemic and its economic impact seems to be bearing fruit and all the Gulf states have begun reopening their economy in a phased manner.

We expect GCC economies will begin to recover despite an uncertain global environment, with focus on fiscal and monetary measures. Stabilization of the oil market post the OPEC+ deal should provide some support, and large capital reserves will help in maintaining key public spending. The IMF expects the region to grow by 2.1% in 2021 after contracting by 7.1% in 2020.

The dual shocks of pandemic and lower oil prices have underscored the need for the GCC to accelerate efforts to develop industries that are resilient to energy prices, have high growth potential, foster innovation and therefore guarantee economic diversification. Additionally, the pandemic has thrown open opportunities for many sectors looking for consolidation to form stronger entities in order to gain market share and improve operational efficiency. Going forward, we believe consolidation is going to accelerate in multiple sectors in order to increase profitability.

We continue to remain positive on growth in the region over the long term, led by the planned infrastructure projects and the momentum of reforms across nations. All the GCC nations are executing multiyear infrastructure plans under their respective National Vision programs.

Given the history and strength of GCC states to weather economic storms, current valuation levels offer a good entry point for investors looking for long term exposure to the regional markets. GCC markets are currently trading at attractive valuations compared to their historical average and offer healthy dividend yields.

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Japan

(compare Japan funds **here**)

Manager's report for Baillie Gifford Shin Nippon – 24 September:

Although the pandemic has caused wide-spread disruption to businesses and societies globally, it is also serving to accelerate much needed and long overdue changes in the way businesses operate. This is true perhaps more so in Japan than anywhere else given its corporate culture that is steeped in outdated business practices. Japanese companies are waking up to the fact that they will have to reform or perish as their existing business models are unlikely to be fit for purpose in the long run. This is creating numerous growth opportunities for smaller businesses in Japan that are seeking to solve precisely the kind of structural issues facing traditional Japanese companies.

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Joe Bauernfreund, manager of AVI Japan Opportunity – 15 September:

Many businesses have reported resilient earnings this year, and while some have been impacted more severely, all the portfolio companies continue to generate free cash flow and accumulate more cash on their balance sheets. Whilst payout levels are low by international standards, dividend yields in Japan are nevertheless attractive. Thus from an operational perspective, the fundamentals of portfolio companies remain positive; balance sheets are laden with cash that continues to accumulate to ever-higher levels; and from a corporate governance perspective, management teams have indicated a willingness to continue with share buybacks they have initiated in recent years.

During the past year, Japan announced reforms to regulations regarding foreign ownership - FEFTA. Questions have been raised regarding Japan's commitment to corporate governance reform which puts into question the second aspect of our investment strategy: shareholder engagement. The headlines following a leak from the Ministry of Finance suggested that this marked the end of the recent improving trends in corporate governance and that Japan was reverting to its old ways.

Encouragingly however, the final draft of the regulations confirmed that the intention behind them was not to scupper foreign activists, and that foreign regulated asset managers (such as AVI) would be able to continue their shareholder engagement activities in Japan undeterred.

As for the suggestion that Japanese companies' predilection for hoarding cash for a rainy day has been vindicated, and that this therefore spells the end of activism in Japan, we believe they are misguided. Most certainly, the Japanese corporate model of having strong balance sheets as opposed to the highly leveraged ones found elsewhere in the world, has been extremely helpful during the COVID-19 crisis of this year. And indeed, perhaps a re-evaluation of capital management is required. But there is a happy medium somewhere between the excessive leveraged buybacks often seen in the US and the ultra-conservatism of many Japanese companies, and this does not suggest the end of shareholder engagement. The process of shareholder engagement in Japan is evolving. It is becoming more focused on long-term measures to create shareholder value, rather than on the one-off measures such as the return of cash. Our engagement with Fujitec highlights this. Rather than simply focus on the excess cash on balance sheet (although this is an important issue), we published a wide-ranging analysis of various governance, operational and strategic shortcomings at the company. These will take time to resolve and will require a partnership between management and shareholders. Encouragingly, we are seeing more examples of this approach in Japan and this is likely to continue despite COVID-19, rather than cease.

Japan has had a more benign COVID-19 experience than most other countries. There has been much discussion about what has driven this, but the fact remains that Japan appears to be embarking on a strong recovery from the impact of lockdown. Its stock market remains cheap compared to international peers, and there are pockets of genuinely anomalous valuations. With continued incremental evidence of change in capital management and corporate governance improvements, Japan should be an attractive destination for global investors. Nevertheless, foreigners continue to be net sellers, and this continues to have a dampening effect on the broader market.

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India

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

Manager's report for India Capital Growth – 30 September:

At the time of writing India has reported close to 5.6m infected individuals and is closing in on the United States as the country with the highest reported number of cases. The numbers are huge, and the country as a whole is not yet seeing a flattening of the curve, but as a percentage of the total population it is low by comparison to many others. In addition, although the pandemic has spread across a wider part of the population, just five States make up the bulk of reported cases; the main cities of Mumbai and New Delhi are coming under control as these local curves start to flatten out. India's recovery rate is rising, and its fatality rate remains low (at 2%) by global averages. It would seem that some combination of a young and resilient population and a warmer climate are ensuring, for the time being at least, that India is managing better than many had predicted.

In spite of the uncertainty that permeates, there are many reasons to be optimistic. The government has maintained fiscal integrity in its handling of this crisis. Although

the fiscal response headlined at over 10% of GDP, the incremental costs to the Exchequer were closer to 1% for this year, focusing on small business, agriculture and the poor. The fiscal deficit will expand substantially even so, as tax receipts collapse, but spending is constrained and overall government debt levels are manageable (particularly by developed market standards), and predominantly locally financed. The current account deficit has shrunk as the value of imports, helped by lower international oil prices, have fallen more than exports and there is evidence of a pickup in import substitution, particularly in electrical equipment, which suggests a structural lowering of imported components for the long term.

Currency reserves now exceed US$500bn and continue to reach new highs, protecting the economy from external shocks and supporting the value of the Rupee. This has been a standout performer over the period, rallying 1.5% against the Pound Sterling (though 6.5% weaker versus the US Dollar), which is a big step change from previous crises when the currency collapsed and is today the case with other developing peers. Foreign Direct Investment levels remain very healthy, buoyed by India's largest company by market capitalisation (Reliance Industries), raising US$20bn from foreign investors in the midst of the crisis. Facebook, Google, Qualcomm and Microsoft all invested, demonstrating that India's digital consumer remains uppermost in the strategic thinking of the only industry that seems to matter. Indeed, as has been witnessed in major economies globally during the crisis, the acceleration of the digitisation of the economy, as consumers spend more time and resources online, is playing out in India as rapidly as anywhere. Here, however, the potential for sustained growth is far more exciting since smartphone penetration is low by global standards, whilst data consumption per capita is high, and incomes are forecast to rise for a generation.

Another important shift in global activity which is already benefitting India is a shift in global supply chain dependence away from China. Trade wars and COVID-19 aside, India's labour cost is now one-third of China's, and we are already witnessing global corporates using India as an alternative hub, albeit in niche sectors today. India-based manufacturers of active pharmaceutical ingredients and speciality chemicals, in particular, are seeing gains in market share, as are electrical equipment makers (TVs, washing machines, mobile phones etc) now that the government is incentivising local producers. There are multiple opportunities here and the inflection point may turn out to take several years to play out, but if the government can do its bit, there is much to play for here.

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Manager's report for Ashoka India Equity – 28 September:

The past six months have witnessed one of the most volatile markets in at least a decade. A precipitous decline in March was followed by a sharp recovery during the second quarter not only in India but globally.

India underwent one of the most stringent nationwide lockdowns in the months of March and April. During May these restrictions were gradually relaxed due to the severe impact on India's economy. Subsequently, June saw further major relaxations of restrictions. A gradual normalisation of economic activity is currently underway in most of the country. At the same time, we now live with the sobering reality that the number of infections is steadily rising, with India having the second-largest case count following the US. As is the case globally, the government and policymakers continue to face a difficult choice between lives and livelihoods.

Over the last three months, the COVID-19 pandemic has morphed from being an unknown unknown to a known unknown; from being an unknowable risk factor that

took the world by surprise to one that we are now aware of but don't fully understand yet. With each passing day the world is learning more about the virus. COVID-19 has proven to be far more contagious than initially thought, affecting an ever-increasing number of people across hemispheres. However, mortality rates seem to be lower than previously feared, partly aided by an increased understanding of the disease and of the several ways to mitigate its impact on those affected.

By now it is generally agreed that the actual case count of infections might be far higher than the reported numbers in most countries. We believe India is no exception. There are a set of numbers and projections based on reported case counts, hospitalisations, recoveries, mortality, and their past and projected growth rates. On the other hand, there is a certain absolute reality of all these parameters and their trends that could be widely different from the reported numbers.

The uncertainty is still too high to have any reasonable degree of confidence on how things are likely to evolve over the next 12-18 months. In our loosely defined base case scenario, we believe either herd immunity will be achieved in India in the next 6-12 months or a vaccine would become widely available and administered in the latter part of next year. We do not expect a re-imposition of any large-scale lockdowns as these failed to effectively contain the spread even as they aggravated economic hardships.

Under such base case scenarios, it is possible that the Indian economy contracts mid-single digits and corporate earnings may further decline during the current year, broadly in line with consensus.

The Indian government announced several rounds of economic stimulus amounting to circa 2% of GDP, primarily aimed at providing income support to vulnerable segments of the population and addressing survival needs of small businesses. The Central Bank simultaneously stepped in with large liquidity infusions and multiple interest rate cuts. India's benchmark policy rate stands at 4.0%, down 115 bps since the outbreak of COVID-19.

In addition, the government announced several initiatives to garner a greater share of global manufacturing as corporates around the world look to diversify their supply chain beyond China. This can further accelerate the growth trends in manufacturing industries such as consumer durables, electronics, and speciality chemicals amongst others.

Unlike most other emerging markets, India benefits from the fall in oil prices, given that it imports over 80% of its requirements. At current levels, with Brent crude prices of around $40/bbl, India is expected to save approximately US$30bn annually, and consequently, the Current Account Deficit (CAD) is expected to turn positive. The fiscal deficit is expected to inch up to 7.1% in 2021 from 4.5% in 2020, largely on account of revenue shortfalls and a smaller denominator effect due to GDP contraction. However, a low external debt to GDP and over $500bn of forex reserves are supportive of a stable macroeconomic environment.

Despite the uncertainty, several companies were able to raise large sums of capital from the equity markets. Collectively, Reliance ($22bn), HUL ($3.4bn), Kotak Bank ($2bn) and Bharti Airtel ($1bn) have seen over $25bn of transactions.

Another development was Moody's downgrade of India's sovereign rating by a notch to Baa3, bringing it at par with S&P and Fitch which are both rated BBB-. Empirical evidence suggests no observed historical correlation between a country's sovereign rating downgrade and subsequent equity market returns or investment flows.

In geopolitical developments, tensions escalated between Indian and Chinese troops along the northern border with several casualties on both sides even without any shots being fired. As we write this, the situation appears to be de-escalating after several rounds of high-level talks on a roadmap to disengagement.

In continuation of its reform agenda over the years, the government has announced some major agricultural and labour reforms. The agricultural reforms entail substantial deregulation of production, supply, distribution, and prices for agricultural commodities, in essence liberalising India's agricultural markets that have long been shackled by regulations that hitherto remained untouched due to political sensitivity. If implemented as announced, this reform will go a long way in transforming India's agricultural economy.

South Korea

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

Manager's report for Weiss Korea Opportunity – 4 September:

Despite South Korea recording one of the highest numbers of cumulative COVID-19 cases in early March, the South Korean government's containment policies, based on a test, trace and isolate strategy, appear to have been relatively effective at abating the spread of the virus.11 government tactics have included establishing testing facilities at gas stations across the country and forming teams of contact tracers who are empowered to access credit card and mobile phone records for confirmed cases-typically within minutes. Perhaps due to these government policies and compliance by the South Korean population, South Korea has so far avoided the worst consequences of the pandemic without incurring the massive budget deficits we've seen in the U.S. and Western Europe.

GDP in South Korea for the second quarter showed a year-on-year fall of 3 per cent compared with falls of 9.5 per cent in the U.S., 15 per cent in the Euro area and 21.7 per cent in the U.K.12. As of August 24, South Korea had one of the lowest per capita death tolls due to COVID-19 at 6.03 per million population. By comparison, the COVID-19 death toll in Japan was 9.33, 19.69 in Australia, 110.67 in Germany, 198.62 in Switzerland, 534.15 in the USA, and 610.27 in the U.K. As of the same date, South Korea reported a seven-day rolling average of 0.01 deaths per million people. This compares with a seven-day rolling average for the U.S. of 2.91 and 0.13 for the United Kingdom. These results for South Korea are particularly impressive given the age of its population—South Korea's median age is 43.7, which compares with a median age in the USA of 38.3 and a median age in the U.K. of 40.5.

Macroeconomists have proposed several models to estimate the speed of eventual economic recovery and the forms that equity market rebounds might take in a post COVID-19 world. The broader Korean index experienced a "V"-shaped rebound during the second quarter of 2020, with the closing price of the KOSPI 200 index on June 30 a mere 3.5 per cent lower than the closing price on January 2 of this year. To illustrate the velocity of the market drawdown and recovery, the peak-to-trough change for the first half of 2020 for the KOSPI 200 was 35 per cent, and that drawdown had been almost fully recovered by June 30. As of August 24, the KOSPI was up 6.0 per cent for the year. This has been one of the strongest performing markets so far in 2020.

The Korean economy, however, still faces significant uncertainty due to the likely lasting impacts of the pandemic on global aggregate demand and aggregate supply. Weak global demand from Korea's main trading partners resulted in total exports falling by approximately 11 per cent year-on-year to end June.13 A recovery in exports to China and resilience in the semiconductor sector helped avoid a steeper decline. Ultimately, the success of South Korea's containment of COVID-19 and the strength of demand from its largest trading partners, China and the US, will likely determine the speed of economic recovery.

In the meantime, the South Korean government has aggressively expanded its stimulus spending by implementing broad measures including emergency cash handouts to all South Korean households and longer-term investments like the "Korean Green New Deal."

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Vietnam

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

Vu Huu Dien, manager of Vietnam Enterprise – 4 September:

The playbook for investing in both global and Vietnam equities this year has been anything but conventional. The ever-shifting markets and sentiment make it a challenging landscape for investors to predict what the next six months of the year will look like. That said, early containment of the outbreak in Vietnam has enabled it to get ahead of its regional peer group, bolstering confidence in its ability to counter the risk of a second wave of COVID-19. With this backdrop, Vietnam's investment case and the macro drivers have positioned the country well relative to its peers. Both inflation and foreign exchange rate are stable, key components of future growth. Balance of payments is in surplus, as exports continue their resilience having dropped just 1.1% in 1H20. Further to this, GDP is expected to deliver low single digit growth this year, with the hope that the recovery in manufacturing and consumption which we saw in late 2Q20, will continue well into 2H20 and beyond.

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Debt

(compare debt funds **here**)

Manager's report for M&G Credit Income – 29 September:

There remain many risks on the horizon as we enter the second half of the year, most notably the upsurge of the pandemic in some countries alongside heightened geopolitical risks (particularly surrounding US-China-Hong Kong relations, and Brexit). After such a strong recovery in risk assets during the second quarter, the market seems largely to have ignored these risks. We have become cautious about how much further credit spreads will be able to tighten in public markets and so continue to adopt a measured approach by adding risk only where we are sufficiently compensated for doing so. Our focus as we enter the second half of the year is on opportunities in the private markets where we are seeing higher yielding opportunities benefiting from robust balance sheets and/or strong security enhancements.

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Manager's report for CVC Credit Partners European Opportunities GBP – 28 September:

Since the start of the COVID-19 pandemic, governments and central banks in Europe and the United States have engaged in a concerted series of policy steps which have sought to provide financial support to business. These steps have included further monetary policy loosening, provision of capital markets liquidity and direct and indirect support for business through subsidised and guaranteed lending schemes, grants to support employment and other measures. Any significant withdrawal of such features in the absence of a sustainable long-term solution to the impacts of the pandemic has the potential to cause material negative consequences on the financial condition of individual issuers and the liquidity of the markets in which we invest.

Performance of risk assets as a whole since 30 June has been startling. Investors will be aware of the headline performance of US equity indices, and leveraged credit assets have also experienced a strong rally.

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Richard Boléat, chairman of CVC Credit Partners European Opportunities GBP – 28 September:

Performance of risk assets as a whole since 30 June has been startling. Investors will be aware of the headline performance of US equity indices, and leveraged credit assets have also experienced a strong rally.

It is certainly the case that levered issuers have suffered less in terms of performance and balance sheet damage than markets were anticipating during Q2, but much of the credit for the rally in risk assets generally must go to the willingness and ability of developed market central banks to provide stimulus and liquidity under what has become known as the "whatever it takes" model. It is hard to see how central banks might go about meaningfully withdrawing the current levels of stimulus and support without creating "cliff edge" risks for their economies, particularly noting the current acceleration of COVID-19 prevalence in Europe, so our base case is that the status quo will be maintained in the short to medium term, providing ongoing support to credit markets.

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Robert J. Brown, chairman of Marble Point Loan Financing – 28 September:

The loan market has exhibited significant volatility thus far in 2020. The market started the year off strongly, exhibited by a 56 basis point LSTA/S&P Leveraged Loan Index increase in January. This was largely due to an excess in demand over supply as the new issue loan market was relatively slow in the face of a steady increase in demand from ramping warehouses and new CLOs. Loan prices remained reasonably stable for most of February, however, beginning 24 February, loans declined as risk assets generally began to sell off in reaction to the COVID-19 crisis. The unprecedented economic disruption caused by the pandemic outbreak saw rating agencies downgrade companies, and at times entire industries, at an accelerating pace in March and April further exacerbating the downward move in the loan market. Although the pace has slowed, continued downgrade activity and the heightened risk of defaults may pose a continuing risk of triggering certain CLOs tests which could impact near-term cash flows. While CLOs are generally allowed to hold a small portion of loans rated triple C or worse, such holdings are subject to strict concentration limits. Accordingly, the pervasive downgrade activity precipitated by the global economic slowdown caused a greater portion of the CLO

universe to exceed this portfolio limitation. While CLOs, which now represent almost 60% of the loan market, are not forced sellers of loans based on price or rating, a CLO with triple C loans exceeding its respective limit may face constraints on the ability to make distributions to the equity tranche and may choose to sell lower rated loans to bring the CLO back into compliance. Such selling activity put further pressure on loan prices. Finally, March and April saw significant outflows from retail-oriented funds that invest in leveraged loans. While retail funds now account for only 8.5% of the leveraged loan market (down from 17% at the beginning of 2018 according to S&P/LCD), selling by retail funds facing redemptions also put downward pressure on the loan market. For these reasons, the loan market experienced numerous days in which the loan market declined in excess of 200 basis points from late February to the end of March. From 21 February until the end of March, the LSTA Index fell over 13% and the average bid price of loans fell from 96.67 to 82.85. The loan market and risk assets in general began to recover in April as the US Federal Government and the Federal Reserve Bank commenced significant stimulus programs designed to support financial markets and provide a safety net to businesses and households. In addition, strong demand from renewed CLO issuance and reduced retail outflows in conjunction with still muted new issue loan volume contributed a technical element to the price rally. From 31 March to 30 June, the loan market retraced a significant portion of the decline experienced in March. During that period, the LSTA index increased 9.70% with the average bid increasing from 82.85% at 31 March to 89.88% at 30 June.

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Manager's report for Blackstone/GSO Loan Financing – 21 September:

Bank Loan Market Overview

The first half quarter of 2020 made economic and financial market history with the negative consequences of the novel coronavirus and related respiratory disease, COVID-19. The run of unprecedented daily declines in global credit markets in March ended when the European Central Bank and the Federal Reserve Bank intervened in capital markets in April and significantly relieved technical selling pressure that had built up in March. Though decisive policy responses prevented a deeper rout during the quarter, the downdraft still resulted in the global credit markets' worst-performing quarter since 2008. The market quickly rebounded during the second quarter of 2020 marking the best quarterly performance for the S&P 500® since 1998, and the current recession may end up being the shortest in history, beating the six-month recession in 1980. The market recovery remains stimulus-led, driven by the speed and magnitude of global policy responses rather than consumer and industrial fundamentals.

Credit Suisse Western European Leveraged Loan Index (European Loans) returned -3.80% for the first half of 2020, in a period with included a significant monthly decline in performance in March of -13.57% in tandem with all other risk assets.(5) Promisingly, European Loans rebounded strongly in the second quarter with a return of +11.89%, recovering some of the selloff experienced in the first quarter and closing the first half with a return of -3.80% year-to-date. With the new issue primary market remaining closed in Europe for March and most of April, the lack of new issue loans resulted in secondary loan prices rebounding quicker than in the US, where the primary market reopened in early April. The average price of European Loans fell from €98.32 at the end of December 2019 to €83.64 at the end of March 2020, before rebounding to €92.74 to end the first half of 2020 in June.

Similar to European Loans, the Credit Suisse Leveraged Loan Index (US Loans) struggled in the first half of 2020 declining to a -13.19% return in the first quarter of

2020, before returning +9.71% in the second quarter of 2020 and ending the first half of the year with a year-to-date return of -4.76%. Limited new issue loan supply against the backdrop of swift US government policy drove recoveries in the second quarter. The average price of US Loans fell from $95.40 in December 2019 to $82.70 in March 2020, before retracing to $89.47 at the end of June.

Given the impact of COVID-19 on the global economy, it is no surprise that secondary loan spreads widened significantly in the first half of 2020 with overall spread (represented by 3-year discount margin) for European Loans widening by 211bp between January and June, to end the second quarter of 2020 at 737bp. This is compared to 53bp of tightening for the first half of 2019. US Loan spreads also widened 239bp during 2020 year-to-date, to end the second quarter at 700bp, compared to a 90bp tightening for the same period in 2019.

The primary loan market was effectively closed between March and April due to COVID-19. Year-to-date global new issuance was €228.5bn (€37.8bn in Europe and $211.1bn in the US) for the first half of 2020, compared to €265.4bn (€39.5bn in Europe and $245.4bn in the US) during the same period in 2019. Despite this disruption, there was an increase in deal activity as the second quarter of 2020 drew to a close; however, with a light pipeline expected for the third quarter of 2020, new issue full year forecasts are likely to be revised downwards.

Many companies experienced a decline in revenue to near zero as much of the global economy went into lockdown to combat the highly infectious virus. As a result, defaults increased, and credit rating agencies issued a large number of downgrades. The US Loans default rate for the last twelve months was 3.9% as of 30 June 2020, up from 1.2% in December 2019. European loans were somewhat more insulated from defaults (at least for now) given support from revolving facilities and government support. The European Loans default rate for the last twelve months was 0.6% in June, up from 0.0% in December 2019.

CLO Market Overview

Similarly, to the loan market, the Collateralised Loan Obligation (CLO) market was not immune to the impact of COVID-19. Global issuance of CLO vehicles decreased by 43% in the first half of 2020 to €41.9bn versus the €73.1bn recorded in the first half of 2019.

European CLO new issuance in the first six months of 2020 totalled €10.1bn, down 31% from the record setting €14.7bn achieved for the same period last year, and US CLO new issuance totalled $35.1bn down 46% versus the $65.1bn issued over the same period in 2019. Refinancing and resetting activity was constrained due to widening liability spreads. Refinance and reset activity totalled €0.9bn in Europe and $24.9bn in the US, where all of the transactions were priced within the first quarter pre-COVID-19.(7)

The new issue market for CLOs, which paused for a few weeks due to COVID-19, pivoted to shorter dated and static offerings, often "print and sprint" transactions where portfolios were acquired simultaneously with the pricing of the CLO. As the second quarter progressed, the overall confidence in broader syndication improved (specifically in Europe) as signs of demand transitioned to more broadly syndicated CLO transactions compared to the narrower distribution witnessed earlier in the COVID-19 period. Global CLO spreads in both primary and secondary markets widened significantly in the early months of the year before narrowing in the second quarter in-line with the overall market reduction in risk premia.

The first half of 2020 was a challenging time for CLOs globally. In the wake of deteriorating fundamentals, driven primarily by significant decreases in revenue

growth, rating actions among loan and high yield issuers accelerated in early March, primarily within COVID-19-affected sectors such as travel, automotive, and transportation. These rating actions resulted in an increase of assets rated CCC and below within European and US CLOs and a large number of ratings for CLO tranches being placed on negative watch or outlook. Many CLOs breached CCC tests, which put additional pressure on CLO interest diversion and over-collateralisation ("OC") tests. As the market began to rebound from March lows, the rally in CCC assets relieved some of the pressure on these tests in the second quarter and the pace of downgrades and negative watch actions slowed. Despite this, rating agency watch actions still turned into downgrades for 149 US and European CLO tranches for 1H20 as the rating agencies finalised their reviews.(8) As of 30 June 2020, ratings on 16 CLOs of 41 within BGCF's CLO portfolio, primarily BBB-B tranches, have been placed on negative watch. Since 30 June, three of BGCF's CLOs experienced tranche rating downgrades, three of the CLOs that had tranche ratings on watch previously have been confirmed unchanged and removed from negative watch, and two of the CLOs that had tranche ratings on watch previously have been confirmed unchanged yet remain on negative watch. As of 31 August 2020, ratings on 12 CLOs of 43 within BGCF's CLO portfolio, primarily BBB-B tranches, remain on negative watch. However, none of the CLOs within the portfolio have experienced any failures of interest diversion or OC tests, or diversion of equity cashflows.

Market Outlook

Global economies continue to deal with the effects of COVID-19, social unrest, and rising geopolitical tension. We are closely monitoring the re-acceleration of COVID-19 in the US and Europe, as a reversal of recent reopening measures in many cities, states and countries could deepen the economic damage from the pandemic and elongate the path to a complete recovery. Although some stimulus and central bank support may extend beyond the pandemic, we believe that emergency government support will wane and thus do not expect a "V-shaped" recovery where the pre-COVID-19 levels of economic activity, employment, and profitability are reached in the near term.

In the US, we expect defaults to continue to increase, and JP Morgan forecasts 2020 US loan and high yield bond default rates of 5% and 8%. Unlike in the US, few European companies have filed for bankruptcy this year, braced by significant fiscal support in the form of revolving facilities and government-guaranteed loan schemes. Fitch is currently forecasting a 2020 full year default rate of 4% and 4.5% for European loans and high yield bonds, respectively.

The new issue pipeline for loans globally continues to look light and as companies report second quarter earnings in July and August, we will closely monitor the effects of COVID-19 and expectations for future earnings, which will drive potential idiosyncratic volatility. Despite the uncertain outlook, we derive some comfort from the seniority of loans in the corporate structure, which we believe offers defensive positioning unique to the asset class.

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Ian "Franco" Francis, manager of CQS New City High Yield – 18 September:

The year under review can almost be divided neatly in two parts. The first part between July 2019 and January 2020 was fairly quiet for the company with the net asset value rising modestly and the economic news in the UK dominated by the Brexit withdrawal from the EU. In the US, the on-off trade war with China was the main focus. The second part was the spread of the global reach of COVID-19 and

the nearly total lockdown of countries and economies that started in Asia in January and February and then moved into Europe and the Americas over March and April.

Market and economic review

Markets reacted in sheer panic in March 2020 with our own FTSE All Share Index falling over 18% having already had a weak February. Market liquidity disappeared as buyers were pretty much non-existent, combined with a tsunami like wave of selling from ETFs and open-ended funds. What was different to all previous crises was the speed, magnitude and coordination of the major global governments who put in place a massive jobs protection and economic stimulus package.

April was the month in which the reality of COVID-19 and the subsequent lockdown really bit hard. In the UK the economic indicators fell sharply with an implied annual fall of 7% in GDP being forecast. Consumers started to be very careful with their spending and repaying debt. Europe, although ahead in terms of its emergence from lockdowns, showed unprecedented damage to the Eurozone economy with slumping global demand for products and services, staff shortages and supply line problems together with Southern Europe starting to take a massive hit to its tourism sector. The US had over 20m new jobless claims in April as economic activity cratered and GDP was down 4.8% in the first quarter. Banks have essentially been forced to pass equity dividends, which effectively upgrades the debt instruments issued by them, and Property companies, which have been hit hard by markets, will partially recover when true asset values and income streams can be evaluated. There were of course sectors which have benefitted from the lockdown: Food retailers saw massive panic buying in the early stages and may well slowly be re-rated downwards as the new normal is reached.

In the UK, the rapid downturn in the private sector continued in May, albeit at a marginally slower rate than April. However, the fall in business activity was almost exclusively due to business shutdowns, cancellation of customer orders, and the overall slump in demand due to the COVID-19 pandemic. In Europe, the downturn started to show signs of easing as restrictions were lifted although worries remain that the demand side of the economy will remain weak for some time to come. For the US, the unemployment rate hit 14.7% in April up from 4.4% in March.

Sentiment in the real economy improved in June as lockdowns started to be loosened. In the UK, the private sector showed a rebound in confidence and hopes of a recovery over the next 12 months. Some of the sectors in the economy brought back some of their furloughed staff, the strongest of which was manufacturing which tipped into growth ending a 3-month period of decline. Despite this positivity, not all areas of manufacturing showed strength: aerospace and automotive sectors remained particularly weak. Despite all the efforts being made by the government and Bank of England to support the economy, many jobs are going to be lost and may not come back in areas that lose them for some time. Providing large infrastructure projects may not give opportunities for jobs lost in the arts, hotels and travel industries. On top of all of this, we still have to negotiate trade deals for all areas of the economy post Brexit, with governments keen to look after their own post the COVID-19 pandemic. In Europe, the Mediterranean states that rely to a great extent on tourism for revenue are now opening hotels, restaurants and bars to try to save the summer high season whilst their governments negotiate as to who can and who can't travel to their country. The US economy added 4.8m jobs as a partial resumption to the economy got under way. This is still some 14.7m, or 9.6%, below the February number; this shows some good news, but there is a long way to go.

All that the vast amounts of funds being injected by the seemingly unlimited amounts of QE are doing is to move the level of markets away from the real economy, trying to keep companies and markets afloat until the economy can recover. This is a high risk strategy but definitely in line with the 'whatever it takes' world of Central Banks.

Outlook

We do not expect the economic recovery to follow a classic 'V shape', there will be industries which will be changed forever, such as Airlines and Travel. There will be other sectors which have been hit hard in the lockdown, such as Pubs and Restaurants, which may take some time to adapt and recover, even with help from the government, and Retail, where the business model will be forced to evolve quickly to survive.

The initial months of the new financial year are usually a quieter and lower volume period; maybe not this year, with the ongoing pandemic and the US Presidential election coming in November and the ongoing trade wars between the USA and China.

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Pedro Gonzalez de Cosio, co-founder and CEO of Biopharma Credit's manager – 16 September:

The life sciences industry is expected to continue to have substantial capital needs during the coming years as the number of products undergoing clinical trials continues to grow. All else being equal, companies seeking to raise capital are generally more receptive to straight debt financing alternatives at times when equity markets are soft, increasing the number and size of fixed-income investment opportunities for the company, and will be more inclined to issue equity or convertible bonds at times when equity markets are strong. A good indicator of the life sciences equity market is the New York Stock Exchange Biotechnology Index (BTK Index). While there was substantial volatility during the period, the BTK index grew 13% during the period, a similar performance to the first six months of 2019. Global equity issuance by life sciences companies during the period was $63bn, a 97 per cent. increase from the $32bn issued during the first six months of 2019. We anticipate a slowdown in equity issuance coupled with greater appetite for fixed income as a source of capital during the remainder of 2020.

Acquisition financing is an important driver of capital needs in the life sciences industry in general and a source of investment opportunities. An active M&A market helps drive opportunities for investors, as acquiring companies need capital to fund acquisitions. Global life sciences M&A volume during the period was $18bn, a 55 per cent. decrease from the $39bn witnessed during the first six months of 2019, driven mainly by a decrease in M&A activity globally as a result of the COVID-19 pandemic. We are encouraged by the number of M&A opportunities that are starting to build up and should lead to a more active market in the near term.

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Rupert Dorey, chairman of NB Global Floating Rate Income GBP – 2 September:

The COVID-19 outbreak and related uncertainties have increased risk to the global economy. At this stage we cannot predict with any great degree of confidence the longer-term impact on the operating results of the majority of issuers in our portfolio though earlier in the year as the pandemic began to take hold we saw an extreme dislocation of credit markets, albeit short lived. We acknowledge that the continued development and fluidity of this situation precludes any prediction as to its ultimate

long-term impact, which may have a continued adverse effect on economic and market conditions and trigger a period of global economic slowdown.

COVID -19 has, among other things, disrupted global travel and supply chains, and has adversely impacted global commercial activity, the transportation industry and commodity prices in the energy sector.

Outlook

Our outlook for credit markets remains positive despite the setbacks from COVID -19. Yields across the globe have been driven down with the unprecedented levels of stimulus injected by central banks and governments and we believe this is an environment where investors seeking yield have fewer and fewer places to look to.

We see an attractive pipeline building within alternative credit. We observe that this year, the illiquidity premium has expanded across alternative credit and in particular private credit. Default expectations have declined in recent months, but we continue to anticipate a modest increase, generally in the market, primarily driven by issuers already experiencing difficulties pre- COVID -19. Central bank and government activity, either through direct action or via capital markets has played a major role in dampening default rate expectations, particularly in the near term. Whilst uncertainty around the duration of the health crisis and rate of recovery remains, governments have succeeded in providing confidence and improving liquidity in both traditional and alternative credit markets to a larger degree than anticipated. Whilst yields have retracted since mid-March, we continue to see value at this juncture in relation to our analysis of default estimates across the various credit products. Avoiding defaults and differentiating between credit issuers of all types continues to be our aim.

Private equity

(compare private equity funds **here**)

Manager's report for HgCapital Trust – 14 September:

We do expect to encounter the headwinds of lower global growth in 2020, with the latest (June) IMF forecast for 2020 showing an 8.0% GDP decline for advanced economies (mainly US, Europe and Japan). This is materially worse than the global financial crisis and also a significant worsening versus the April forecast of a 6.1% decline.

While COVID-19 has induced significant short-term volatility, we also see clear evidence that it is accelerating structural trends. Microsoft's CEO, Satya Nadella, in its April earnings call, stated: "*We've seen two years' worth of digital transformation in two months."* This was backed up by data such as Microsoft Teams meetings usage increasing (measured by total minutes of meetings) by nearly 400% in under three weeks during the US's pre- to post-lockdown2. In its April quarter, Zoom took on approximately six years' worth of customers in just three months. Across the Hg portfolio, we have seen similar trends, with a rapid shift, for example, towards e-invoicing, as customers look to reduce physical contact levels.

The impact of cloud technologies is not only the improved financial and operational characteristics of delivering software to end customers, but also the ability to sell and implement customer solutions an order of magnitude faster than previously achievable.

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Manager's report for Oakley Capital Investments – 10 September:

In the first half of 2020, global buyout activity was down 35% versus 2019 and Q2 witnessed the lowest level of deal activity since 2015 (Source: Preqin).

Historical data suggests that some of the best fund vintages follow economic crises, as demonstrated by the 68% performance premium returned by post-crisis vintage funds when compared with the preceding late-cycle vintages (Source: Morgan Stanley).

The current dislocation also presents new origination opportunities in the form of:

- Stressed sector champions - companies that have experienced a short-term severe shock, but whose medium-term business model remains robust.
- Distressed corporate carve-outs - businesses that need to dispose of assets to improve their liquidity position may result in quality assets becoming available.
- Private Equity - funds that are most exposed to COVID-19, or at the end of their life cycles, may look to exit portfolio companies they can no longer support.

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Growth capital

(compare growth capital funds **here**)

Manager's report for Schroder UK Public Private – 30 September:

The first half of 2020 has seen significant volatility across both public and private markets around the world. Public equity markets initially sold off very heavily as a result of the COVID-19 pandemic and the unprecedented actions taken by governments to mitigate the impact on human life by locking down entire economies. This has had a devastating impact on many companies which rely on footfall for trade. However, some business models have been less exposed or been swift to adapt to this new environment. Those businesses with the flexibility to operate digitally have taken advantage of the rapid shift in consumer behaviour, whilst more traditional operators have suffered severe disruption.

Following the initial lockdown, many economies have seen huge levels of support from central banks and governments around the world through the provision of enormous quantities of monetary and fiscal stimulus designed to provide stability as the global economy has battled to deal with the pandemic. This intervention has been well received by the public equity markets around the world as investors look to the future, with some markets now trading above their pre-COVID levels.

However, the positive sentiment now being seen in the public markets is not being felt across all sectors. As highlighted above, those businesses that have the flexibility to adapt, or business models that are less impacted by the pandemic are being rewarded with strong performance and in many cases robust valuations.

More broadly, the impact of COVID-19 varied by region and industry, the specific business model of a company and its financing situation. As a result, it is important to look at the idiosyncratic risks and opportunities associated with each individual holding from a bottom-up perspective.

We recognise that economic uncertainty persists as governments around the world continue to grapple with the most appropriate policy responses to the ongoing coronavirus pandemic. Case numbers have clearly risen again in numerous regions in the second half of 2020, including in the UK, which to some extent is itself likely to reflect a degree of recovery in social movement and working practices compared to the first half of the year. We are monitoring the situation closely with regard to any impact on portfolio companies from these continuing events, noting that the substantive adjustments already made to company structures will be equally relevant in a second wave of this pandemic.

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Manager's report for Schiehallion – 21 September:

As the world went into lockdown, we reviewed each of the companies held in the portfolio to determine their resiliency. We categorised them as Red, Amber, or Green based on how well placed we thought they were for weathering the storm. Like many others, we braced ourselves for short term pain. And some companies felt that pain. Holdings in the travel industry in particular saw their revenues decline rapidly. However, most of our holdings did not miss a beat! Those that suffered have now largely bounced back, far quicker than we might have feared back in the dark days of March and April.

Looking at the flow of new opportunities over recent months, you would never guess that we were operating during a pandemic.

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Hedge funds

(compare hedge funds **here**)

Steve Bates, chairman of Third Point Offshore Investors – 2 September:

On a bad day, thinking about what might happen in the months ahead seems hopeless. On a good day, it is merely impossible. What we do know is that the fiscal and monetary stimulus which has been deployed in response to the crisis will likely keep liquidity flowing into capital markets, and may well exacerbate the apparent disconnect between what is happening in markets and activity in the real economy, where conditions are set to stay recessionary. While the trough of the crisis has passed, the economic effects have not – many businesses are only now emerging from the shock and assessing the landscape. The shape of the post-COVID-19 world and the corporate response is expected to be very different. Geopolitical risks further cloud the picture.

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Leasing

(compare leasing funds **here**)

Manager's report for Tufton Oceanic Assets – 24 September:

The shipping market was expected to encounter an impactful regulatory change ("IMO2020") in early 2020 as the global fuel sulphur cap was reduced to 0.5% by the IMO. The last six months proved to be eventful but for very different reasons. The impact of IMO2020 paled before the twin impacts of COVID-19 and OPEC

policy changes. COVID-19 quickly developed into a global pandemic over the first quarter of 2020. Travel restrictions and shutdowns to limit the contagion had a negative impact on global GDP growth. In June, the IMF forecast 2020 World GDP to shrink by 4.9%. The IMF forecasts a return to 5.4% growth in 2021 as governments around the globe put in place unprecedented fiscal and monetary stimulus to support the economic recovery. Shipping demand growth is historically linked to the growth in GDP. Clarksons Research forecasts global trade (tons) to shrink by 4.4% in 2020 and return to 5% growth in 2021.

Some notable highlights of the shipping market (based on Clarksons Research) include

- Global seaborne trade is forecast to contract by 5% (ton-miles) in 2020 after a slowdown to 1% growth in 2019. Seaborne trade grew by 3.3% CAGR in the two decades leading up to 2019.
- After strong growth of 3.9% in 2019, fleet expansion is forecast to decelerate to 2.4% in 2020 and 1.9% in 2021.
- The global orderbook is at its lowest level since 2004, equivalent to only 7.8% of the fleet, compared to over 50% in 2008.
- Over the twelve months leading to June 2020:
  - Average 12-month time charter rates for handysize bulkers fell 8% year on year.
  - Clarksons' containership time charter rates index fell 24% year on year.
  - Average 12-month time charter rates for handysize tankers rose 3% year on year, while Suezmax 12-month charter rates rose 14%.

The second half of 2019 was marked by a slowdown in global GDP growth and industrial production. As the benefits of the 2018 tax cuts in the US faded, business confidence weakened in the face of the uncertainties of US-China trade negotiations. Manufacturing firms became more cautious on long term capital expenditure. The growth slowdown was exacerbated in the first half of 2020, primarily due to the impact of COVID-19.

Despite the impact of COVID-19, the boom in the tanker market proved that disruption is not always negative for the global shipping industry. Towards the end of the third quarter of 2019, the tanker market received an unexpected boost when the US sanctioned Cosco Tankers, a large Chinese operator - effectively removing a significant portion of available tanker capacity. Benchmark rates for large tankers hit decade highs as the effect of US sanctions was exacerbated by ships taken out of service for scrubber retrofits ahead of IMO2020.

The rally in tanker rates paused in early 2020 as US sanctions were removed in January. The combined impact of COVID-19 on oil demand and the change in OPEC policy in early March led to strong demand for floating storage as oil production and exports greatly exceeded demand.

TRACS data show the tremendous boost for tanker demand from floating storage, with around 30m tons (c.210m barrels) of oil and products being stored at sea by the end of April. On a like for like basis, there is usually no such demand.

Benchmark rates for large tankers hit new record highs exceeding levels achieved in the fourth quarter of 2019. Tanker demand peaked on 1 May as OPEC cut production by 9.7m barrels per day.

The tanker market had a strong first half of 2020 supported by demand for floating storage. Tonnage in floating storage is likely to be gradually released back into the

market over the second half of 2020 but easing travel restrictions and tapering of OPEC production cuts from July will support incremental demand growth.

On the other hand, dry bulk shipping remained very volatile over the financial year. Businesses opportunistically built inventories in the third quarter of 2019 ahead of expected changes in tariff regimes, resulting in record demand for many dry bulk products. The benchmark Baltic Dry Index hit a six-year high in the third quarter of 2019 However, bulker demand weakened in the fourth quarter of 2019 with the combined effects of slowing GDP growth, lower steel demand growth and pullback from the inventory building of the third quarter of 2019 being exacerbated by environmental shutdowns in Asia. The weakness continued into the first quarter of 2020 with the impact of seasonality over Chinese New Year amplified by travel restrictions and business shutdowns around COVID-19. According to TRACS data, bulker demand recovered back to trendline towards the end of the second quarter of 2020 as Chinese iron ore imports increased to replenish low inventories and fulfil pent-up demand.

In the second half of 2019, consumer sentiment remained buoyant, particularly in the US as additional easing by the US Federal Reserve was followed by mortgage refinancing which added to disposable income. Containership rates, led by larger vessels, improved over the course of the third of quarter of 2019 and consolidated at relatively high levels in the fourth quarter of 2019. TRACS data show that COVID-19 had dual impacts on the containership segment. The initial impact was through lower Chinese exports due to extended shutdowns and travel restrictions around Chinese New Year. Even as the restrictions were eased in China, they were rolled out in Europe and then the United States resulting in a second negative impact on demand. Benchmark time charter rates on feeder containerships fell by 24% over the 12 months leading to June 2020. From the middle of May, TRACS data show a rebound in containership demand back to trendline. Time charter rates stabilised toward the end of the second quarter of 2020 and started improving after the end of the financial year.

The supply-side adjustment across shipping subsectors has continued and was possibly accelerated by the impact of COVID-19. The pace of new orders continued to fall. According to Clarksons Research, the 5.7m CGT of new orders in the first half of 2020 was a 25-year low. The orderbook shrunk to 7.8% of the fleet, the lowest level since 2004. Fleet growth is expected to slow from 2.4% in 2020 to 1.9% in 2021. The supply adjustment could be further aided by a reduction in average fleet speed. At the moment, the speed reduction is largely an industry response to the current commercial environment but mandatory speed reduction to lower emissions remains under consideration. Speed reduction as a means of optimizing voyage economics, reducing emissions and managing fleet capacity is unique to the shipping industry.

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Manager’s report for DP Aircraft I – 17 September:

The COVID-19 outbreak turned into a global pandemic with significant impact on the airline industry worldwide. Airlines globally are facing challenging and potentially existential times. The number of stored aircraft worldwide was increasing rapidly; by way of example the number went up by over 1,000 aircraft within a single day (31st March to 1st April 2020). After some travel restrictions have been lifted, the number of passenger aircraft in storage decreased to about 33 per cent. The further development and duration of the pandemic as well as any progress in research and development of vaccination and rapid tests will largely determine the total impact on the airline and aviation industry.

Global

Current Situation:

- Airlines worldwide substantially impacted by the COVID-19 pandemic
- Unprecedented decline of global airline traffic in history
- Up to 64% of passenger aircraft (more than 16,000) had been stored globally - although this has now fallen to about 33%
- Anticipated cash burn of USD 61bn in 2Q20
- Traffic slowly resumes - but the impact of a second wave is still unknown
- USD 123bn of governmental aid due to COVID-19

Outlook

- Cargo and passenger demand to rise sharply in 2021
- Return to 2019-level of passenger demand not before 2023 according to IATA forecasts
- International tourism receipts to decline by USD 910 to 1,170bn in 2020
- The total impact of the COVID-19 pandemic cannot be assessed at the current stage

Europe

Estimated COVID-19 impact in 2020:

- 56% decline in overall demand (RPK)
- 52%-58% drop in international capacity (ASK)
- Net loss of USD 22bn
- Markets expected to open in phases

Asia

Estimated COVID-19 impact in 2020:

- 54% decline in overall demand (RPK)
- 64%-73% drop in international capacity (ASK)
- Net loss of USD 29bn
- Demand currently slowly recovering but without profitability

Outlook commentary

The airline business is sensitive to external shocks, currently being reinforced by the COVID-19 pandemic. Previous burdens on airlines caused through the worldwide Boeing 737MAX fleet grounding and the Trent 1000 issues will be trivial in 2020. Even if the level of coronavirus cases flattens and travel bans are gradually lifted, it will potentially take years until capacity and numbers of passenger aircraft will return to pre-COVID-19 levels.

Compared to other industries and sectors, airlines operate in a very competitive environment, their profit margins are low and their operating costs significant. Another challenge for airlines to adopt to such a drastic decline in demand are their high percentage of fixed costs. Fixed costs, semi-fixed costs and crew expenses amount to nearly 50% of total operating costs and most of these cannot be avoided in the short-term. According to IATA, an average airline has an amount of cash and cash equivalents for about two months. This indicates that the industry heavily relies on governmental and creditor support. Until the beginning of June 2020, there had been about USD 124bn of governmental aid made available.

Not only travel restrictions and closures of tourist related infrastructure but also the decrease in manufacturing and retail industries and the resulting lay-off of employees contributes to an economic recession which in turn will impact the recovery of the airline industry. Organisations such as IATA, ICAO and appraiser companies develop many different scenarios regarding the impact of COVID-19 on the airline sector and its recovery. At the current stage, it is impossible to make any reliable or resilient statement on the total impact of the COVID-19 pandemic or its further development. All outlooks shared in this report are based on historic data and assumptions made by industry experts. It can be considered as a potential guideline. However, from a historical point of view, the airline industry has proven to be resilient and has recovered from all previous crises. Obviously, this time the recovery period will take longer than average to return to pre-COVID-19 levels and as long as the pandemic will last and most of the travel restrictions remain in place, the number of airlines dependent on governmental support or filing for bankruptcy will increase.

Comments and conclusions

COVID-19 does not only impact airlines and the travel business but as consequence also the manufacturer and their future order books. As some airlines even downsize their fleet, they are reluctant in placing new orders and even look for opportunities to cancel orders or postpone deliveries. Boeing announced stopping production of the B747 in 2020 and further to postpone its first B777X delivery. Airlines downsizing their fleet, mostly retire either bigger or older and less-fuel efficient aircraft. Efficient and new technology aircraft such as B787s or A350s (as an example in the wide body segment) are currently less impacted in this regard, although this does not mean in return that there is additional demand for these aircraft types.

Financial downturn in the airlines sector and the increasing number of restructurings and airlines fighting for survival back by the new challenge of aircraft storage makes it more important for Lessors, to have a clear focus on the asset and its maintenance. Pre-COVID-19, the aviation industry has not anticipated the case of storing such a huge number of aircraft globally. Storage does not only mean to park the aircraft but also to follow a pre-defined storage programme by the respective manufacturer. Due to the Trent 1000 issues, Norwegian and Thai might have been more prepared for this task than other airlines. Nevertheless, it is essential to closely monitor the asset conditions and the storage programme, follow-up on any findings and put all efforts to keep or return aircraft in flight-ready conditions to see them flying, once the market recovers from the COVID-19 pandemic.

Insurance and reinsurance

(compare insurance and reinsurance funds here)

Michael Baines, chairman of Life Settlement Assets A – 28 September:

Over the past five years, the life settlement industry has grown both in funds committed to the sector and consumer awareness. In fact, a 2020 industry report showed a 11% increase in policies sold in 2019 compared to 2018, while the face amount of life insurance policies sold increased from USD 3.8bn to USD 4.4bn in the same period.

It is somewhat premature to speculate how the COVID-19 Pandemic will impact the Life Settlement Market. As regards the primary market for life insurance policies,

there may be an increase in individuals needing to sell policies due to their financial circumstances. Although LSA does not acquire policies directly from the individual holders, there may be an increase in supply at a time when there is greater competition elsewhere for capital in the financial markets, potentially creating purchasing opportunities for LSA in the secondary market.

Biotech and healthcare

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

Manager's report for RTW Venture – 24 September:

Sector review and 2020 outlook

The innovation boom. We are living in an era where we are witnessing innovation accelerating at breakneck speed with unparalleled opportunities for value creation. Globally, biotech markets are growing. According to Global Market Insights, the global biotech market is expected to grow with a compound annual growth rate, or CAGR, of 9.9 per cent. from 2019 to 2025. We are seeing validated technologies, such as those derived from DNA and RNA science that can effectively deliver solutions across large swaths of diseases resulting in companies with highly efficient development engines. We believe there is an opportunity to offer outstanding risk-adjusted returns to shareholders by building companies that possess unique and heretofore unrecognized growth opportunities that will benefit by capitalization, proactive skilled management, and supportive and sustainable governance practices.

Genetic therapies are on the rise. Cheap genetic information has revolutionized the discovery process, which is yielding validated drug targets at an unprecedented rate. The first human genome sequence was completed in 2001, and the cost per genome exceeded US$95m, with an overall cost to the U.S. government in excess of US$3.0bn. According to the National Human Genome Research Institute, the cost to sequence a human genome fell to approximately US$1,000 in 2019. This reduction in cost has fuelled tremendous productivity. According to data from the United States Patent and Trademark Office, the number of patents has inflected upward since 2010, which is translating into more new drugs in companies' pipelines. Technological applications are also creating platforms of addressable diseases, increasing bandwidth and enabling companies to target more diseases with superior scientific accuracy and cleaner safety profiles than in previous generations of drug development.

The FDA reported a surge in IND applications for cell and gene therapy products. As of January 2020, there were more than 900 such applications on file with the FDA, and the agency anticipates it will receive more than 200 IND additional applications annually. The FDA predicts that it will be approving 10 to 20 cell and gene therapy products per year by 2025. We expect this trend to not only continue, but for genetically targeted therapies to become a substantial proportion of new therapies over the next decade. Further supportive dynamics come from the FDA and peer country regulatory bodies. While the United States leads the way in healthcare innovation, regulatory bodies across Europe, Japan, and recently China are enabling accelerated review programs resulting in faster approvals for therapies for conditions with unmet needs.

Although genetically validated targets can sometimes be addressed by existing traditional approaches, such as small molecules and antibodies, in specific tissues it is hard to beat the speed and ease in which DNA and RNA based medicines can be developed. Gene therapies also carry the potential for a one-time cure and RNA medicines for infrequent injections, making such therapies more convenient versus traditional therapies requiring a higher frequency of administration. The market for gene therapy companies has been growing. According to Capital IQ, at the beginning of 2013, there were five publicly traded gene therapy companies with a total market capitalization of approximately US$1.1bn, while at the end of 2019 there were 31 publicly traded gene therapy companies with a total market capitalization of approximately US$52bn. During the same six-year period, according to Capital IQ, the number of publicly traded RNA medicine companies grew from eight companies with a total capitalization of approximately US$3.8bn to 23 companies with a total market capitalization of approximately US$65bn.

A lag in the market's value recognition and COVID-19 impact. While strong scientific developments have been accelerating over the last several years and we believe are likely to continue for the next decade or longer, the market has been somewhat slow to recognize and reward these developments. While the rest of the broader equity markets have steadily marched upward, more or less, since the 2008 financial crises, publicly traded healthcare companies often found themselves under pressure due to a negative narrative stemming from the drug pricing debate as well as highly publicized frauds such as Theranos and the fall of Valeant Pharmaceuticals, once considered the darling of generalist investors.

During the 2019 and 2020 U.S. Democratic Party presidential primaries, the healthcare debate focused on re-testing Americans' interest in a single payer system but failed in developing the concept into a mainstay of the Democratic platform. The threat of a dramatic change to the current system of public and private insurance has somewhat dissipated and it remains to be seen whether the COVID-19 pandemic may shift the discourse from drug pricing to public health matters.

Going forward, we believe the healthcare sector is in a strong position relative to other industries, as attention to COVID-19 related therapies and vaccines has reignited investor interest across therapeutic areas, preventative vaccines, and healthcare IT (testing and tracing), allowing innovative companies to attract capital through both private and public financings.

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Infrastructure

(compare infrastructure funds **here**)

Mike Gerrard, chairman of International Public Partnerships – 10 September:

Aside from COVID-19 related issues, the wider market for new infrastructure investments remains positive. This was demonstrated by the UK government announcing, in March 2020, that it believed the UK has under-invested in public infrastructure and disclosed an intention to commit £640bn of gross capital investment to roads, railways, digital networks, schools, hospitals and power networks across the UK by 2024/25. There is currently no clarity on the role of private sector capital in this renewal of the UK's infrastructure, but we remain confident that the policy direction will continue to provide a tailwind to the company's pipeline of investment prospects. We are also convinced of the benefits to society and the economy of using private sector investment to deliver new public

infrastructure and know that our Investment Adviser will continue to make this case to the UK government.

In parallel with their ongoing management of the pandemic, governments in the countries where we invest continue to put infrastructure investment at the core of plans for longer-term economic recovery. For example, across Europe there is a continued focus on investing in cleaner transport, sustainable energy, digital and social infrastructure. Please see more information in the Current Market and Environment section on page 15.

In the secondary market, we continue to see existing and new entrants drive up demand for operational infrastructure assets across all the geographies in which we invest.

Renewables

(compare renewables funds **here**)

John Rennocks, chairman of Bluefield Solar Income – 22 September:

The subsidy free market in the UK is now with us. Looking past the severe depression in power prices caused by COVID-19 between March - July 2020 and the hiatus this has placed on meaningful levels of construction, we believe the conditions are in place for unsubsidised on-shore wind and solar to be scalable in the coming years.

Power Prices

Looking back over the company's financial year, the wholesale power market continued its decline from the highs in September 2018 as over-supply of LNG and saturated levels of UK gas storage were exacerbated by the stringent lock down conditions imposed in March 2020 in response to COVID-19 and the material depression this created regarding overall demand for electricity in the UK.

Manager's report for US Solar – 16 September:

With respect to the longer-term impact of COVID-19, there is a high degree of uncertainty as to the current and future economic impact of the pandemic.

Leading indicators that USF has been monitoring include the following:

- Electricity prices: COVID-19 restrictions of economic activity have contributed to both reduced demand for electricity and an oversupply of oil on global markets. These factors have resulted in reduced electricity prices in many markets including the US electricity market. USF's exposure to electricity prices is limited given its long-term power purchase agreements.
- Equity markets: UK equity markets have remained open during COVID, with some slower periods. Renewables funds, in particular, have seen continued support from investors and continue to raise new capital, demonstrating demand for the sector.
- Tax equity markets: Since the onset of COVID-19 it has become evident that tax equity funding may be less available than in previous years as the outlook for US corporate profitability remains weak, and the available pool of tax equity funding may shrink as a result. This is not a current issue for USF as

tax equity funding is complete or committed for all USF's projects and it is not seeking to close any further transactions at this time. The manager will continue to monitor US tax equity markets given the likely requirement for tax equity for any future transactions.

- Debt markets: Debt markets and debt providers are becoming increasingly cautious in response to the uncertainty of current and future economic conditions. USF's assets are well-positioned regarding debt with all debt in place for levered projects (Acquisition One and Five). Long-term financing is in place for Acquisition Four and refinancing will only proceed when satisfactory terms are available (existing debt does not mature until after 2030).
- Insurance: The potentially high level of COVID-19 related claims together with losses from insurer's investment portfolios resulting from the disruption to commercial activity precipitated by COVID-19 is resulting in increased premiums for insurance products.

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Manager's report for Octopus Renewables Infrastructure – 15 September:

Even before the impact of COVID-19 came to be felt directly in Europe, significant falls in power prices had occurred both in spot and near-term forward markets, as well as in longer term advisor forecasts. The near-term movements were substantially driven by commodity prices, particularly gas. High storage levels across Europe due to milder than average weather, high shipments of Liquid Natural Gas ("LNG") to Europe and the oil price 'war' between Russia and Saudi Arabia all contributed to this. Longer-term price forecasts were also heavily influenced by gas price assumptions.

The economic, social and business disruption effects of the COVID-19 pandemic continue to evolve. The medium-term market effects remain hard to predict. However while no asset class is perfectly insulated from COVID-19, renewable generation has shown itself to be less affected than other industries, with output volumes far more resilient to demand reductions than many other infrastructure sub-sectors, and prices in many cases contracted with government-backed or other entities expected to remain financially viable throughout and beyond the immediate crisis. In addition, governments across the our target markets, as well as the European Commission and European Council, have been united in their calls for a 'green-led recovery', which should serve to add to the existing momentum behind decarbonisation and 'net-zero', and increase the scale of the investment opportunity.

The UK, Iberia, Nordic region and France continue to provide a steady flow of opportunities, with differing characteristics. The French projects typically benefit from a long term, government backed, fixed price offtake, whereas new projects in Iberia and the Nordics are typically reliant on merchant power market revenues or shorter-term utility or corporate power purchase agreements (PPA). Operational UK projects typically have a mixture of government subsidies via the Renewable Obligation Certificate regime ("ROC") and power market revenues whilst onshore wind and solar projects are expected to be able to secure tariffs in forthcoming government auctions.

Beyond these core markets, expanded incentive schemes in Poland are generating interest, as well as strong near-term opportunities in the Netherlands and Germany. In Ireland 1.3GW of new build onshore wind and solar PV projects have been provisionally awarded government-backed support in the recent Renewable

Electricity Support Scheme (RESS) auction, whilst a steady flow of operational sites benefitting from the previous support scheme continues to come to market.

Asset valuations (in absolute terms) over the course of the COVID-19 crisis have remained broadly stable, however this apparent stability masks two opposing trends. As described above, the sector has seen material near term power price falls and some reduction in long-term advisor forecasts. This negative effect has been offset in part by significant increased investor appetite for renewable energy assets as the benefits of being a zero marginal cost generator have become clear to investors. As power prices fall, renewable assets always remain 'in merit' and are not exposed to potential long periods of shut down that may face traditional forms of electricity generation. This increase in demand, particularly for operational assets with fixed revenues, is reflected in the downward trend in discount rates observed in the market.

'Levelised costs of electricity' from new-build wind and solar projects continue to fall as equipment costs decline. Depending on location, wind and solar projects are now the most competitive forms of electricity generation. Furthermore, governments across the company's target markets are promoting a 'green-led recovery' from the COVID-19 crisis. This is heightening expectations of continued or improved support mechanisms for renewables. Recent announcements have included the approval by the Spanish government of a Royal Decree laying the framework for rolling renewables auctions and freeing up grid connections, while the Polish government has indicated an extension to their subsidy auction mechanism. This is in addition to the announcements earlier in 2020 from the UK government of renewed support for onshore wind and solar PV, and from the French government increasing the capacity to be supported by auctions in the period to 2028.

We continue to see new opportunities to acquire both operational portfolios and ready-to-build sites coming to market.

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Ian Nolan, chairman of Aquila European Renewables Income – 15 September:

The European Union remains at the forefront of global renewable energy deployment and the region is an attractive destination for renewables investors, offering diversification and a broad spectrum of risk profiles. Whilst the COVID-19 pandemic has slowed down global economic activity across most sectors in recent months, we expect that Europe will continue to lead the transition towards a low carbon society, with substantial investments required in renewable energy generation in order to meet the binding targets set by the EU Renewable Energy Directive.

Whilst there was some downward pressure on electricity prices observed during the reporting period (as a result of the COVID-19 pandemic), market prices have already begun to show signs of a recovery, reflecting the strong underlying fundamentals of long-term demand for electricity.

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Greencoat Renewables – 14 September:

The outlook remains very positive, with strong performance from the existing portfolio and a healthy pipeline of further attractive investment opportunities, both in Ireland and in northern Europe.

In the wider electricity market, short- and medium-term power prices have been impacted by the pandemic.

Irish Wind Market

The Irish wind market remains a very attractive jurisdiction for growth with over 4.2GW of operating capacity installed.

The successful completion of the first RESS auction in August 2020 further evidenced the Irish government's commitment to generate 70 per cent of electricity from renewable sources by 2030, with subsequent auctions expected to take place annually. This year's auction process saw 400MW of wind and 800MW of solar PV awarded fixed price support contracts guaranteeing the price of wholesale electricity until 2038. Achieving Ireland's 2030 commitment would increase capacity of onshore wind to 8GW, as well as 3.5GW of offshore wind and 1.5GW of solar PV and therefore a further c.€15bn of investment opportunities.

The Group will target investments in new RESS assets, both in wind and solar, and we believe the Group is very well placed to find value and continue its growth strategy.

In addition to increasing its generation capacity, Ireland is still expected to experience growth in the demand for electricity in the medium and long term, particularly from the development of a substantial number of datacentres, which are seeking to source their power requirements exclusively from renewables. It is currently estimated that there will be 1.2 GW of datacentre capacity in Ireland by 2025. We are continuing to observe a growing number of renewable generation assets enter into direct corporate PPAs with large datacentre users and we believe this opportunity will continue to grow.

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Manager’s report for Foresight Solar – 3 September:

Market Developments:

United Kingdom

The emergence of COVID-19 quickly became the principal obstacle to further growth in UK renewables during the first half of 2020. The decision to implement widescale lockdown measures and close all but essential shops and services on 23 March 2020 impacted the prospect of any short-term buildout. The most direct impact of the crisis on the energy industry was the collapse in energy demand across the country as industrial and commercial businesses shut down overnight. This sharp contraction in demand resulted in wholesale energy prices reaching historic lows.

As a result of the low electricity demand caused by the COVID-19 control measures, National Grid contacted embedded generators to discuss the feasibility of turning off solar generation in this period of low electricity demand to help balance the network. Historically this has been done widely at the transmission level (connections at 132kV and above) but not at the distribution level (connections at 33kV or below), at which most of the company's assets are connected.

The objective is to be able to curtail solar output with willing participants and offer financial compensation for the generation shortfall. The scheme is now operating on a rolling weekly basis, where generators offer solar parks the chance to participate and indicate prices for curtailment for the week ahead. There has been no curtailment required during the period across the portfolio.

In addition, in May 2020, Ofgem clarified that National Grid can disconnect embedded generators to protect system stability as a "last resort action" without facing legal consequences. Under this scenario no compensation would be due, creating an incentive for embedded generators to participate in the curtailment scheme.

The manager is working with the main O&M suppliers to explore the technical feasibility of reducing generation and participating in the curtailment scheme should further periods of low demand occur.

In May 2020, Ofgem also announced the intention to defer the additional BSUoS (Balancing Service Use of System) costs arising from COVID-19 being incurred in 2020/21 to 2021/22. This is expected to have a significant impact on embedded generation as the latest forecast has identified a £500m increase in the cost of managing the electricity transmission system arising from the COVID-19 pandemic. Under current government policy these costs would be recovered via BSUoS charges this year, resulting in an embedded benefit payment to distributed generators. If approved, any additional revenue would be deferred until next year or potentially waived as solar assets will no longer be entitled to revenue arising from the distribution of the BSUoS costs.

Governments and supra-national organisations such as the EU are constructing substantial economic recovery packages, and clean energy is likely to play a key role in such plans. Over the last five years renewable power has emerged as the most cost-effective energy source in many countries around the globe; two thirds of the world's population now live in areas where the cheapest form of energy is electrons generated from wind and solar. This is important because it implies there is no longer a trade-off between stimulating economic recovery and financing green growth.

The UK has also announced a £3bn Green Recovery Package which should accelerate progress towards the 2050 net carbon neutral goal with the renewables sector likely to be a beneficiary in terms of job creation and benign future energy policy.

Australia

The Australian market has been less impacted than the UK and European markets by the reduction in gas prices and demand for electricity due to COVID-19. Compared to the significant drops in demand witnessed elsewhere in the second quarter of 2020, Australian National Electricity Market operational demand was down only 2% year-on-year. COVID-19 specifically caused an estimated 2.1% reduction in demand, with distributed solar PV experiencing a further 1.2% reduction. This was offset by the impact of greater heating requirements due to cooler weather which increased demand by 1.4%. In the second quarter of 2020, energy utilities, generators and the Australian Energy Market Operator (AEMO) reviewed business practices to ensure that the essential service of electricity supply remains uninterrupted during COVID-19.

Marginal Loss Factors (MLFs) were released for FY2021 in June 2020 with smaller year-on-year variations, compared to prior years. This is due to smaller changes in the generation mix and the emergence of new generation limits which affect the economics of new build wind and solar. AEMO is committed to increasing transparency for MLFs by publishing indicative reports in September and December of the preceding year. AEMO is also committed to a review of the MLF methodology to address aspects of the methodology that are no longer fit for purpose and to consider practical improvements to the process.

Strong projects are continuing to proceed to investment stage with 3.6GW of new wind and solar projects forecast for 2020. State governments continue to support the growth of the renewable energy market with each State having adopted a net zero target by 2050. New South Wales, the largest State, announced economic growth plans which also support the deployment of renewable energy projects including the development of a 3GW renewable energy zone in Central West New South Wales.

In 2019, Australian energy regulators were considering numerous changes to the regulatory framework. These changes are expected to be delayed and potentially omitted as regulators and Ministers focus on economic growth and jobs.

Historic Power Prices:

Daily and monthly generation weighted spot electricity prices at UK portfolio level (£/mwh).

United Kingdom

Wholesale power prices decreased throughout the reporting period to approximately £27/MWh in June 2020. The general downward trend has been driven by lower natural gas prices globally as a result of new supplies from the US and Australia entering the market. In addition to this, historically high gas storage levels in Western Europe, following consecutive mild winters had a downward effect on spot and forward prices for natural gas resulting in further downward pressure on wholesale power prices. From this already soft position, the UK government's restrictions in response to the COVID-19 pandemic drove down demand for gas, oil and power which has resulted in even lower wholesale power prices.

The average power price achieved across the UK portfolio during the period, including fixed price arrangements was

£33.62/MWh, versus £47.25/MWh in the first half of 2019, a decrease of 28.8% year-on-year as a result of low power prices experienced during the second half of the period. The proportion of revenues subject to fixed price arrangements across the UK portfolio during the period was c.30% of the total UK generation of electricity.

Fixed price arrangements for the 2021 financial year represent approximately 30% of the expected generation of electricity. This represents a material increase from a value of 8% at 31 December 2019, offering higher cash flow certainty for the upcoming periods. The generation weighted price of secured fixed prices across the portfolio is £45.71/MWh.

Australia

Wholesale gas prices continued to decrease during the period, with the Gas Supply Hub price averaging $4.10/GJ in Q2 2020, its lowest level since Q4 2015. As a result, power prices fell across Australia during the period as global gas prices, and to a lesser extent reduction in demand due to COVID-19, impacted electricity prices in Australia. Given Australia's relatively small reliance on gas generation (21%) compared to coal-fired generation (56%), Australian wholesale energy prices are less impacted by the reduction in global gas prices compared to other markets which are more dominated by gas generation.

During the period, the time weighted average spot price in Queensland was A$43.94/MWh, versus A$62.75/MWh in the second half of 2019, a decrease of 30%.

During the period, prices were lower in Victoria with a time weighted average spot price of A$59.71/MWh, versus

A$87.62/MWh in the second half of 2019, a decrease of 32%.

Three of the four assets in the Australian portfolio benefit from long term PPAs that offer protection against the power price volatility experienced during the period. The average power price achieved across the Australian portfolio during the period, including fixed-price arrangements, was A$56.11/MWh.

Power Price Forecasts:

The manager uses forward-looking power price assumptions to assess the likely future income of the portfolio assets for valuation purposes.

United Kingdom

During the period, power price forecasts decreased by 8.3% mainly due to movements in the short and medium-term as a result of the COVID-19 pandemic. The main driver has been a reduction in the forecast gas and power demand and the period of lower economic output assumed by third-party consultants. In the longer term the deployment of more low-cost generation, notably onshore wind, is expected to offset the upward pressure from an increase in demand.

The company's forecasts assume an increase in power prices in real terms over the medium to long-term of 1.3% per annum (31 December 2019: 0.4%).

Where the assumed asset life extends beyond 2050, the manager has assumed no real growth in forecast power prices.

Australia

During the period, Queensland and Victoria power price forecasts decreased by 4.8% and 3.2% respectively,

mainly due to assumptions around the impact of COVID-19 in the short and medium-term. Projections post-2030 were broadly in line with the December 2019 forecasts.

Outlook

While the COVID-19 pandemic has been an unexpected shock to financial and energy markets across the globe, it is unlikely to have a long-term impact on the future importance of renewable energy generation given the long-term challenge that climate change presents. At the time of writing, economies are re-opening, albeit at different speeds, and power demand with prices starting to recover as industries return to normal operation.

The United Kingdom remains committed to decarbonisation and achieving net-zero carbon emissions by 2050. The COVID-19 pandemic could provide additional momentum to future renewables growth despite the hiatus in construction caused by the national shutdown and the reduction in short- and medium-term power price forecasts. Countries across Europe have committed vast sums to stimulate economic recovery with large portions of this spending earmarked for 'green recovery' programmes and tackling climate change. The UK has already committed £3bn to a green investment package with promises of further infrastructure spending. Investment in the grid and its future stability will likely be a policy priority going forwards.

Before the disruption caused by the COVID-19 pandemic, solar deployment across the UK and Europe was forecast to pick up rapidly in 2020 as decreasing construction costs and increasing investor demand drove a new wave of subsidy-free buildout. In the UK, a pipeline of approximately 10GW of subsidy-free projects is estimated to be in planning stages and while the pandemic is expected to delay the installation of new projects as a result of the lower power price environment, the attractiveness of renewable energy to investors remains undiminished.

The landscape for the acquisition of operational subsidised assets in the UK and European is highly competitive and is expected to remain so in the foreseeable future, as a result of the low-interest rate environment and the resilience demonstrated by returns from renewable investments. At the current level of pricing for quality operational assets, the number of attractive growth opportunities for the company in the secondary market will continue to be low.

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John Leggate CBE, chair of Gresham House Energy Storage – 1 September:

Meanwhile, in terms of wholesale trading, lower national electricity demand has consequently led to lower available trading revenues during the lockdown period of the second quarter. However, it is noteworthy that there has been some recovery of demand since the lows of May and June, and that has helped wholesale market trading returns recover. In normal market environments there would be very limited correlation to power prices, however, when electricity demand collapses as it did during the initial COVID-19 impact period, the manager has, in hindsight, observed that temporary excess generation plays a part in dampening trading spreads.

Similar dynamics apply in the Balancing Mechanism (or 'BM', the mechanism by which National Grid uses generation assets, at prices offered by their operators, to balance supply and demand on a rolling half-hourly basis) and this remains one of our most important areas of revenues. However, having started the year in a very promising way, the BM became less profitable than the wholesale market during the lockdown as National Grid needed to take decisions to protect the stability of the system. This had an adverse impact on intraday pricing, as well as on the utilisation of batteries.

National Grid is only too aware of their under-use of batteries, given their promise to be able to operate a zero-carbon grid by 2025. In this context, from September National Grid will start to publish the times they do not use batteries when they could have done (known as "skip rates"). These skip rates will be monitored by Ofgem under the upcoming RIIO2 framework, which is designed to improve value for customers, and should lead to further demand for battery services from National Grid.

Separately, earlier in 2020, National Grid made a request to industry stakeholders asking for ways they might be able to better utilise batteries. Arenko (from whom the company acquired the Bloxwich asset) proposed a trial using processes currently used to make gas turbine generators available for system balancing by providing payments for availability. This concept of payment-for-availability which Arenko has proposed is an ideal way to make batteries available via contract several hours in advance.

There have been two trials so far and a third is planned for September. We are therefore hopeful that National Grid will introduce this as a revenue-generating service in coming months. In our view, this could transform the use of batteries and put them on the path to mainstream adoption.

Industry consultants have reacted to recent events by making fairly significant reductions to their forecast curves of average daily power prices, linked to a lower demand outlook, a growing amount of near-zero marginal cost renewables and much lower natural gas prices. The net impact of these changes has resulted in lower power pricing forecasts. We have adopted this new and more conservative regime. In our view, COVID-19 has had the effect of highlighting the importance of the ESG agenda and the extent to which integrating additional battery storage

deeper into the UK power grid can play a more valuable role in emergency situations.

The high percentage of demand being met by renewables in Q2 2020, caused by the lockdown-induced drop in demand, has offered a glimpse of a future where there is not sufficient battery capacity installed. The UK renewables fleet, combined with low amounts of battery storage, requires the use of more gas-fired generation to balance the system. Indeed, balancing costs to the UK power grid reached £718m for the period March to July 2020 according to Ofgem, a 41% increase in 2019.

Thus, installing batteries in the right quantities achieved two things at once; lower CO2 emissions by using less gas, and avoiding unnecessary curtailment of renewable power thereby lowering balancing costs to the UK power grid which are reaching unacceptable levels.

National Grid has just added more recognition to the importance of battery storage by launching Dynamic Containment, a new frequency response service which will add significantly to the procurement of such services from battery projects. The service is being launched on 1 October 2020 to include 500MW of demand. This approximately doubles the total demand for Frequency Response services; a further sign that battery storage is becoming increasingly integral to the UK power grid.

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Environmental

(compare environmental funds **here**)

Sir Ian Cheshire, chair of Menhaden – 24 September:

The impact on global growth caused by the COVID-19 pandemic has led to significant and continued uncertainty in stock markets over the last few months with unprecedented social and economic damage experienced all over the world. The pandemic also saw a shift in focus from another global crisis, climate change. While it is difficult to estimate how quickly and the extent to which markets will recover from the damage once circumstances improve, when this does occur, even greater attention may be placed on tackling the climate crisis as public pressure following the pandemic forces governments and businesses to take positive action regarding the management of resources.

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Commodities and natural resources

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

Howard Myles, chairman of Baker Steel Resources – 16 September:

The first half of the year was dominated by the COVID-19 pandemic and commodities and mining both experienced high levels of volatility. After an initial fall, they rebounded strongly as the market reacted to the potential inflationary risks that might arise as a result of high spending and borrowing from governments around the world and the positive effect this would have on real assets such as commodities. The rise has been led by gold which is often a lead indicator but base metals such as copper and tin have also recently participated in this bullish

environment recovering strongly ahead of potential government spending on infrastructure in particular where it involves electrification projects.

If the recent recovery in commodity prices continues, especially gold and silver, and with long term low or negative real interest rates, a rapid expansion of debt, historically high levels of economic stimulus and the potential for growing inflationary pressures, real assets such as commodities and mining should become increasingly attractive.

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Ian Francis, Keith Watson and Rob Crayford, managers of CQS Natural Resources Growth and Income – 9 September:

Economic disruption and the subsequent stimulus-response since lockdowns were imposed by governments around the world have been unprecedented and investment classes across the board have reacted markedly. In addition, a pivotal shift in strategy by the OPEC+ alliance, to open pumps in order to defend market share against emerging exports from the US decimated the oil price. It has been a tumultuous period demanding profound changes in government and also corporate policies.

The impact on different commodities has varied materially. While gold and silver have been clear beneficiaries, which has benefitted the fund due to its large weighting of approximately 30% as at end June. There has been a broad recovery across most asset classes after the COVID related sell-off in late February and March as investors anticipate the effects of co-ordinated global central bank and government stimulus programmes - rather than anything in the activity data which will continue to look weak as it feeds through. Equities and to some extent commodities (for those where sufficient storage capacity is available) have looked through short-term shocks, pricing off future supply/demand expectations. While knock-on effects from the additional government borrowing together with the disruption caused by the pandemic may be felt for a number of years, optimism is nevertheless returning as countries look to ease restrictions. China, which was first into the crisis, has also been the first to emerge from it and has been accumulating industrial metals at pace, taken advantage of the period of depressed pricing as demand ex-China collapsed during lockdowns. This has benefitted the base metal names in the fund, especially the copper miners, such as First Quantum and Ero Copper amongst others.

COVID-19 has impacted supply as well as demand. More than 20% of global copper, nickel, and zinc supply has been removed from markets during lockdowns. Mine disruptions announced thus far are estimated to have reduced full-year output zinc by approximately 5%, copper by 2.25% and nickel and aluminium by a lesser 1-2%. While iron ore production has been reduced, most notably at Vale's Brazilian operations, the availability of seaborne iron ore has been less affected with sales volumes guidance from the big three producers little changed for 2020. Though mine disruptions to date have been relatively short in duration relative to the demand global demand shock, as discussed above, China has soaked up any short-term excess units. Importantly, in sharp contrast to gold, where we note a substantial rise in equity issuance by companies seeking to expand output, base metal miners continue to exercise extreme caution in committing capital and funding to projects which should keep a lid on supply expansion.

Precious Metals

As we write, fears of a second wave of infections are providing a further boost to gold. Following a brief initial wash out of margin calls in March, as lockdowns were rolled out across the OECD, there has been little to hold gold back and year-to-date it has registered a 27% increase and is approaching US$2,000/oz.

The primary driver of the gold price is real yields, which is the return received from interest rates minus inflation. When real returns are low (or in today's world increasingly negative), gold has historically performed strongly. The fallout from COVID-19 has led to coordinated rate cuts globally, the economic impact of which is yet to be fully understood. We see no evidence to suggest any risk of an increasing rate cycle in the near term. Typically, there are two sources of inflation - either demand-led or supply led. While trends are recovering demand is currently weak, though pent-up demand may surprise. It is on the supply side where the biggest impact may be seen, as the huge deflationary pressures experienced from China Inc. over the last two decades may reverse as they find themselves increasingly politically and economically alienated from the global stage. Reconfiguring supply chains, to reduce the current heavy reliance on low-cost Chinese manufactured goods, may raise prices.

Driven by this the largest physically backed ETFs funds monitored by Bloomberg have added over 28m ounces this year to take aggregate holdings to 106m ounces. A corollary of this, however, is that gold is now far more expensive in the major demand economies such as India, China and Turkey, particularly when denominated in local currencies that have weakened against the US dollar. Similarly, central bank buying has paused as they contend with their response to COVID. Consequently, the pick-up in physical ETF buying has essentially only offset weakness from these segments. According to the World Gold Council, overall gold demand was up only 1% in the first calendar quarter of 2020.

Base Metals

Industrial base metals have undoubtedly experienced a demand shock, but unlike crude oil, these are easily stored, so do not see the same infrastructure restrictions. They are also far more dependent on China, which constitutes approximately 50% of demand so are better placed to respond as the region, which was first affected by COVID, leads the reopening process and prices have been well supported by Chinese state-owned enterprises seeking to build metal inventories into summer, ahead of an expected pick-up in economic activity. Indeed, having declined nearly 30% at one stage, the price of economic bell-weather metal copper has recovered strongly and has moved above levels at the start of the calendar year. In contrast to gold, copper prices trade at a premium in Shanghai versus western exchanges.

The US election, set for November, looks likely to be supportive for base metals, with both Trump and Biden running investment heavy campaigns. This will be important as a surge in US unemployment, which stood at over 11% in June having jumped to nearly 15% in April from 3.5% earlier in the year, has been accompanied by the largest drop in consumer confidence since 1973. In addition, there is increasing speculation of a US$1trn pre-election fiscal stimulus programme, to help bolster the country's economic recovery.

Oil

Oil prices plunged during the period suffering from the twin effects of demand collapse, as a global lockdown reduced daily demand by approximately 35%, together with a shift in strategy by OPEC and Russia to defend market share rather than price. The combined effects of the demand collapse and a surge in OPEC+

output as they opened their pumps caused substantial inventory builds to levels approaching global storage limits. This dynamic had an extraordinary impact on oil for prompt delivery, driving the May WTI contract price negative for the first time in history. This price correction has prompted a sharp reduction in US onshore rig deployment and corresponding sharp correction in regional oil output. Nevertheless, though oil prices have recovered to the more balanced situation the industry still appears beholden to the marginal cost level of US producers which we believe to be in the US$40-50/bbl range, limiting upside potential in this sector for the time being.

Outlook

For now, the fund's exposure to gold has helped mitigate the impact of the virus disruption and the sector remains a safe haven while uncertainties of a second wave of virus persist and Brexit negotiations resume. However, co-ordinated and unprecedented global action to support economies has since taken place, leaving us constructive on the sector and respective equity valuations going forward. Major commodity consuming economies, particularly China, appear to be finding a more stable footing and are taking full advantage of the weakened western market demand and depressed commodity prices to buy industrial metals in expectation of a longer-lasting recovery. This bodes well for a recovery in industrial metal demand as does continued capital discipline by industrial metal miners which will contain future supply growth.

In addition, COVID-19 appears to have accelerated some trends, notably demand for clean air and by extension clean electrification, highlighted by Europe's environmentally focussed stimulus. Copper remains central to this with other benefits such as its biostatic anti-germ properties offering up other, less discussed avenues of possible demand growth. In this respect, the green credentials of silver are also appealing and related equities, are currently gaining traction having lagged behind gold.

More generally unprecedented, debt-funded stimulus may raise questions over the value of fiat currencies. The recent softness of the US dollar, if sustained, may widen investor appeal of the broader commodity-related asset class. We hope that the effects of future virus outbreaks will diminish and continue to monitor developments for potential vaccines that will allow a return to the new normal.

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Property - UK

(compare UK property funds **here**)

Vikram Lall, chairman of BMO Commercial Property – 30 September:

There is likely to be increased unemployment as the furlough scheme ends, which could delay recovery, and further waves of infection and lockdowns cannot be ruled out. It looks probable that there will be a permanent shift in the property market, particularly in retail where online shopping has accelerated and in the office sector where there are and will be increasing numbers working from home. Although the lockdown measures began to be eased towards the end of our financial year, the economic outlook remains highly uncertain and the trading position of many occupiers is extremely challenged. It will take time for output to return to pre COVID-19 levels and for many businesses the new economic reality will look very different to that prior to the outbreak.

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Tony Roper, chairman of Aberdeen Standard European Logistics Income – 30 September:

Notwithstanding the unprecedented economic environment we are now operating within, the board and investment manager continue to believe that logistics will remain one of the most favoured sectors for real estate investors in the coming years. The logistics industry has and is experiencing unprecedented disruption as a result of systemic changes to the way global economies are functioning and these challenges are manifesting themselves in different ways across different sectors. So far, logistics assets have benefited from additional occupier demand arising from necessary supply chain restructuring.

New technology is creating challenges for supply chains as clients demand frequency and more complexity whilst the nature of e-commerce, where Europe has lagged the UK, has increasingly required operators to adapt faster to future shifts in consumption, particularly so since the European lockdowns. Leasing 'tension' has been robust and land values under pressure from competing uses with income growth prospects potentially stronger than for 'ultra big-boxes' where risk is higher at maturity of the lease as the number of potential occupiers are limited. The European logistics sector continues to grow with the increasing demand from market participants for newer, quality warehousing driven by their demand for increased space, both for re-shoring of operations and to address the rise in e-commerce demands.

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Chris Phillips, chairman of Triple Point Social Housing REIT– 30 September:

For all the disruption caused by COVID-19, the fundamentals of this sector remain as strong as ever - perhaps stronger than ever before. Despite some short-term delays in deployment and construction, the damage caused by COVID-19 appears to be elevating the relevance of our socially focused investments, while the fundamental need for this type of housing continues to grow. Commissioners continue to call for new schemes, and our existing schemes continue to operate well. For all the challenges that lie ahead - both for our economy and our business - our performance in the first half of this year allows us to look to the future with optimism.

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Ken McCullagh, chairman of UK Commercial Property REIT – 24 September:

The key questions are how much and how quickly the economy can recover and if and when a COVID-19 vaccine might be developed which would allow a return to full economic activity. The effect of the ongoing Brexit negotiations and the uncertainty around whether a trade deal will be agreed between the UK and the EU also cannot be ignored in assessing the future prospects for the UK economy. Our investment manager is forecasting a 12.9% fall in GDP for 2020, a figure which testifies to the damage done to the economy, but encouragingly also forecasts 11.8% GDP growth in 2021, on the basis there are no further setbacks. Taking this in the context of UK commercial real estate, it is forecast that valuations, which were already under pressure pre COVID-19, will continue to decline for the remainder of the year. The ability of tenants to continue trading and to pay rent will be key in preserving values and revenues. Any recovery in real estate will not be felt to the same extent across all sectors. COVID-19 resulted in most consumer

goods only being available online for a period of time, with the consequence that all generations have become more "computer savvy" and increasingly comfortable with online transactions during lockdown. This is widely forecast to further accelerate the move towards online retail with an increasing demand for logistics units at the expense of traditional high street retail and shopping centres.

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James Clifton-Brown, chairman of Standard Life Investments Property Income – 22 September:

From a real estate perspective, our investment manager forecasts that valuations will remain weak, although they are unlikely to experience the declines we have seen in the first six months of this year. In terms of rent collection, some tenants, depending on what sector they are in, will continue to have difficulty in meeting rental obligations over the remainder of this year, and quite possibly for the first half of 2021. However, indicative evidence from our own portfolio is that most tenants are willing to work with their landlords to come to a mutually acceptable outcome for rents due and hence it is hoped there will be a fairly rapid pick-up in activity in 2021. This recovery will not be uniform across the main real estate sectors with the accelerating move away from high street retail to online retail. The resultant requirement for industrial space means the industrial sector is likely to continue to be the best performing sector.

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John Crabtree, chairman of Real Estate Investors – 21 September:

Assuming no further drastic COVID-19 related events, we see scope for a renewed level of occupier and investor demand, with particular improvement in occupier demand and rental growth for the office sector. This is due to the lack of supply and greater demand for offices closer to employee residential areas and away from city centres, to avoid the need to travel and use public transport. We expect the stability in convenience and neighbourhood retail to continue with improved demand from investors for these assets and government tenanted assets. Overall, we remain optimistic that we will see a gradual return to positive levels of economic activity over the next 12 months.

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Nick Hewson, chairman of Supermarket Income REIT – 17 September:

The COVID-19 pandemic looks as if it is going to be around for some time, meaning that the retail sector will be required continually to adapt to the changing operating environment. However, the food retailers have demonstrated that they can act speedily and efficiently to deliver groceries to customers. The next challenge facing the grocery sector is Brexit. We believe that our tenants are well positioned to deal with any disruption that may occur. They have strong balance sheets and have demonstrated their ability to adapt their business models and supply chains through the COVID-19 crisis. As a result, we believe any adverse impact for the group would be short lived.

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Manager's report for GCP Student Living – 17 September:

The COVID-19 pandemic has presented unprecedented challenges for the higher education sector, including the company. Social distancing will necessitate a hybrid teaching approach until such time that an enduring solution to the COVID-19

pandemic is found by governments globally. This will combine smaller lecture and/or group sizes with online learning. In such a scenario, it is the investment manager's expectation that students will attend some classes in person whilst making use of online offerings from their accommodation. In doing so, students will seek to attend campuses where possible given the role university plays as a rite-of-passage in the lives of undergraduate students in particular.

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Property - Europe

(compare European property funds **here**)

Robert Hingley, chairman of Phoenix Spree Deutschland – 15 September:

Mietendeckel has already created significant disruption in the Berlin rental market. Predictably, the effect of rent controls which seek to limit rent levels to below those set by the market, has been to reduce the supply and quality of rental property rather than grow it. At a time when the need for sustainable, environmentally friendly housing has become ever more apparent, levels of investment in the fabric of existing properties are declining. This will likely result in an overall deterioration of the standard of Berlin housing stock which had benefited significantly from high levels of investment during the past decade.

These effects could be reversed if and when the Mietendeckel is overturned. A positive ruling on the Mietendeckel has the potential to positively impact the current valuation discount of the company. We hope for further clarity on the legality of the Mietendeckel in the months ahead.

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