



Economic & Political Roundup

Monthly roundup | Investment companies | June 2022

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

Roundup

Despite the current wave, it may seem as though the COVID-19 pandemic is waning, but its impact is certainly still being felt. Economies remain under threat from rising inflation and rising interest rates. Meanwhile the ongoing war in Ukraine is only exacerbating these woes, perhaps more so in certain countries than others. Investors are increasingly concerned about recession, and after creeping to an all-time high, the oil price took a slight hit in June as a result. Commodities & natural resources funds have fallen after months of outperformance. Bond yields spiked in the middle of June, but have weakened since. Consumers must face the fact that the cost-of-living crisis has only just begun.

Pandemic backlash

Global

Lindsell Train's chair highlights the material risks to the value of equities.

Karl Sternberg, chair of Monks notes that the scale of monetary largesse during the critical early stages of the pandemic turns out, with the benefit of hindsight, to have been too much.

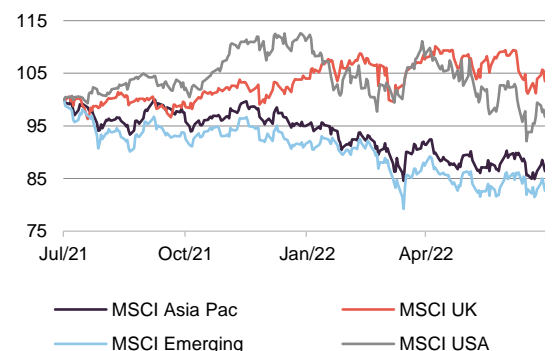
AVI Global's Susan Noble says the major issue looking forward is energy and food price inflation adding to supply chain issues resulting from the pandemic.

Exchange rate	30/06/22	Change on month %
GBP / USD	1.22	(3.4)
USD / EUR	0.95	2.4
USD / JPY	135.72	5.5
USD / CHF	0.96	(0.5)
USD / CNY	6.70	0.4

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/07/2021 to 30/06/2022



Source: Bloomberg, Marten & Co

Indicator	30/06/22	Change on month %
Oil (Brent)	114.81	(6.5)
Gold	1807.27	(1.6)
US Tsy 10 yr yield	3.01	5.9
UK Gilt 10 yr yield	2.23	6.1
Bund 10 yr yield	1.33	19.0

Source: Bloomberg, Marten & Co



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Global Investors

June's highlights

Global (cont.)

Focus on investing for the long-term

The manager of Bankers thinks that while there is a real risk that economic activity contracts in Europe and elsewhere, purely through demand falling as consumers pay more for basic goods and services, shares are already pricing in a slowing growth outlook.

The managers of Edinburgh Worldwide say there have been two prominent themes active in financial markets over the past decade and beyond: technology empowered globalisation and benign inflation and the expansionary monetary policy of many central banks.

The investment team at Scottish Investment Trust reiterate that it's more important than ever to focus on investing for the long-term.

UK

The market is currently coming to terms with a phenomenon not experienced for some time

The managers of Baillie Gifford UK Growth explain their thoughts as to why a material stock market rotation has taken place in which 'growth' businesses have fallen out of favour and their share prices have consequently performed poorly.

David Horner of Chelverton UK Dividend says the market is currently coming to terms with a phenomenon not experienced for quite some time, namely inflation.

Montanaro UK Smaller Companies' manager says during rising inflation and supply chain challenges, high quality well-managed small companies with strong market positions and pricing power have been able to pass on additional costs.

Jane Tufnell, chair of Odyssean says never before has it been so important for companies to be able to improve themselves to create value.

Rockwood Strategic's managers highlight that within equity markets high valuation stocks, particularly in the technology and early-stage healthcare sectors, have been very weak.

The managers of BlackRock Income and Growth believe it is still likely that government stimulus continues to be retracted, and monetary policy is tightened in the face of more persistent inflationary pressures.

James Henderson and Laura Foll of Henderson Opportunities discuss the best performing sectors which were either positively exposed to rising commodity prices or defensive sectors such as utilities and pharmaceuticals.

The chair of Schroder UK Mid Cap says real value exists around current levels for trade buyers prepared to take a longer-term perspective and look through the current uncertainties.

Flexible investment

The landscape has normalised to some degree from the extremes of 2020

The managers of Momentum Multi-Asset Value think the landscape has normalised to some degree from the extremes of 2020 though we find ourselves with a complex background of rising inflation and central banks beginning to unwind historically record levels of stimulus.

Omicron continues to weigh on supply chains

Sebastian Lyon, manager of Personal Assets, says we are shifting from a 'just in time' to a 'just in case' economy. Higher domestic capital expenditure will follow in order to add resilience to developed economies.

The managers of Aberdeen Diversified Income and Growth note that Omicron continues to weigh on supply chains, exacerbated further by China's zero Covid strategy. At the same time the war in Ukraine compounds these issues and the team expects continued disruption as a result.

Renewable energy infrastructure

The chair of Aquila Energy Efficiency says it is widely recognised that there is a financing gap with energy efficiency investments in both the public and private sectors, often because of scale and complexity, thus capital should be directed to focus where it is not currently invested.

JLEN Environmental Assets' Richard Morse thinks this is an exciting time for an environmental infrastructure fund as it looks to the future with a rapid increase in renewable energy generation, low carbon transport and the charging/fuelling network needed to support this.

Kevin Lyon, chair of NextEnergy Solar notes that the UK power market continues to experience sustained high prices.

The chair of SDCL Energy Efficiency Income explains why within the energy sector, efficiency may not be the whole answer, but it is probably at least half of it.

John Roberts of Triple Point Energy Efficiency Infrastructure says the devastating events in Ukraine have highlighted the importance of a low carbon, efficient energy system to energy security.

The events in Ukraine have highlighted the importance of a low carbon, efficient energy system to energy security.

Atrato Onsite Energy's investment adviser believes the focus on decarbonisation, both domestically and corporately, is reflected in the growth in demand for Renewable Energy Guarantees of Origin certificates and a commensurate increase in price.

Sue Inglis of ThomasLloyd Energy Impact says emerging market countries in Asia are returning to growth and there has been a resurgence in electricity demand as lock-downs end and restrictions eased.

Other

We have also included comments on **global emerging markets** from Templeton Emerging Markets and Utilico Emerging Markets; **North America** from BlackRock Sustainable American Income; **Europe** from JPMorgan European Discovery, JPMorgan European Growth and Income and Montanaro European Smaller Companies; **Japan** from JPMorgan Japan Small Cap Growth & Income and CC Japan Income & Growth; **India** from JPMorgan Indian; **private equity** from abrdn Private Equity Opportunities; **growth capital** from Chrysalis; **infrastructure** from GCP Infrastructure; **biotechnology & healthcare** from Biotech Growth; **farming & forestry** from Foresight Sustainable Forestry; **commodities & natural resources** from Geiger Counter and **property** from Schroder European Real Estate, AEW UK REIT, LXi REIT, Schroder Real Estate, Urban Logistics REIT, Custodian REIT, NewRiver REIT, Workspace and Industrials REIT.

Global

(compare global funds [here](#), [here](#) and [here](#))

Julian Cazalet, chair of Lindsell Train - 15 June

Viewed objectively the outlook could not be more uncertain. The war in Ukraine, the pandemic, supply chain issues and the associated logistical challenges, the rise in commodity prices, inflation and rising interest rates all spring to mind as material risks to the value of equities. We have no special insight on any of these risks except to reflect that their combined impact is impossible for anyone to predict!

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Karl Sternberg, chair of Monks - 21 June

The end of Covid restrictions in the Western world has delivered a new set of challenges to investors. Our economic problems are manifesting themselves in a burst of inflation, leaving central bankers with no good policy choices. We cannot know whether inflation will be cured by an economic slowdown, or whether a slowdown will turn into a nasty recession. Stock markets have reflected this greater uncertainty by marking down the prices of all financial assets, particularly hitting the growth companies in which Monks invests.

Just as in previous inflationary periods, a number of cyclical and structural problems have coincided. The problems we face are: scarcity of commodities and fuel; the need to re-arm to prevent conflict; and the re-ordering of supply chains. Underinvestment in oil and gas, new sources of power, and natural resources extraction, has boosted the prices of fuel and commodities. Russia's invasion of Ukraine has reinforced the scarcity of fuel, metals and soft commodities. It has also led to the prospect of greater military expenditure by NATO countries after years of the 'peace dividend'. Supply chains were exposed as fragile when Covid struck, and China's ongoing restrictions while the rest of the world reopened, have exacerbated the problem, as has China's tacit support for Mr Putin. In any case the great outsourcing of manufacturing to China was reaching its natural limit as China's cost advantage eroded.

All of these problems have arisen as economies responded to pent-up demand after nearly two years of restrictions on normal life, and permanent changes to patterns of living and working. The scale of monetary largesse during the critical early stages of the pandemic turns out, with the benefit of hindsight, to have been too much. Excess money is extinguished only by real supply or price rises. Unlike the end of the 1970s when central bankers finally took on inflation and raised interest rates substantially, policymakers face the constraint of high levels of debt for the state, the corporate sector and households. This makes the future path of rates and the economy particularly difficult to gauge.

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Susan Noble, chair of AVI Global - 9 June

News in the half year under review was dominated by Russia's invasion of Ukraine. The Board and of all of those involved with AVI Global Trust are deeply troubled by these events and we hope for a swift and peaceful resolution to avoid further casualties.

Analysis has identified no direct exposure to Russia or to Ukraine. Nonetheless, AGT's portfolio companies operate in a globally-linked economy, and there is potential for the portfolio to be impacted by inflationary and exchange rate pressures brought about by the conflict. The economic effects of the invasion have already been felt in the dramatic rise in the cost of energy and of some basic foodstuffs and there is natural concern that this will lead to ongoing levels of inflation not experienced in the developed world for many years. Broadly based equity market indices fell on the news that war had broken out in Ukraine in late February 2022 but had recovered by late March 2022. To echo the words of our Investment Manager, markets were sanguine in late March 2022, perhaps remarkably so in light of the geo-political and economic challenges that the world is facing and indeed markets became more volatile and fell in value subsequent to the half-year end.

The world has been unpredictable in the last few years, with the economic shock of the pandemic two years ago now being joined by war in Europe. Our thoughts are first and foremost with the victims of war but as investors we also look to the broader economic consequences of events. The major issue looking forward is energy and food price inflation adding to supply chain issues resulting from the pandemic. The concern is whether this will lead to people seeking to counter higher living costs with higher wage demands, which can then lead to an inflationary spiral, potentially impacting companies' earnings.

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Alex Crooke, manager of Bankers - 24 June

The highest level of price inflation for over 30 years and potential central bank reactions have dominated markets throughout the past half year under review. The reasons for inflation touching 10% in the UK are manifold but stem from disruption to both labour movement and supply chains throughout the Covid lockdowns. Goods price inflation has been compounded by rising service prices and, more recently, energy and food prices following the invasion of Ukraine. The equity markets have fallen in value since the end of December, with inflation proving far from transitory as central banks assured investors last year. Historically, such levels of inflation would provoke central banks to raise interest rates rapidly to curtail demand and bring prices back down but investors fear that the increase in rates has been too slow.

Longer term bond yields have also risen over the period, signalling unusual conditions where both bonds and equities have fallen in value. Essentially, market prices are signalling that central banks will not contain inflation quickly and that it is increasingly likely that a recession will follow. Growth equities, especially technology companies, have been especially hard hit, while energy and other defensive sectors such as utilities and healthcare have been relatively better performers. Ironically, corporate profits are proving resilient and are even rising, but the market valuation of those earnings by investors has been derated because of their cautious outlook. Typically, markets derate stocks well ahead of actual earnings falling.

The most resilient stock market has been the UK which has risen in value over the period under review. This has less to do with the strength of the UK economy but rather the high weighting of oil and mining companies and those with large overseas earnings within the market. The US dollar has appreciated by almost 9% over the period against sterling reflecting a flight to quality and the expectation that the Federal Reserve will raise interest rates quicker than the UK. The remaining major markets, the US, Japan and Europe have broadly fallen by the same amount in local currencies, approximately 10% but in sterling terms the US has delivered the better

underlying return despite the sell-off in technology shares. China has been a notable laggard in terms of market performance as the policy of zero Covid cases in the community is having a detrimental impact on economic growth. It is proving challenging to understand when this policy will be overturned.

Outlook

While we desperately hope that there will be an end to the conflict in Ukraine, it is clear that energy and food prices are likely to be elevated for some time to come as supply shortages persist. While there is a real risk that economic activity contracts in Europe and elsewhere, purely through demand falling as consumers pay more for basic goods and services, shares are already pricing in a slowing growth outlook. The resilience of the UK stock market should continue despite the uncertainty stemming from UK politics. US interest rates are forecast to rise to over 2% by December, which will have a cooling effect on the US economy, but we still expect US growth to remain positive and therefore US corporate earnings to grow this year. Stock markets will remain volatile until there is a clear downward direction in inflationary pressures and investors can gain confidence in stock valuations.

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Managers of Edinburgh Worldwide - 6 June

The past six months have been a challenging one for stock markets. This has been most acute for those listed companies where their commercial activities have yet to scale and consequently their profits skew to outer years. The stocks favoured by the Company have been in the eye of the storm. The attributes that we like about them - they are building better and more efficient ways of solving large problems - have been markedly out of sync with the stability and defensiveness craved by the market currently. The reasons for this are complicated but we try and unpick them below.

There have been two prominent themes active in financial markets over the past decade and beyond. The first is that of technology empowered globalisation: the liberalisation of trade and information flow helping drive a more interconnected and efficient business landscape. The second is that of benign inflation and the expansionary monetary policy of many central banks (much of that stemming from the Financial Crisis over a decade ago but more recently from the response to the pandemic).

Both these themes have provided a supportive environment for equity investors. Globalisation acted to increase the addressable market for many businesses which synergised with digital technologies to make such endeavours scalable. Benign inflation and low interest rates offered stability for businesses and encouraged investment and the building of future cashflows (on the basis that such cashflows were less eroded by discounting them to their present value). The recent potent combination of escalating geopolitical tension, military conflict in Europe and the after-effects of the pandemic have pushed investors to reassess these two themes.

We have previously noted how pandemic-stretched supply chains were feeding into inflation of both goods and services. Our working assumption was that this would be transient and effectively self-correcting as the supply and demand normalised. There is mounting evidence to suggest that inflation is more pronounced, persistent and global in scope than the market expected. This is being exacerbated by the conflict in Ukraine driving up energy and food supply costs, but also by the ongoing disruption to Chinese manufacturing as the authorities take an aggressive approach to the spike in Covid-19 cases. While it could be argued that additional exacerbating

forces might soon subside, our sense is that they could well remain as pressure points into the future, not least because their impacts have secondary consequences that will take time to fully play through.

As inflation in many developed markets approaches double-digit annual percentage rates the stock market has begun to fret about how this will impact on consumption, wage growth, business confidence and whether it will push central banks into a belated 'cull inflation at all costs' series of aggressive interest rate rises. We are not economic forecasters, but neither do we feel we need to be to recognise that the next few years might well be one characterised by stubbornly elevated inflation, tempered consumption and more expensive borrowing costs. It's not an environment that we would choose but neither is it one that we feel especially troubled by. The clear lessons of the past century have demonstrated that technologies and the companies that harness them play the greatest role in shaping society and driving progress. The cycles that influence such developments share very little, if any overlap with the cycles that drive the economy, inflation or interest rates.

Additionally, when economic growth is scarce and inflation elevated, we believe there are two attributes that will help some companies emerge from this situation in a stronger position. First, companies achieving real growth driven by increased need and adoption of a differentiated product offering. Second, companies that both develop and exploit intrinsically more efficient ways of solving huge problems. The combination of these characteristics yields both the opportunity to grow, the pricing power to protect margins and the scalable cost base to improve them over time. In summary, companies that deliver better, cheaper and more efficient solutions should ultimately find the tougher current environment one where their relative attractions hold more sway given sufficient time. While companies such as Ocado and the freelance network Upwork are currently caught in the 'growth is out of fashion' narrative active in today's stock market, we think they represent great examples of businesses where the inflation and tight labour force dynamics work to their long-term structural advantage.

Escalating geopolitical tension has been evident for several years, most notably between the US and China regarding technology and intellectual property. Recently, a more philosophical axis of difference has come to the fore; one that pitches societies that operate around democratic principles against those of authoritarian control. The conflict in Ukraine, and the resulting response from many countries, is a tragic embodiment of this. Exploring this topic in detail is beyond this commentary, but we think the challenge to globalisation is real. Thirty plus years of taking down barriers to trade and driving efficient globally connected supply chains is not easy to unpick. The patterns of business and trade are too interconnected to suddenly move to a different model, even if that was the favoured outcome. But when it comes to how businesses think about allocating incremental capital, greater emphasis will be placed on the continuity of supply through more diversified supply chains and a degree of onshoring. Such efforts, while ultimately being more robust, will be additive to the inflationary pressures outlined above and would likely stimulate investment in much more automated and robotics-based processes to insulate corporate margins. We think this latter point is important as it hints at how technology and innovative solutions will likely become an even more prominent driver of business opportunity in a post-globalisation age.

Changes in the market backdrop are always going to be hard to predict and difficult for both investors and companies to digest. A pivot by stock markets towards defensive companies is perhaps not too surprising at a time of such flux. However, we find the aggressive derating of growth focused businesses too reactionary and

blunt in its application. A rising interest rate environment will naturally have a mechanical flow through to valuations but, in our minds, the current aggressive sell off (including that since 30 April 2022) is more synonymous with growth being mistakenly viewed as an intrinsic fragility within a business. For companies where the growth potential largely sits outwith the influence of macro trends and geopolitics we find this both odd and short sighted, but ultimately a source of investment opportunity for the future.

Growth doesn't come for free. Companies must invest in both human and physical assets to enable it. Such a dynamic necessitates that those companies investing for future growth will have financial characteristics that are immature regarding their ultimate potential. What's important to us isn't the snapshot of where a company currently sits along that journey. Rather, it's an assessment around a company having the capability and the means to progress along the spectrum of immaturity and realise its full potential. Despite the deterioration in the backdrop, we think this assessment holds very well for the vast majority of holdings in the portfolio. We sense that current valuations of many of the holdings imply an overly aggressive discounting of growth potential beyond that which could be considered near-term and highly visible. As stock pickers of companies where we are genuinely excited by what they might build over the coming decades, we think the current downward repricing of the long-term growth opportunity readily captures the near-term uncertainty and risk posed by the current environment.

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Helge Skibeli, Rajesh Tanna and Tim Woodhouse, managers of Scottish Investment Trust - 30 June

This was an exceptionally volatile period for global markets. We entered the last months of 2021 with relatively low expectations for interest rate increases, despite the very real threat of rising inflation. Within a very short period of time, market expectations then pivoted to believing that the Federal Reserve was behind the curve when it came to curbing inflation, leading to rates expectations spiking, and that had significant implications for the valuation of high-growth assets in the market.

In January and February we saw a meaningful de-rating of technology companies. This was ultimately a function of both egregious valuations in some cases, but also mounting evidence of the scale of the demand "pull- forward" that had occurred during the pandemic. This was particularly true for the cohort of companies that are unprofitable, as a rising cost of capital led investors to demand evidence of profitability, rather than simply paying up for the fastest growers.

Amidst all this, inflationary and supply chain pressures were continuing to mount. The supply chain constraints were not new, but the evidence began to suggest that they would persist for longer than expected. The concerns around both of these issues were then exacerbated by the Russian invasion of Ukraine. Of course, most importantly on a human level we were appalled to see the devastation this wrought on the Ukrainian people, and we very much hope for a resolution to this crisis in the near future. Markets also recognised the scale of the challenge that this posed when considering how persistent inflation would be - energy prices saw the most immediate impact, but there are also implications for prices of food and other commodities that must now flow through to consumers and businesses.

This was reflected in equity prices around the world, but it was particularly disruptive in Europe, given both the proximity geographically to the conflict, but also because of the relatively outsized impact on the consumer through utility prices. As a result, we saw European equities underperform in the immediate aftermath of the invasion.

When we take a step back and look at what this means, equity markets around the world suffered during this six month period. We believe it's more important than ever to focus on investing for the long-term, and identifying those companies that we wish to buy when we see volatility - which we believe is in the long-term interests of the Company's shareholders.

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UK

(compare UK funds [here](#), [here](#), [here](#) and [here](#))

Managers of Baillie Gifford UK Growth - 10 June

Generating a very poor relative return over the financial year leads to the fair and challenging question of 'what's gone wrong?' It's hard to generalise but part of this can be attributed to the fact that the broad UK index is heavily skewed to a small number of large companies particularly in the oil & gas, banking and pharmaceutical sectors, which we typically don't own and, which have been outperforming as oil prices hit record highs, interest rates rise (and are expected to rise further), and some investors seek safety in more defensive names. However, we think the main reason is that a material stock market rotation has taken place in which 'growth' businesses have fallen out of favour and their share prices have consequently performed poorly. We are aware that this sounds rather pat, but its plausibility is supported by the fact that the worst contributors to our relative underperformance over the financial year were stocks that we own while the list of positive stock contributors to relative performance was dominated by stocks we didn't own i.e. individual stocks not held that underperformed the benchmark. In other words, as stock pickers of a relatively concentrated portfolio there is no place to hide. However, it also leads to this simple but powerful observation: we have spent a lot of time re-examining the fundamentals of the companies in the portfolio and we believe that they remain strong.

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David Horner of Chelverton UK Dividend - 30 June

The year to April 2022 has been a challenging one. After a strong recovery from the depths of the pandemic, companies have had to deal with new strains of the virus and associated restrictions, supply chain challenges, rising inflation, a shortage of skilled workers and now the impact of the appalling war in Ukraine. The stock market tends to react poorly to uncertainty so, in the face of continuing shocks to the system, it is not surprising that share prices have suffered. Our investee companies have, on the whole, navigated these challenges well. The recent reporting season saw the majority of companies report an in-line set of results which, in many cases, could have been even better were it not for supply chain challenges constraining revenues. Despite the solid underlying trading performance, the market has been de-rated.

The market is currently coming to terms with a phenomenon which it has not experienced for quite some time, namely inflation. In times of uncertainty there is usually a "flight to liquidity", and we have seen this occur this time around, to the detriment of the small and mid-cap stocks in which we invest. As noted above however, the solid underlying performance and low valuations in our part of the

market have sparked an increase in corporate activity, a sure sign that there is value in the market.

We have also seen a marked increase in the number of companies undertaking share buy-backs, another consequence of current valuations combined with good cash generation and strong balance sheets. As long as buy-backs are instigated alongside an appropriate dividend policy, and the shares are subsequently cancelled, buy-backs are a positive for our stocks, as they should ultimately result in faster dividend growth in future years.

Supply chain challenges are likely to remain in the short to medium term, however good management teams are finding ways to adapt to the current climate. One consequence of this is higher levels of inventory throughout the system, something we will need to keep an eye on as this should unwind to some degree as and when supply chains become more predictable. We are unlikely to see a return to the positive earnings forecast momentum seen at the beginning of last year until management teams feel they are able to predict macro conditions more accurately; however, we take comfort from the fact that our companies have kept forecasts on the conservative side coming out of the pandemic. This, combined with the operational improvements made over the last few years at our investee companies and the attractive dividend yields currently available, gives us a significant degree of confidence looking into the medium term.

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Charles Montanaro of Montanaro UK Smaller Companies - 15 June

We have been through several such challenging periods before - after all, Montanaro celebrated its 30th anniversary last year. The macro-economic uncertainties have rarely been greater and some of the consequences of the tragic war in Ukraine are already evident.

However, over the past 40 years I have learned that forecasting the economic outlook is fraught with difficulty and we make no attempt to do so. Instead, we listen to the companies in which we invest and have known for many years. Broadly the message currently is a confident one and most earnings announcements are positive. At a time of rising inflation and supply chain challenges, high quality well-managed small companies with strong market positions and pricing power have been able to pass on additional costs.

We have also learned that markets always mean revert. Investors tend to get carried away and markets have a habit of proving as many people wrong as possible. Most have thrown in the towel on Quality Growth small companies in favour of Value, commodities and LargeCap. As a result, SmallCap valuations are now the most attractive in many years and the asset class is unloved. For the long-term investor such as us, this gives us considerable confidence and optimism for the future.

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Jane Tufnell, chair of Odyssean - 6 June

There are an unusual number of material uncertainties impacting investor sentiment at present. The real world impact of inflation, the potential for stagflation, the prospect of a recession in 2023, the pace that interest rates will rise, allied with geopolitical risk from the Russian incursion into Ukraine. In addition, current reports of material backlogs in port operations in China driven by Covid-19 lockdowns may lead to a prolonging of supply chain challenges.

Never before has it been so important for companies to be able to improve themselves to create value. The scope for operational and strategic improvement amongst portfolio companies provides the Board with comfort that NAV per share progression is not solely reliant upon market re-rating and benign trading conditions.

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Managers of Rockwood Strategic - 23 June

We do not believe a detailed historic review of markets during the period is particularly helpful to shareholders in this stock-picking strategy. Suffice to say that the second half of the year was characterised by the Omicron variant of the COVID-19 virus, the invasion by Russia of Ukraine, high inflation (not 'transitory' as anticipated by many) leading to an inflection point in the direction of interest-rates by Central Banks. Second-order effects have been supply-chain shortages, rising energy and commodity prices, falling bond prices, and a strengthening Dollar. Within equity markets high valuation stocks, particularly in the technology and early-stage healthcare sectors, have been very weak.

The monetary policy change is most relevant to this strategy. For over a decade equity market participants have become overly used to extremely accommodative monetary policy, which has resulted in valuation multiple expansion of long-duration equities, most commonly 'Growth' shares. The 'boost' to this investment style has clearly now peaked. Going-forward, the 'value' factor, a key component of our investment philosophy, should increasingly benefit, particularly the cashflow generating companies we target.

We anticipate a pickup in trade buyer acquisition activity and public-to-private transactions in the coming years for our targeted part of the UK stock market. If the stock market doesn't fairly value or provide growth capital to UK listed small companies then other solutions will emerge.

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Adam Avigdori and David Goldman, managers of BlackRock Income and Growth - 22 June

The benchmark Index was a notable outperformer versus other developed markets indices where a number of emerging and strengthening headwinds served to put pressure on risk assets globally. These headwinds include the Omicron COVID-19 variant, Russia's invasion of Ukraine as well as a general increase in geopolitical tensions, rising inflation, weakening consumer sentiment and record high energy prices.

The Omicron variant created a ripple effect in developed markets early in the period and although its impact faded as 2022 has progressed, it continues to disrupt economic activity, most notably in China where stringent lockdowns are still enforced affecting global supply chains.

Prior to Russia's invasion of Ukraine, markets had been impacted by the steep rise in bond yields as investors rapidly repriced the scale and speed of interest rate rises in response to high and persistent inflation. Supply constraints have been widespread with the shortage of semiconductors perhaps the highest profile.

The war has only served to exacerbate those inflationary concerns with key commodities across energy and agricultural markets rising sharply in price; security of energy supply becoming a key focus as countries seek to reduce their dependence on Russia. Market performance was dominated by the strength in

commodities prices which benefitted the Mining and Oil & Gas sectors. These are relatively large weights in the Benchmark Index contributing to its relative resilience over this period. Defensive sectors, such as Tobacco and Pharmaceuticals, also benefitted from greater economic uncertainty. Meanwhile, long-duration assets were negatively impacted by rising interest rates which reduce the present value of their growth.

Outlook

We are conscious that, at the time of writing, there is a significant conflict and human suffering. Whilst we continue to reference the investment implications of this, we recognise there are also tremendous implications for humanity. The Russian invasion of Ukraine has contributed not just to the volatility of 2022, but also to the range of outcomes. The backdrop for global equities therefore, in our view, is mixed. Although demand remains strong, the outlook for corporate revenue and earnings growth is likely to worsen over the course of 2022 as the potential negative jaws of rising oil prices and rates raise the spectre once again of stagflation. It is still likely that despite the emerging cost of living crisis, government stimulus continues to be retracted, and monetary policy is tightened in the face of more persistent inflationary pressures. It will be incredibly important to focus on companies with strong, competitive positions that can deliver in this environment and that trade at attractive valuations.

Central banks, universally across the developed world, have entered 2022 in a far more hawkish manner and as a result, market expectations for higher rates and faster quantitative tightening have risen considerably. Time will tell whether the conflict impacts the growth outlook and therefore the hawkishness of central banks. It is also more likely we will see increasingly divergent regional monetary approaches with the US being somewhat more insulated from the impact of the conflict, than for example, Europe. We still do not know whether the current inflationary trends are temporary or structural. Within this calculation one must consider the impact from the significant COVID-19 stimulus, the unwinding of extreme COVID-19 behaviours, a more structural shift in the cost of labour and the impact on costs from the decarbonisation agenda or, indeed, a combination of the above. It is difficult to have a high degree of confidence in the outcome, but we would note, given the uncertainty, there is a rising risk of a policy mistake; either being too late to tighten and/or tightening too hard. We expect this, and the geopolitical ramifications of the Ukraine war, to be the prevailing debate of 2022 and beyond.

The strain on supply chains, caused by strong economic activity overwhelming COVID-19 afflicted capacity and restricted labour availability, will continue to provide inflationary pressures which can squeeze companies' margins. As a reminder, we continue to concentrate the portfolio on businesses with pricing power and durable, competitive advantages as we see these as best placed to protect margins and returns over the medium and long term. However, a notable feature of our conversations with a wide range of corporates in 2021 was the ease with which they were able to pass on cost increases and protect or expand margins. Management teams have pointed to robust demand, prioritisation of security of supply as well as well-publicised supply chain disruption and cost pressures. However, we believe that as some of the transitory inflationary pressures start to fade (e.g., commodity prices, supply chain disruption) then pricing conversations will become more challenging. We are also increasingly focused on wage inflation which may be more structural and yet, in our experience, harder to pass on. Corporates have already pointed to wages picking up, the introduction of bonuses and growing pressure on employee retention rates as competition for labour intensifies. We therefore believe

that employee retention will be an important differentiator in 2022 given the productivity benefits of a stable workforce as labour markets tighten further.

The UK stock market has started the year far better than any other developed market indices, benefitting from a far lower, and thus more attractive, starting valuation. The Benchmark Index has benefitted from the lack of a widespread re-rating seen in many other markets as well as its relatively high exposure to commodities. We continue to see appetite to acquire great market positions, real assets and/or unlevered free cash flow as highlighted by takeover approaches for two portfolio holdings. While most companies are paying dividends once more, we note the large contribution from special dividends that may not persist. That said, as the highest dividend yielding market in the developed world, we see the fundamental valuation of the UK as attractive. We also view the outlook for ordinary dividends for the UK market with optimism as most companies have emerged from the COVID-19 crisis with appropriate dividend policies.

We continue to have conviction in cash generative companies with durable competitive advantages, exceptional management teams and underappreciated growth potential. At present, whilst we are excited by the attractive stock-specific opportunities on offer, we continue to approach the year with balance in the portfolio.

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James Henderson and Laura Foll, managers of Henderson Opportunities - 23 June

As inflation rapidly surged and economic growth expectations were revised downwards, the best performing sectors were either positively exposed to rising commodity prices or defensive sectors such as utilities and pharmaceuticals. This meant the FTSE 100, with its higher share of defensive sectors and significant weighting in commodity companies, performed well, while on average the more domestic and more cyclical smaller companies underperformed.

As the market began to price in the possibility of stagflation, the 'stabilisers' held in the portfolio (see definition in the table below) provided diversification and performed well. This helped to partially offset weakness in 'tomorrow's leaders' as the market chose to assign a greater value to relative certainty and cash generation today rather than earnings potential in the future. This caused the greatest de-rating within the early-stage company 'bucket', where companies are at an early stage of their life cycle and the majority of companies held are pre profitability. We had been steadily adding to the 'stabilisers' while reducing some of 'tomorrow's leaders' on strength going into this financial year. While this was the correct direction of travel, as is often the case in hindsight, the scale of the move was not enough to offset the headwind from smaller company underperformance.

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Robert Talbut, chair of Schroder UK Mid Cap - 29 June

In my last Chairman's statement in the Company's 2021 Annual Report, I flagged the emerging threat of inflation as the UK economy recovered rapidly from the damaging effects of the Covid-19 pandemic and likelihood of an increased pace of interest rate rises in response to growing inflationary pressures. During the period under review both inflation and interest rates have continued to rise, exceeding the predictions of most market forecasters. Emerging geopolitical issues have compounded these issues for economies and financial markets, leading to falls across equity markets, with the UK not immune.

The Russian invasion of Ukraine in February has led to major disruption to the supply of key commodities including oil, gas and soft commodities such as wheat. This has contributed to a further squeeze on household budgets and a large jump in input costs for companies across sectors. The rising trajectory of interest rates also puts additional pressure on businesses that have become accustomed to borrowing at extremely low cost. The potential of a prolonged conflict in Ukraine is not only tragic on a human level but may lead to ongoing economic and market disruption.

Given this backdrop, all equity markets have been under pressure but the UK has held up better than many given both its compositional mix but also due to its low starting valuation compared to most other markets. Many UK companies, outside of the energy and commodity sectors, have de-rated substantially given the challenging economic backdrop, despite reporting robust earnings thus far in 2022 and trading at already low valuations in a global context. International buyers continue to capitalise on the attractive valuation levels of UK companies through increased merger and acquisition activity, especially in the small and mid-cap space. Real value exists around current levels for trade buyers prepared to take a longer-term perspective and look through the current uncertainties.

The importance of stock-picking in an environment as uncertain as this cannot be overstated. Our Investment Manager remains cautiously optimistic on the outlook for the remainder of the year given historically cheap valuation levels and remains focused on identifying high-quality and resilient mid-cap companies with strong balance sheets that should be able to withstand the current headwinds. As always, our Manager's focus remains on identifying companies with the potential to be the market leaders of tomorrow whether that be by disrupting the status quo through a unique offering or by their ability to adapt quickly to industry disruption at the expense of their competitors. The companies in your portfolio are operating in niche and growing markets, have healthy balance sheets and are trading at attractive valuations. The attractiveness of current valuation levels is clear from increasing M&A activity, increasing levels of buybacks at many companies and executives continuing to increase personal stakes in their firms. Given the environment, the Manager's approach will be cautiously opportunistic.

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Global emerging markets

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

Chetan Sehgal and Andrew Ness, managers of Templeton Emerging Markets - 14 June

Emerging markets collectively declined over the 12 months under review. Although progress in vaccination campaigns and businesses reopening, along with ongoing monetary and fiscal stimulus, aided economic recovery in several parts of the world, others struggled with new COVID-19 variant outbreaks. An accelerated tightening in United States ("US") monetary policy suppressed investors' risk appetite. Higher inflation amidst a spike in commodity prices raised investor concerns as rebounding consumer demand alongside continued supply-chain disruptions drove inflation in many countries to reach the highest levels in decades. Towards the end of the period under review, Russia's invasion of Ukraine further tested financial markets, triggering a series of international sanctions on Russia.

By region, Latin America outperformed its peers in EMEA (Europe, Middle East and Africa) and Asia. Latin America, replete with natural resources and relatively insulated from supply interruptions related to Russia's war with Ukraine, benefitted from higher prices for energy and other commodities. Although the EMEA region lost ground on contagion from Russia's invasion of Ukraine and subsequent sanctions from Western governments, resource-rich South Africa and oil-producing nations in the Middle East benefitted from higher commodity prices. Declines in China were largely responsible for Asia's lagging performance, overshadowing solid returns in India and Taiwan.

China was TEMIT's largest market exposure, although the portfolio remained underweight relative to the benchmark. China was amongst the weakest emerging markets, losing 29% in sterling terms over the 12-month period. Chinese equities retreated under pressure from concerns relating to the impact of additional regulations, particularly in the internet industry, a property market slowdown and new COVID-19 outbreaks, even as the central bank cut key lending rates to support the economy. The government enacted new regulations in a number of industries, including internet and education, which caused considerable investor concern. The regulatory changes in China were announced at a time when the country was seeing a slowdown in its economy and resurgence in COVID-19 cases, which further weighed on equity performance. Equities sharply rebounded near the end of the period after assurances of stock market stability from China's state council.

While regulatory changes in China have elevated market volatility and investor fears of policy risks in the country, we would like to stress that the policies do not have a uniform effect on all companies within a given sector. Therefore, it is crucial to assess the impact of regulatory changes on the long-term earnings power and intrinsic value of companies individually. Other factors, including a resurgence of COVID-19 and rising coal and gas prices, will also be likely to have an impact on economic growth this year. Additionally, we have seen a slowdown in consumption. However, we believe that China's policy makers have multiple and flexible policy tools to underpin the economy. China's increased emphasis on its domestic market and self-sufficiency should support sustainable longer-term growth. China has directed its policies towards developing industries that are likely to benefit broader society-the "greening" of the economy, for example, is likely to be a tailwind for industries related to electric vehicles and renewable energy. We also expect digitalization to remain an important theme in China.

TEMIT's second-largest market position was in South Korea, where the portfolio was overweight versus the benchmark. South Korean equities declined by 14% during the reporting period. The resurgence of COVID-19, stricter social distancing measures and weak market sentiment surrounding technology stocks weighed on equity prices. South Korea ended the period near a historically low unemployment rate of under 3% largely due to government spending. The country is an export powerhouse, and several South Korean exporters are of global importance, supplying vital hardware. However, rising commodity prices and supply chain bottlenecks have put pressure on the semiconductor and battery makers that comprise South Korea's growth sectors. Uncertain global economic issues could lead to a slower-than-expected recovery in key macroeconomic indicators. Concerns about regulations also remain, whilst geopolitical tension with North Korea and the possibility of future COVID-19 outbreaks warrant close attention.

The Taiwanese market outperformed the wider benchmark, ending the reporting period with a return of nearly 12%. TEMIT's overweight allocation to Taiwan was largely attributable to exposure to the island's semiconductor industry. Technology's role as a key economic engine has only strengthened during the pandemic.

Moreover, semiconductor chips have become a growing part of almost all consumer goods with the semiconductor industry experiencing a cyclical and secular boom as growing digitalisation powers a surge in demand. Some of Taiwan's manufacturers are counted amongst the largest and most advanced foundries in the world and partner with and produce chips for clients globally, with few competitors able to progress to the next level of technology. Despite increased market concerns that Russia's invasion of Ukraine could potentially increase cross-strait geopolitical risk between China and Taiwan, we expect the current status quo situation to remain unchanged.

Equities in Brazil rose sharply in the final three months of the reporting period to end the 12-month period with double-digit gains. Brazil's monetary policy has been amongst the most aggressive in emerging markets. In the second half of 2021, fiscal uncertainties, depreciation in the real, increased political noise, rising inflation and pockets of commodity weakness weighed on the Brazilian market. However, higher commodity prices, a stronger real and undemanding valuations led to renewed fund inflows in 2022. However, political uncertainty and fiscal challenges created volatility in the equity market, as did concerns that rising inflation and a tighter monetary policy could hinder the overall economy. Brazil's long-term growth recovery and business environment could be further supported by the continuation of economic reforms, privatisations and concessions, all of which the government has been focusing on but remain difficult to materialize ahead of presidential elections in October 2022. As the world's fourth-largest commodity exporter, the commodity price surge amidst global supply concerns from Russia's invasion of Ukraine has been beneficial for Brazil's commodity exports, economy and market. We also believe that Brazil's economic growth could surprise on the upside, aided by efficiencies arising from a thriving internet economy.

India was TEMIT's fifth largest exposure at the end of March 2022. The Indian market remained on an upward trend over the majority of the 12-month period. Stocks, however, declined in early 2022, as rising oil prices weighed on the economic outlook for the country as it is a major oil importer. A moderation in oil prices and expectations of policy continuity with the ruling government party's election in key states in March led equities to rebound off their 2022 low, to end the reporting period with double-digit gains. Digitalisation in India has been advancing at a rapid pace since 2016, due to government initiatives, inexpensive mobile data and a significant step-up of venture capital and private equity funding. Companies related to the internet and digital economy have also been gaining prominence on Indian stock exchanges, providing exciting investment opportunities and diversifying the overall market. Over the longer-term, we expect to see continued growth in Indian earnings due to positive demographics, continued private sector penetration in segments like finance and health care, digitalisation from a low base, and supply-chain diversification supported by government policy. We believe that long-term fundamentals remain robust in view of increasing consumer penetration, growing formalisation of the economy, a reform push and a stable government.

TEMIT had maintained an overweight exposure to Russia relative to the benchmark prior to Russia's invasion of Ukraine. Equity prices were on an upward trend in the first seven months of the reporting year, returning over 25% in sterling terms. Despite its strong market performance, however, Russia remained one of the most undervalued markets in Europe as well as globally. Rising oil prices, appreciation in the rouble and a faster-than-expected economic recovery buoyed the stock market. Brewing tensions with Ukraine however, started weighing on equity prices in Russia. We remained generally positive in our outlook on investment opportunities in Russia, given the belief that diplomacy could resolve the issue. We believed that

Russia's internally focused economy and policy flexibility (given twin surpluses in its fiscal and current accounts) continued to provide a conducive environment for companies operating domestically.

Post the invasion and the implementation of extensive sanctions from the West, stock prices and the Russian rouble declined sharply. Russia's resilience to financial shocks has also been affected by the freeze of some of its central bank's international reserves. Index compilers MSCI and FTSE dropped Russia from their benchmarks in early March at a zero-value, due to non-fulfilment of market accessibility requirements. Although trading in the domestic market resumed in late-March, following a trading suspension on 28 February, foreigners remained barred from selling, while trading in Russian American and Global Depositary Receipts (ADRs/GDRs) listed in international exchanges also remained suspended at the time of writing. Given these facts, on 4 March 2022, Russian company securities were fair valued at zero by the Franklin Templeton Valuation Committee. In concluding upon a zero value, the continued uncertainty in the market, restrictions on trading the shares both onshore and offshore, and a lack of any price discovery mechanism to provide indications of residual value were all considered.

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John Rennocks, chair of Utilico Emerging Markets - 17 June

There are numerous headwinds currently faced by the markets, each of which is challenging in its own right. These include sharply rising inflation; increasing interest rates; cyber security; shortage of commodities, especially wheat from Ukraine; Covid-19 disruption to supply chains; the Ukraine war; shift to green energy; US and China trade friction; zero-Covid policy in China; and leveraged economies. We have discussed a number of these before and they largely remain unresolved. We are witnessing a significant rise in nationalism and wealth inequality. This combination of issues and challenges will no doubt tear at the fabric of our societies and institutions.

The Russian war in Ukraine is devastating on a number of levels. The brutality of the Russian army will be a scar on liberal societies for decades to come. The need to have resilient supply chains, energy security, green energy and increased defence capabilities will see resources diverted and reinvested with an urgency and scale not experienced in our lifetime. This will give rise to new opportunities for investors, including UEM. The war has resulted in sharply rising commodity prices and accelerating inflation. The scarcity of some soft commodities might well be the biggest social challenge, as food shortages emerge in a number of countries that rely on food imports from Ukraine.

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North America

(compare north America funds [here](#) and [here](#))

Simon Miller of BlackRock Sustainable American Income - 29 June

Overall, 2021 was a positive year for the U.S. stock market with a solid recovery from the broader economy. Steady upward earnings revisions from the corporate sector supported market gains, while the Federal Reserve kept interest rates near zero and continued its asset purchase plan, thereby adding liquidity into markets.

However, the skies darkened at the start of 2022. Although the year started with great promise, ultimately, rising interest rates, higher inflation and a slowing economy have led to increased uncertainty. The Russian-Ukraine war combined with renewed lockdowns in China (to combat COVID-19 outbreaks) dented global growth expectations. This has been a source of significant volatility in financial markets. Both bond and equity markets have struggled in the early months of the year.

The global economy had been in the middle of an uneven recovery from the COVID-19 pandemic, but the Russia-Ukraine war has cast a shadow over the longer-term outlook. There are many variables today and this is creating volatility in financial markets. The immediate threat comes from higher energy prices, rising food prices and disrupted supply chains, which has left households and businesses under strain, but there are also longer-term pressures.

The conflict has changed the outlook for inflation, which remains the key risk to the market cycle in 2022. The Federal Reserve is currently on a path to increase interest rates to levels that could clearly slow the economy and create a worsening environment for the rest of the year and into 2023. However, the U.S. should be among the more resilient economies globally, given its energy independence.

This new environment of elevated volatility has crucial implications for stock selection. The Company's portfolio is weighted towards higher-quality companies, which should be in a better position to weather higher inflation and tighter monetary conditions. We believe this environment is likely to favour value and dividend stocks, as investors increasingly prioritise predictable, stable cash flows. The Company is well positioned to take advantage of the investment opportunities ahead, despite the market disruption.

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Europe

(compare European funds [here](#) and [here](#))

Francesco Conte and Edward Greaves, managers of JPMorgan European Discovery - 15 June

The twelve-month period to 31st March 2022 saw a continued economic recovery from the global Covid-19 pandemic as the rapid response by governments and central banks succeeded in mitigating the detrimental impact to the economy.

However, the speed of the recovery resulted in extreme supply chain stress. This led to a substantial acceleration in inflation, which reached levels not seen in the past 30 years. This trend accelerated further following the Russian invasion of Ukraine in early 2022. Energy and other commodity prices increased rapidly due to the sanctions imposed on Russia and the disruption to Ukrainian exports. In March 2022, inflation reached 8.5% in the US and 7.4% in the Euro area. In the first quarter of 2022, central banks responded by turning more hawkish, resulting in an abrupt repricing of growth stocks. At the same time, continued supply chain disruptions and high inflation have had significantly detrimental impacts on measures of business optimism and consumer sentiment.

As a result of higher interest rates and increased economic uncertainty, the MSCI Europe ex UK Small Cap Index fell 7.9% in the first 3 months of 2022, although it was still up 3.8% over the twelve-month period to 31st March 2022.

Outlook

We started the year believing like many market participants and policymakers that inflation would prove to be transient. The sad events in the Ukraine and more recently the lockdowns in China make it highly unlikely that rises in prices will be temporary. The positive aspect of equities unlike bonds is that there are companies and sectors that can still perform in inflationary environments and those are the companies which we have been increasingly investing in. Companies with high barriers to entry should be able to pass on inflation. Certain areas of insurance are positively correlated with rising bond yields. Prime property companies in areas where there is limited capacity such as logistics should also have pricing power. So, in the short term, we have adapted the portfolio to be better insulated from inflation.

It is difficult to predict when the current inflationary spiral will end. Historically, European smaller companies have been one of the best asset classes in the world, and we do not see the fundamentals that brought this about, changing. Innovation has powered smaller companies and will continue to do so long into the future. As always it is our job to find these opportunities.

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Josephine Dixon, chair of JPMorgan European Growth and Income - 8 June

The general market is being influenced by significant issues. Inflationary expectations have increased dramatically in recent months and the European Central Bank, along with counterparts elsewhere in the world, face the very difficult task of trying to manage relatively high levels of inflation without tipping economies into recession. Previously buoyant consumer spending, supported by significant amounts of pent-up savings accumulated during the last two years of the Covid-19 pandemic, is expected to decline in response to the dramatic increase in household energy costs. As a consequence, corporate earnings forecasts, which have been strong in this post-covid recovery period, may be threatened by downward revisions.

The impact and duration of the devastating conflict in Ukraine is likely to dominate financial markets in the coming months. Whilst it is impossible to determine when the conflict may end, even an imminent ceasefire would not resolve the fragile geopolitical situation. Similarly the repercussions for European and global growth expectations created by sanctions and elevated energy and commodity prices are unlikely to dissipate in the immediate term. China's zero Covid-19 policy, which has imposed extended lockdowns on major cities such as Shanghai, has exacerbated these concerns over global growth and supply side constraints..

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R Curling, chair of Montanaro European Smaller Companies - 24 June

The economic backdrop remains extraordinarily volatile. In April 2020, WTI Crude Oil Futures briefly traded for a negative price but have exceeded \$100 just two years later; Euro area Consumer Price Inflation, which had been negative at the end of 2020, reached 7.5% in March 2022; and the US 10 year bond yield, well below 1% for most of 2020, was well above 2% by March this year and is expected to rise further. For the first time in over a decade, significant monetary tightening by the world's most important Central Banks looks likely.

The underlying causes of these shifts were as unprecedented as they were unpredictable. But as stated last year, the Montanaro team avoids trying to forecast macroeconomic developments, preferring instead to focus on the fundamentals of

your individual investee companies. For example, high quality companies with pricing power are best placed to offset inflationary pressures.

While we cannot predict what inflation, GDP or interest rates will be a year from now, we can say with some confidence that if we invest in companies that can deliver structural growth and high returns on capital employed at reasonable valuations, then investors should enjoy attractive long-term returns. Previous periods of significant underperformance from such quality growth companies have presented good buying opportunities for those with a long-term investment horizon. It is notable that the gearing of the Trust has risen from the very low levels seen in December 2021, reflecting what Montanaro believe is a higher number of attractive investment opportunities following some of the share price falls we have seen.

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Japan

(compare Japan funds [here](#) and [here](#))

Miyako Urabe, Xuming Tao and Naohiro Ozawa, managers of JPMorgan Japan Small Cap Growth & Income - 23 June

In the first half of the year, Japanese equities, in line with other major markets, advanced on hopes that the global COVID vaccine roll-out would allow economic activity to return to normal. Japan's state of emergency was lifted in September 2021 and the ruling Liberal Democratic Party ('LDP') re-assumed power in the autumn election, confirming Fumio Kishida as the new Prime Minister. However, in the latter half of the financial year market volatility increased sharply. As well as escalating geo-political tensions to levels unprecedented in the past half century, news of Russia's invasion of Ukraine exacerbated existing energy and commodity price pressures, compelling the US Federal Reserve, and the Bank of England, to begin raising interest rates. In Japan, inflation remains low and the Bank of Japan has maintained its stimulatory monetary policy stance, but Japanese equities suffered the same sell-off as in other major markets, and, as elsewhere, technology and other growth stocks were the worst affected. In addition, widening interest rate differentials saw the Japanese yen weaken against the US dollar and sterling.

While most major economies are likely to be subjected to continuing upward pressures on prices and interest rates, we expect the Bank of Japan to maintain its expansionary monetary policy stance. Japan is not overly reliant on Russian oil and gas and there is a general absence of domestic price and wage pressures. While the weaker yen will put some upward pressure on import prices, it will enhance the competitiveness of Japanese exports. On the political front, continuity and stability remain the defining characteristics of Japanese politics, as the LDP secured a strong mandate to govern for the next few years, and we expect it to continue in broad terms to pursue the policies and reforms implemented by the previous two Prime Ministers, Shinzo Abe and Yoshihide Suga, over the last nine years.

Regardless of the concerns and uncertainties overshadowing global financial markets, we remain optimistic about the long-term outlook for Japanese small cap companies. Japanese businesses typically have large cash positions and stronger balance sheets than their peers in other countries. Average valuations of Japanese companies remain reasonable, both lower than historical averages and below those of most other major markets. As importantly, the pandemic has given added impetus to some positive long term structural trends developing in the Japanese economy, especially the application of technology and digitalisation to a multitude of goods

and services. These trends are set to underpin growth, productivity and corporate earnings for many years to come. In sharp contrast to other developed economies, Japan's smaller and more entrepreneurial companies are at the forefront of such innovation, and therefore, are ideally positioned to prosper over the longer term.

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Harry Wells, chair of CC Japan Income & Growth - 28 June

Concurrent geopolitical hurdles have seemed insurmountable at times and very frustrating for Richard Aston and the team at Coupland Cardiff. They remain confident in the investments in the portfolio which they believe offer the prospect of promising total returns from both capital and income potentially bolstered by the reopening of domestic Japanese economy in the wake of Covid-19. The Bank of Japan ("BOJ"), as distinct from other Central Banks continues to run loose monetary policy. If the long period of low inflation is finally coming to an end in Japan as energy costs and the BOJ's policies stoke price rises - the April 2022 CPI print was 2.5% YOY - and businesses are raising consumer prices this, in turn, ushers in the prospect of wage rises and a change in household savers' behaviour.

Inflation could encourage some movement of Japan's huge pool of household savings to finally start coming back to their own domestic equity market. Since 1989, it has largely been like Waiting for Godot! A major attraction for Japanese domestic depositors is that TOPIX index companies now yield 2.7%, higher than inflation and with an earnings yield of over 8% compared to zero from deposits. There is a significant amount of headroom for Japanese companies to raise dividends and share buybacks particularly given the profusion of excess cash on balance sheets. Making a recent speech in London, Prime Minister Kishida signalled that he intends to introduce "a new form of capitalism" including policy measures to encourage households to move bank deposits into investments. We shall see.

The confluence of recent geopolitical events not least China's net zero Covid-19 policy has created considerable supply chain disruption besides pricing and capacity issues. As the world is pressed to realign its supply chains, this presents a major opportunity for Japanese industry, which is well placed to step into the breach equipped with cutting-edge technologies, production efficiencies, strong balance sheets and a competitive foreign exchange rate. Any uptick in international trade and sourcing to Japan to stimulate demand can filter through to the domestic economy. Equally, as Japan reopens its borders to travel, the weak currency should also encourage the return of tourists, a major driver of the economy pre Covid-19.

I reiterate that continuing corporate governance reforms and increased shareholder activism should see greater recognition of the inherent value in Japanese equities accompanied by increased distributions to Japanese company shareholders notwithstanding the uncertain global economic outlook.

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India

(compare India funds [here](#))

Rajendra Nair and Ayaz Ebrahim, managers of JPMorgan Indian - 9 June

Even by recent standards, the past six months have been unusually turbulent for financial markets, with the conflict in Ukraine and the shift in US monetary policy the

primary cause. Yet India's economy has continued its recovery from pandemic-induced shocks. Higher global commodity prices have pushed CPI inflation beyond the Reserve Bank of India's 6% upper threshold on its target range, and interest rates have started to rise. Higher commodity prices also widened the current account deficit, to 2.7% of GDP in Q4 2021, from 1.3% in the previous quarter.

Under farmer protests, the government dropped its plans to implement three farm laws intended to boost low agricultural productivity. The government met with more success with its Production Linked Incentive scheme to encourage investments by global (and domestic) manufacturers looking to diversify their global supply chains, notably in technology, pharmaceuticals and chemicals.

Despite the macro headwinds, the MSCI India Index's marginal rise during the review period was significantly better than broader Asian and Emerging Markets indices. This was primarily due to domestic investors' robust move into equities, which more than offset the significant outflows of about US\$20bn by foreign portfolio investors, as global volatility triggered a retreat from risky assets.

The market for new listings continued to surge particularly in the technology sector. Valuations for most new listings were relatively high, which led to post-listing profit taking.

One sign of the resilience of the domestic market was the successful completion of one of India's largest M&A [*deals*]. In April 2022, HDFC Bank announced a merger with its largest shareholder, Housing Development Finance Corp (HDFC), creating one of the largest financial institutions in the world.

Outlook

India will continue to be impacted in the near term by the twin headwinds of the war in Ukraine and US monetary policy tightening:

1. Inflation - As a large net consumer of commodities, the Indian economy has always been vulnerable to rising (imported) commodity prices. Inflationary pressures will squeeze margins as many companies lack the pricing power to pass on the costs. The same inflationary pressures will lead to a widening of the CA deficit, weakening the rupee and compounding the pricing cycle.
2. Interest rates - The Reserve Bank of India is likely to follow other central banks and continue to raise rates. Bond yields have already started pricing in monetary tightening.
3. Growth - Higher inflation and rising interest rates could slow the pace of recovery, and earnings growth, just as momentum was building after the pandemic.

These challenges could extend recent volatility. Yet we remain optimistic. India is an early-stage growth economy, with an annual per capita GDP of only \$2,000. The potential to lift this number, while also expanding the base of wealth creation, is immense. As digitization and technology adoption deepens, principally via government leadership, so too will its impact on the economy.

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Flexible investment

(compare flexible investment funds [here](#))

Managers of Momentum Multi-Asset Value - 21 June

The market environment fluctuated over the year with COVID-19 recovery phases intertwined with fresh waves of the virus and, more recently, the Russia Ukraine conflict affecting global markets.

The landscape has normalised to some degree from the extremes of 2020. However, we now find ourselves with a complex background of rising inflation and central banks beginning to unwind historically record levels of stimulus. In addition, the Russia Ukraine conflict has the potential to escalate further causing greater market uncertainty.

Investors will always have to contend with unexpected issues and volatility. We seek to look across global markets to find compelling Value opportunities.

Significant market movements over the past year have led to a number of companies and funds trading at what we consider to be very attractive valuations. UK Equities have yielded some of the most compelling new opportunities.

We do not try to predict the future. Instead, we let valuations guide our investment decisions as we seek to ensure that the portfolio is always tilted to attractively valued assets. We believe UK, Asian and Japanese equities are now looking attractive and we have recently increased our exposure to these sectors, funded through selling holdings that have performed well and are no longer so attractively valued.

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Sebastian Lyon, manager of Personal Assets - 9 June

Investors are endeavouring to navigate a new regime, with the highest level of inflation in 40 years. A year ago, we suggested that it would be hard to predict the sustainability of rising inflationary forces, which were affected by the pandemic both in terms of demand, thanks to extreme government stimulus, and supply in relation to interrupted supply chains. Yet the environment, in which disinflationary forces predominated, had been waning for some time before the pandemic. While much investor focus has been on the deflationary effects of technology, other deflationary influences also seem to be fading. Anti-globalisation sentiment has been growing since the financial crisis. Events such as Trump's election and his policies on China have begun to slow four decades of globalisation. The pendulum that swung towards free trade for so long seems to be swinging back. It is not only the trade of goods that has contributed to disinflation but the free movement of people that has kept the price of labour down since the fall of the Berlin Wall in 1989. People crossing borders had a material impact on globalisation as much as the movement of goods. Wage growth is now at a 40-year high in the US; a lot of this is down to labour market tightness which, beyond the lingering effects of the pandemic, risks being sustained if nationalism inhibits immigration. Wage growth will be key to whether current inflationary forces become ingrained. The Governor of the Bank of England, Andrew Bailey's recent call for wage restraint revealed the weakness of his hand, as a policy maker, in controlling these pressures.

Supply constraints resulting from the pandemic have been more persistent than many expected. The recent tragic events in Ukraine present a further unwelcome geopolitical shock and extend the current inflationary backdrop, aggravating supply

shortages for energy and food, in particular. There is a political acceptance that more resilient supply chains are needed, and re-shoring may be part of the solution. We are shifting from a 'just in time' to a 'just in case' economy. Higher domestic capital expenditure will follow in order to add resilience to developed economies. The drive to optimise financial returns, so evident for the past two decades, is likely to recede as companies build in a buffer for uncertainty.

Does the Federal Reserve (and other central banks) have a strong enough stomach to tackle inflation head on or will it pivot as it did in 2018? Debt levels, as a percentage of GDP, are as high as they were during World War II, making positive real rates, required to check inflation, almost impossible to achieve without the risk of a deep recession. The chance of a major policy error is rising. As Stephen King from HSBC points out, the real Fed Funds rate is the lowest it has been in 70-80 years, which is extraordinary. Up until recent months, central banks, through talk of inflation's 'transitory' nature and through their own inaction, had been making a huge bet that inflation would not last long and has little to do with monetary policy. This now looks like wishful thinking as evidence picks up that inflationary pressures are not only affecting food and energy nor are they merely pandemic and Ukraine-related. Wages and rents are rising, along with goods.

Several commentators point to the high inflation of the 1970s as a guide for today. These comparisons are too simplistic as today's economy differs dramatically from 50 years ago. However, there are some similarities. Fiscal policy lost its anchor during the 1970s, as it has through the pandemic. Bounce back loans and other support schemes have been replaced by governments choosing to subsidise wages via transfer payments such as offsetting rising energy bills. Politicians know that the pernicious effects of inflation fall on those with middle and low incomes. Social unrest becomes an increased risk if this fiscal anaesthetic is not provided.

How do we invest amid these febrile conditions? We have been warning for some time that the barbell 'balanced' portfolio strategy of putting nominal bonds alongside equities is long past its sell-by-date. The short-term negative correlation between the two asset classes has been of great value to asset allocators in diversifying portfolios and producing consistent returns. Bonds have thrived on the back of low inflation and low growth, whilst equities performed during periods of improved economic activity. Over the course of decades however, falling interest rates supported ever-higher valuations for equities and bonds alike. Today, the short-term negative correlation between the two asset classes seems to have broken down. In a new regime of higher inflation, the risk is that bonds and equities fall together. For this reason we have long preferred index-linked bonds and gold bullion, over conventional bonds, and they have held up relatively well in the recent bond market sell off and should thrive in a negative real interest rate environment, also known as 'financial repression'.

The situation today is different to the tech bubble. In 1999 the overvaluation was concentrated in a smaller number of stocks (Dotcoms, Cisco, Microsoft, and Juniper Networks). Value was on offer elsewhere. Thanks to the prevalence of cheap and plentiful capital over the last decade, the overvaluation is far more evenly spread today, giving fewer places to hide from a de-rating of equities. We are sceptical of those who advocate equities as a good defence against inflation. Historically, stocks love disinflation, not inflation. Stock market returns in inflationary periods have been volatile and poor in real terms, despite growing profits - such is the corrosive effect of inflation. From current starting valuations we suspect returns will be modest and we await lower equity valuations before putting shareholders' savings to work.

Investors are warned that 'past performance is no guide to the future'. The biggest mistake investors can make is to extrapolate historic earnings, share prices, or valuations. Money illusion, the tendency for people to view their wealth and income in nominal terms rather than recognise the real value adjusted for inflation, is hard to resist. This is the mirage between the nominal and the real and will be the enemy of investors seeking returns ahead of inflation. We will endeavour to continue to preserve and grow shareholders' funds in real terms, but we are under no illusion as to the scale of the challenge ahead.

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Nalaka De Silva, Jennifer Mernagh and Nic Baddeley, managers of Aberdeen Diversified Income and Growth - 15 June

As we wrote the last Annual Report in the third quarter of 2021 we noted that a new Covid-19 variant - Omicron - appeared to be much more infectious and observed that the effect on the global economy could be significant. The impact of Omicron turned out to be very significant as restrictions were ramped up and countries raced to vaccinate populations, for a third time in many cases.

The impact on supply chains, concurrent with labour shortages and commodity price increases, deepened inflation that had taken hold as a result of the reopening of economies.

As inflation became more broad-based, market participants fretted about developed market central banks being late to adopt the appropriate monetary policy to tackle it. The result was an enormous, and swift, rotation out of growth stocks within equities markets. At the same time there was an equally dramatic sell off in government bonds as expectations of interest rate rises increased.

Finally, Russia took the decision to invade its neighbour Ukraine. This action was met with unprecedented sanctions by Western governments, including the removal of access by Russia to both its US dollar reserves and the ability of its most systemically important banks to use the global SWIFT payments system.

As the horror of war unfolded, companies and governments began to refuse to trade with Russia. Commodities prices soared due to Russia's importance as an energy and metals exporter, and Ukraine's importance as a wheat exporter. This served to cement the inflationary forces into place, meaning that central banks had no choice but to act, and began to raise interest rates, finally dispensing with the notion that inflation could possibly be transitory.

Omicron continues to weigh on supply chains, exacerbated further by China's zero Covid strategy. At the same time the war in Ukraine compounds these issues and we expect continued disruption as a result. The combination of conflict and monetary tightening will slow growth below trend.

The probability of a recession in the US during the next 24 months is undoubtedly increasing. As this risk is elevated we have trimmed our equities and emerging market debt exposure. We have also added US dollar exposure as we suspect this will continue to do well in the current environment of tightening policy in the US.

We expect credit to be more resilient than it would ordinarily be in this environment as a result of the balance sheet clean up during the depths of the Covid-19 crisis, and whilst we do not expect the recession to be shallow, neither will it be deep or protracted.

There will be continued inflation upside risk due to supply chain issues and elevated commodities prices. Underlying inflation pressures are mounting, but we think the

Company is insulated to a degree as we have inflation sensitive assets such as infrastructure and floating rate credit.

Policy makers will struggle to look through the energy price shock and underlying inflation pressures will mean tighter financial conditions. We are watching real interest rates (which are rates after adjusting for inflation) closely.

In terms of the terrible events occurring in Ukraine, history suggests markets can rebound sharply when geopolitical shocks resolve, but the conflict continues to become more entrenched, sadly.

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Private equity

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

Alan Devine, chair of abrdn Private Equity Opportunities - 30 June

It is clear that the broader financial markets and the outlook for the global economy have shifted materially, with the developed economies of the world moving from a Covid-19 recovery phase in late 2021 to a much more challenging environment in early 2022. Both the Board and the Manager expect these tougher conditions to continue for the remainder of 2022, which will no doubt have an impact on the performance of the Company as inflation impacts the margins of underlying portfolio companies and private equity valuations experience more pressure than we have seen in the recent past.

The Board, myself included, have always viewed private equity as a long-term asset class where new investment decisions are often made with a five year time horizon in mind. Whilst the immediate road ahead appears more uncertain, the governance model of private equity has proved many times in the past, most notably during the global financial crisis of 2008-09, that its hands-on ownership model allows underlying businesses to adapt more quickly to changing market circumstances. Periods of market dislocation also tend to offer new and different opportunities for active investment, which private equity firms have proved adept at identifying, assessing, and executing sound deals.

With so much new capital having flowed into private equity in recent years and some recent dramatic shifts in the shape of investor portfolios, it is inevitable that institutional investors will look to re-balance their asset allocations and portfolio weightings over the coming quarters, which in turn is likely to fuel activity in the secondary market. I am pleased to say that the Company is well placed to take advantage of such opportunities.

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Growth capital

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

Managers of Chrysalis Investments - 30 June

Equity markets struggled to make significant progress over the six months to 31 March 2022, driven by concerns over rising yields as a result of growing inflationary pressures, further exacerbated later in the period by the war in Ukraine. While many

major indices reported gains, for example the FTSE All Share was up 3.2% and the tech-heavy NASDAQ recorded a marginal 1% increase, this masked considerable intra-period volatility, as well as certain rotations occurring between sectors and themes in the market. One of the most high-profile of these themes was the weakness of certain technology names, particularly those that are currently unprofitable.

The Goldman Sachs Non-Profitable Tech Index, which comprises approximately 60 US technology stocks that have yet to achieve profitability, fell by approximately 35% over the period. Logically, the long duration nature of unprofitable companies means that as yields, and thus discount rates, rise they are more exposed to valuation pressure than those companies with near-term cash flows.

Looking at this index as of 31 March 2022 and freezing the index weights, it is apparent that forecasts for revenue growth for 2022 have actually risen over the six-month period, meaning that valuation has been the driver of this index performance. We estimate this performance has led to a contraction in the 2022 EV/sales metric, based on the 31 March 2022 index weights, from approximately 8 times to less than 6 times.

Post period end, market weakness became more pronounced, with the NASDAQ falling approximately 24% from the end of March to the time of writing, and the Goldman Sachs Non-Profitable Tech Index falling approximately 38%. This means that these two indices are down approximately 32% and 71% respectively from their peaks and down 23% and 60% respectively from their 30 September 2021 levels.

At the time of writing, the war in Ukraine is still ongoing, heightening geopolitical and macroeconomic uncertainty.

In addition, investors are grappling with the likely speed of tightening monetary policy by central banks, particularly the US Federal Reserve, to control inflation. As of 30 September 2021, the market was implying a relatively flat Fed Funds curve, rising from approximately 10 basis points ("bps") to 75 bps two years out; by 31 March 2022 expectations had risen sharply, to approximately 280 bps two years out. Post period end, they have risen further, to approximately 340 bps as of late June.

These changes in the yield environment have shifted the primary driver of valuations away from a company's ability to grow and more on to its ability to generate cash flow. While long term, we still believe growth will be one of the key determinants of a business' terminal valuation, we accept that we must adjust to the current market conditions, and so too do our companies.

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Infrastructure

(compare infrastructure funds [here](#) and [here](#))

Ian Reeves, chair of GCP Infrastructure - 21 June

During the period, the UK published an updated energy strategy, with a focus on ensuring the UK's energy security in response to the Russian invasion of Ukraine, whilst also continuing to support the UK's binding target to achieve net zero by 2050 and various interim decarbonisation milestones. The strategy supported new nuclear, increased the offshore wind target to 50 GW by 2030 (from 40 GW) and confirmed a new North Sea oil and gas licensing round. Whilst these point to

significant infrastructure investment opportunities in the medium term, it will not in the Board's view create immediate investment opportunities for the Company.

High energy prices have led to the failure of a number of retail supply businesses, contributed to a wider cost-of-living crisis and high inflation, and have resulted in increased levels of fuel poverty and reduced industrial competitiveness. Reconciling the objectives of energy security, the decarbonisation agenda, and the cost of energy remain the key challenges at the heart of energy policy. The recent energy strategy did little to provide detail on how these potentially competing priorities will be balanced.

Certain European countries have responded to higher energy costs through market interventions such as capping wholesale prices that can be received by generators. The Company does not expect the UK to carry out similar interventions, given that the main intervention (a domestic retail price cap) has already occurred.

The Board awaits the results of the ongoing fourth CfD auction round, and was encouraged by the higher prices secured by projects as part of the recent capacity market T-1 and T-4 auctions. This availability-based mechanism is likely to support near-term investment opportunities for the Company in flexible generation assets such as battery storage and gas peaking plants.

In the medium term, the Investment Adviser is reviewing a number of investment opportunities in sectors including electric vehicles and associated charging infrastructure, hydrogen, carbon capture, sustainable packaging and digital infrastructure as well as additional investments in existing sectors including anaerobic digestion and biomass.

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Renewable energy infrastructure

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

Miriam Greenwood, chair of Aquila Energy Efficiency - 24 June

We believe that energy efficiency is the natural partner to renewable energy if we are to achieve the European goal of net zero by 2050. The more efficient use of energy is one of the main pillars of the energy transition. The reduction of daily energy consumption is Europe's greatest energy resource. We need to make energy efficiency part of our everyday lives, to consume less and consume it better. It protects business and consumers against increases in energy prices, is better for the environment and it improves the competitiveness of our economies. Increasing energy efficiency also ensures reduced dependence on energy imports, thereby improving energy security and reduces conflicts in distribution.

We understand that the actual scope of energy efficiency remains uncertain to many investors. However, our definition includes all processes and measures that optimise energy consumption to save energy. Energy utilisation is increased, and energy losses resulting from the transport, conversion and storage of energy are reduced. We distinguish energy efficiency by its aim of reducing primary energy consumption differentiating from other areas of efficiency in the power sector, such as generation efficiency from renewables and from enablers of distribution efficiency, such as grid-scale batteries.

Being energy efficient means using and paying for less energy, even as value creation increases, producing more competitively and sustainably. In simple terms:

the economies across Europe are more competitive and sustainable the more energy-efficient they are. Energy efficiency drives modernisation and innovation processes in all sectors and opens up new markets for export opportunities. It also has the potential to boost employment as it can stimulate local value creation (e.g., through energy-efficient building renovation). Most importantly, energy efficiency is critical in achieving the EU climate targets.

It is widely recognised that there is a financing gap with energy efficiency investments in both the public and private sectors, often because of scale and complexity, thus capital should be directed to focus where it is not currently invested. AEET aims to be among the important private market conduits to facilitate additional energy efficiency investment on a pan-European basis.

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Richard Morse, chair of JLEN Environmental Assets - 16 June

As countries seek to move on from the damaging impact that coronavirus has had on economies and livelihoods, governments are reinforcing foundations for growth across green technologies. By focusing on support to industry, job creation and innovation it is anticipated that countries can address the lack of economic growth over recent years in conjunction with addressing climate change and commitments to achieving net zero. This mantra has been clearly set out in the UK where the government's "Ten Point Plan for a Green Industrial Revolution" demonstrates their commitment to tackling climate change whilst delivering jobs and growth across the country.

This is an exciting time for an environmental infrastructure fund as it looks to the future with a rapid increase in renewable energy generation, low carbon transport and the charging/fuelling network needed to support this, carbon capture, hydrogen and sustainable alternatives such as controlled environments and opportunities in hard-to-abate sectors like agriculture and construction.

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Kevin Lyon, chair of NextEnergy Solar - 27 June

Towards the end of 2021, power prices reached record high levels across both the UK and Europe, as countries recovered from prolonged periods of economic restrictions as a result of multiple lockdowns, alongside global gas shortages. In the first quarter of 2022, geopolitical events resulting from the conflict in Ukraine added additional pressure on oil and gas supplies, creating further volatility, resulting in sustained increases in power prices in Europe and the UK. High power prices are forecast to continue in the short to medium-term and are a driving factor in the current high inflationary environment.

The UK power market continues to experience sustained high prices. Prevailing market conditions around the supply of gas continue to look challenging given recent macroeconomic and geo-political events, highlighting the importance of energy security.

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Tony Roper, chair of SDCL Energy Efficiency Income - 30 June

At the beginning of the financial year, the COVID-19 pandemic was a dominant risk for the global economy. Though the pandemic remains ongoing, associated risks began to recede during the period in the Company's key markets and, in the year,

it has not had a material impact on the financial performance of the investment portfolio.

Increasing focus on corporate social responsibility, environmental sustainability, climate change and decarbonisation, and specifically on limiting global warming to 1.5 °C, was galvanised by the 26th annual Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26). Hosted by the United Kingdom in Glasgow, COP26 resulted in commitments to strengthen climate targets and phase down unabated coal power. For the first time, energy efficiency was included alongside the deployment of clean power generation in the "Calls Upon Parties" in the Glasgow Climate Pact. In addition to the official negotiations, side announcements and pledges were made to cut methane emissions, to end and reverse deforestation by 2030, and to make all new car sales zero emission by 2040 and by 2035 in leading markets.

In 2021 there has been global supply chain dislocation, spiking of energy prices and surging inflation for several months. Since February 2022 the ongoing and tragic situation in Ukraine has had further massive impacts on energy prices, supply-chains, and general inflation, making markets - particularly energy markets - even more volatile and uncertain. The Russian invasion of Ukraine has further highlighted the need for resilience in the global energy system, including through diversification of energy sources, large-scale, near-term clean energy solutions, energy cost mitigation and energy security.

There is now an increasingly widespread recognition of the role that energy efficiency can play, particularly in the short to medium term, in reducing the amount of energy that the world uses by cutting waste both on the supply and demand side. While the scale of the challenge to displace fossil fuels, which still represent some 80% of the world's energy system, with lower carbon and renewable energy is very large and will take time, energy efficiency measures can be taken in the meantime and can reduce the amount of overall energy needed. The global efforts to tackle the climate crisis and the latest climate data only further underpin the urgency and growth drivers in the energy efficiency sector. Many of our clients are committed to reaching net-zero emissions by 2050 or before and most of the world recognises the urgency of limiting global temperature rise to 1.5 °C.

Within the energy sector, efficiency may not be the whole answer, but it is probably at least half of it. Efficient and decentralised energy generation represents one of the largest and fastest growing investment categories of energy and infrastructure markets[4] and the Company, as the first UK listed investment company to invest exclusively in the energy efficiency sector, is a market leader and well placed to continue to expand its diversified portfolio of investments capable of delivering cheaper, cleaner, and more reliable solutions to energy users.

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John Roberts, chair of Triple Point Energy Efficiency Infrastructure - 24 June

The recent record high energy prices, as well as higher expectations for power prices over the next few years, provide significant tailwinds for the Company, both with respect to its existing assets as well as its pipeline. Energy is increasingly becoming too valuable to waste, and whether that means storing it more effectively to better match demand, producing it onsite, or reducing demand, we are seeing businesses and government organisations prioritising the efficient use of energy. The Company's pipeline of circa £500 million, spread across a diverse range of technologies, demonstrates this increased focus.

The devastating events in Ukraine have also highlighted the importance of a low carbon, efficient energy system to energy security. This is partly achieved through reducing our exposure to fossil fuels through increased renewable generation, and through reducing energy usage, making the energy generated go further and optimising energy generation locally. TEEC's portfolio and pipeline illustrate how this can be achieved in practice.

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Investment adviser of Atrato Onsite Energy - 6 June

The geopolitical backdrop over the Period has intensified the drive for improved energy solutions, shining a spotlight on the importance of security of supply and price stability. Alongside this, there has been continued growth in demand for corporate decarbonisation. The Science Based Targets Initiative ("SBTi") now reports 571 UK companies taking action, of which 244 have had their targets independently validated by the SBTi.

Onsite solar generation offers multiple advantages to customers, including:

- full traceability of supply;
- emission free generation (Scope 2 emissions);
- reduced reliance on imported electricity with the associated transmission and distribution losses of a centralised system (Scope 3 emissions); and
- long term power price certainty.

These advantages underpin the opportunity to drive market growth, building on the UK's 450 MW of non-subsidy commercial rooftop solar PV capacity as at the end of 2021. Overall, the total capacity of solar PV projects in planning or awaiting construction in the UK has increased by almost 300% between April 2020 and March 2022, translating into an average quarter-on-quarter increase of 26%.

The focus on decarbonisation, both domestically and corporately, is reflected in the growth in demand for Renewable Energy Guarantees of Origin certificates ("REGOs") and a commensurate increase in price. REGOs are awarded for each unit of generation from an accredited source, with so-called "deep green" REGOs from hydro, wind and solar sources now attracting a premium over fuelled REGOs from sources such as biofuels. The price realised for deep green REGOs in a February 2022 auction stood at £7.15 per MWh, up from just £0.16 per MWh a year previously.

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Sue Inglis, chair of ThomasLloyd Energy Impact - 13 June

Emerging market countries in Asia are returning to growth and there has been a resurgence in electricity demand as lock-downs end and restrictions eased. This, coupled with the Ukrainian/Russian war, has led to commodity prices increasing significantly. While this may lead to a renewed dependence on carbon-fuelled power plants at least in the medium term, the renewable energy sector is expected to continue to see strong growth in both demand and pricing.

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Biotechnology & healthcare

(compare biotechnology & healthcare funds [here](#))

Andrew Joy, chair of Biotech Growth - 1 June

There has been no let up in the difficult financial conditions since the year end, and the Company's NAV and share price have continued to be weak. Looking at the broader economic environment, the immediate future looks challenging at best.

The largest driver of the current volatile stock market conditions is the recent rise in interest rates, which are aimed at nipping inflation in the bud. As noted earlier, this is a reversal of a long trend.

Adding to this headwind has been Russia's invasion of Ukraine. This has resulted in a sharp rise in political instability, created economic disruption and threatens to exacerbate inflationary pressures as energy and food supplies are constrained. Alongside these direct economic effects, geopolitical instability reduces investors' risk appetites, potentially undermining asset prices across a wide range of markets and sectors.

Although the impact of vaccine roll outs means that life in the US and other developed economies is returning to normal, new variants continue to pose a risk, and China in particular continues to grapple with rising incidence of the disease, compounded by low vaccination rates in the elderly population, in turn leading the authorities to impose lockdowns.

Although the impact of these factors will continue to weigh on financial markets, our Portfolio Manager remains confident that there are a number of potential catalysts that could lead to a recovery in the biotechnology sector this year and into the future, and their overall investment strategy remains unchanged. Furthermore, they believe that the fundamental investment themes for the biotechnology sector remain intact and their focus remains on the selection of stocks with strong prospects for capital enhancement.

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Farming & forestry

(compare farming & forestry funds [here](#))

Richard Davidson, chair of Foresight Sustainable Forestry - 14 June

Prices in the forest property market remain underpinned as the asset class continues to attract interest from new private and institutional sources. This has been driven by many of forestry's traditional long-term attributes such as inflation protection, environmental impact and attractive cash flows from growing timber.

The planting land market has seen particularly strong demand in recent years. Forestry interest is now a key driver in the market for marginal land types. The recent strong rise in ESG investing has widened this from land purely suitable for growing commercial timber, to a range of land types suitable for commercial forestry, native woodland planting for CO2 sequestration and various other holistic environmental projects such as rewilding or habitat restoration.

Timber prices have shown some volatility in recent months after an exceptionally strong two-year performance. The UK economy appears to be slowing and winter

storms have increased supply. In contrast, the pound has weakened (which is important due to the level of UK imports of timber) and the conflict in Ukraine has led to timber import bans from both Russia and Belarus, reducing supply. In addition to this, the FSC and PEFC have defined Russian and Belarusian timber as "conflict timber" and as such will not qualify for any accreditations whilst the conflict is ongoing.

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Commodities & natural resources

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

Robert Crayford and Keith Watson, managers of Geiger Counter - 29 June

Huge impetus as nuclear becomes central to revised policies

Uranium price trends have followed similar if more extreme moves in traditional fossil fuels, on which most countries are still dependent to generate power. Since end-September 2021, year ahead gas prices in Europe and Asia have risen 55% while those in the US are up some 88% with an increase in gas exports, especially across the Atlantic as Europe seeks to reduce its reliance on Russian imports, providing an incremental boost to US benchmark gas prices. Thermal coal contracts for September 2023 delivery have seen prices more than double. Rising energy bills and the knock-on effects of tight energy supplies on prospective economic growth have raised awareness of the need to diversify power sources. With fossil fuels typically representing around two thirds of power station operating costs prior to the current energy crisis, soaring input price threaten the profitability of power stations.

As illustration, the theoretical gross margin obtained from a European gas fired power station, known as the Spark Spread, moved negative since last summer for year ahead baseload power implying negative profitability. Adding onto this the cost of carbon credits, to generate a "Clean Spark Spread", power station operating losses worsen further still. Clearly this is not sustainable. With the comparative stability and cost competitiveness of base load nuclear power becoming significantly more obvious since the COP26 climate conference last November and with its ability to fulfil zero emission ambitions, nuclear has become central to energy policies around the world.

As a result, in Europe, nuclear has been included in the "Green Deal" taxonomy improving industry access to trillions of Euro's funding capacity, France has picked up the reigns to champion nuclear power with many other EU countries such as the Netherlands seeking to add generating capacity. Closer to home, recently revised UK policy has also placed considerably more emphasis on the sector.

Notably, the US has moved decisively to include nuclear in its green energy policy, with the introduction of production tax credits which materially levels the playing field with subsidies received by wind turbine generation. Additionally, the Biden Administration has also recently announced intentions to add strategic reserves with a proposal to fund \$4.3bn investment in domestically sourced enriched fuel.

In Asia, the newly elected South Korean President is seeking to maintain nuclear's 30% share of the country's power generation, reversing phase out policy of the prior government. In Japan, the newly appointed Prime Minister's latest draft clean energy strategy proposal includes "the maximum utilization" of nuclear energy. In addition to expediting its reactor restart programme, the government may unveil a

proposal later this year aimed at building new nuclear capacity. Furthermore, local opposition to reactor restarts in the country, which has acted as a huge drag to the nation's industry, has also shifted favourably and the latest approval to restart a reactor in the Shimane prefecture potentially marks a more positive shift in momentum. Meanwhile China continues its nuclear drive that will see it overtake the US as the largest nuclear power market later this decade as it progresses 150 projects in its development pipeline over the next two decades.

This sea change in opinion, particularly in the established nuclear power markets, has significantly improved confidence and growth prospects in the sector. Crucially, it has provided a solid platform for utilities to operate and as a result they have conspicuously re-engaged in long-term contracting, in recognition of depleting supply and heightened disruption risks particularly given Russia's dominant influence over around half global uranium supply and enrichment capacity.

Tight market conditions to persist

Following a period of term-contracting around the turn of the year, utilities have easily absorbed production from mine restarts announced by Kazatomprom and latterly by Cameco and Paladin whose combined output we expect to ramp-up to over 30Mlbs pa in the next few years. As outlined in our last full year report, estimates put the U3O8 supply deficit considerably higher than these combined increases by 2030. Further incremental developments will therefore be required to fill the supply shortfall and also to replace reserves at major operations such as Cameco's Cigar Lake whose current reported reserve will be substantially depleted over this time frame. Utilities will need to resume negotiations for long-term off-take with developers in order to secure raw material into the next decade. We expect these off-take price negotiations to be at much higher level than the \$45/lb mid-point achieved in the more recent round of contracting around the year-end. While Paladin did not disclose its off-take terms for the restart of its Langer Heinrich mine, the announcement occurred after the spot uranium price had touched \$60/lb. Incentivising greenfield projects will require higher prices than this.

Development of additional downstream fuel processing capacity will be needed alongside this to alleviate future bottlenecks in the nuclear fuel supply chain. While Honeywell in the US has announced the 2023 restart of its Illinois conversion facility, more capacity will be required. Other supply side dynamics are also playing a part in tightening the market. Of note, the quantity of uranium in enrichment tails is trending upwards in tandem with moves in nuclear fuel inputs. With more U3O8 consumed at the front end of the fuel cycle so less is available as secondary supply from enrichers.

Pragmatic energy policy revisions, which now explicitly include nuclear power, have considerably improved confidence in the sector outlook laying a platform for sustained investor returns and we look forward to continued growth and performance.

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Property

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

Sir Julian Berney, chair of Schroder European Real Estate - 21 June

The global economy is in a fragile state. Although sentiment around the pandemic is improving, and economies are opening up, we are witnessing mounting concerns around supply chains, inflation, low growth and the increasing of interest rates. On top of this, the war in Ukraine is delivering further pressures on the European economy. These collective headwinds are making it difficult to have a clear view on forecasts and associated underwriting of investments.

The outlook is for European real estate returns to be muted over the short term. Performance will benefit from inflation, given underlying indexation clauses. We are however mindful of geopolitical risks and its ramifications to sentiment, surging energy costs, inflation and contractions in household spending. These are all having an impact on fiscal and monetary government policies and ultimately economic growth. Notwithstanding, real estate continues to remain attractive relative to other asset classes. We remain confident in the diversified qualities of the portfolio, particularly given the exposure to high growth locations and local management expertise.

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Managers of AEW UK REIT - 22 June

Despite COVID-19 restrictions finally being lifted, the anticipated post-pandemic rebound appears to have slowed as UK GDP fell by a disappointing 0.1% month-on-month in March 2022. It is likely this is primarily due to a significant increase in the rate of inflation with a 30-year high of 9.0% recorded for April 2022. Russia's invasion of Ukraine, and the consequential sanctions imposed by the international community, continues to drive up energy and commodity prices. There is a risk that, as well as affecting manufacturing industries, this may further damage consumer and investor sentiment as real income and wealth levels are reduced. Economic growth is now forecast to slow to 3.8% by 2022 year-end.

With higher-than-expected inflation, the Bank of England has increased interest rates from 0.50% in February 2022 to 1.25% in June 2022. Despite this backdrop of rising inflation and rising interest rates, over a five-year period, we consider that bond yields are likely to remain low with central banks reluctant to push economies into recession, particularly in times of war.

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Cyrus Ardalán, chair of LXI REIT - 7 June

The prospect of higher inflation in the UK for the longer term is now a key concern to many, with RPI exceeding 9% and CPI exceeding 7% (as at May 2022). Forecasts for 2022 showing RPI averaging 9.1% and CPI averaging 7.5% (The HM Treasury Forecasts for the Economy Medium-term forecasts, May 2022).

The inflation outlook for the Group is positive insofar as our portfolio is well placed to deliver superior returns given the portfolio's rent review linkage to UK inflation (58% RPI, 17% CPI), but we are also cognisant of the potential impact that current levels of inflation could have both on the economy and to the prospects of our tenant operators.

At current levels of inflation, the majority of the Group's rent reviews are being capped at the maximum uplift given that 67% of the portfolio contains a capped rent review averaging 3.6%. These caps offer important protection for the long-term sustainability of rental levels across our portfolio for tenant operators. Caps can also avoid rents moving materially out of kilter with market rents that might cause a significant softening of yields where a portfolio becomes overrented.

Our tenants are well capitalised and generally operate with the ability to pass on a good deal of inflationary cost increases to their own customers given the nature of their business operations.

As interest rates continue to rise as a measure to counter higher inflation, yields may begin to soften across property assets in general, but index-linked real estate, and in particular those with very long leases, have tended to more stable in such times, as the anticipation of future rental growth counteracts a higher cost of debt for investors.

Geopolitical uncertainty, as well as the cost of living crisis and inflation, have meant that global markets remain volatile but I am comforted by the defensive and robust platform that the Group enjoys through its diversified long-let assets and high quality tenant operators.

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Lorraine Baldry, chair of Schroder Real Estate - 7 June

The strong, post-pandemic recovery in real estate values is likely to slow, given concerns regarding rising inflation and interest rates. In the short term, whilst there is a risk of more persistent inflation, unlike the period prior to the Global Financial Crisis in the early 2000s, average real estate yields continue to offer a healthy premium above fixed income investments. This should mitigate the negative impact of rising rates on the real estate sector, albeit with very low yielding assets potentially at risk of capital value declines due to rising borrowing costs.

The company's portfolio is well positioned for these risks, with an above-average income yield, a pipeline of asset management initiatives that should support returns and long-term, fixed-rate debt. The diversified nature of the strategy enables the Investment Manager to act opportunistically and reinvest in sectors offering more attractive returns.

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Richard Moffitt, chief executive of Urban Logistics REIT - 23 June

The supply chain issues associated with the pandemic, and the rise and rise of e-commerce, need no further elaboration, but as we have learned to "live with COVID-19", pent-up demand has met those continuing supply chain issues, resulting in inflation. It is in this environment that our focus on strong tenant covenants becomes important, as demonstrated by our 99.9% rent collection rate in the year.

Towards the end of our financial year Russia attracted the attention and condemnation of the world through its invasion of Ukraine. Aside from dreadful human cost to the citizens of Ukraine, the war and subsequent sanctions have led to the effective decoupling of Russia from the western economy. Thanks to Russia's role as a major supplier of oil, gas and grain to the European markets, this has quickly fed through into higher energy and food prices, throwing further fuel on the inflationary fires.

At Urban Logistics we feel we are well positioned for an inflationary world. As an active asset manager, with strong tenant engagement, we are able to capture inflationary uplifts in rental incomes quickly. With our focus on strong covenants, and occupiers delivering essential goods, we believe our tenants will be in a good position to pass along inflationary price increases. In terms of our exposure to interest rate increases, we are 74% hedged with a 3.7-year weighted average maturity date, and post year end entered into a ten-year fixed rate term loan with Aviva Investors, further extending our debt to 5.1 years and increasing our overall fixed or hedged position to 95%. Towards the end of the year we took a decision to slow the pace of investment to allow us to take advantage of opportunities in the market in a time of economic turbulence.

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David Hunter, chairman of Custodian REIT – 17 June

Thematic investment continues to dominate fund raising and is polarising property investment demand and pricing. The weight of capital chasing the industrial and logistics sector and more recently retail warehousing has led to some significant yield compression and has boosted capital value returns for investors in logistics specialists. While this yield compression has led to NAV growth for existing investors, the counterbalance is that income yields are being materially squeezed. Custodian REIT's regional smaller property specialism, targeting the marginal income advantage from smaller lots which offer a higher rental yield for the same level of property and tenant risk, has never been of greater relative importance than in current market conditions.

With logistics property yields now by some distance at historical lows, investors are acutely sensitive to any hint of slowdown from operators such as Amazon. At a time of rising interest rates we simply do not believe that yield compression driven growth will continue in logistics property over the next two years. Without further yield compression, investors are relying on continuing high levels of rental growth to deliver returns, which again points to the fortunes of the operators. A reversal of returns from logistics property will quickly highlight the risks inherent in a single sector property strategy, and we believe would generate a re-focus on diversified strategies where managers can exploit mispricing in sub-sectors of the office and retail markets, while still enjoying rental growth from industrial, logistics and retail warehousing.

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Allan Lockhart, chief executive of NewRiver REIT – 24 June

Within the capital markets, we have seen an increase in liquidity. In particular, the retail park sector benefited from a significant increase in demand from a wider investor pool which has led to a year of strong capital growth with year on year volumes doubling in 2021. The shopping centre market saw an improvement in liquidity but less pronounced than retail parks. Nevertheless, shopping centre valuations stabilised in the latter part of the year after a prolonged period of material valuation decline.

With retail stores being open for the majority of the financial year, UK in-store retail sales have recovered overall to pre Covid-19 levels according to ONS. By contrast, online sales reported by ONS have fallen during the year due to the reopening of physical stores.

The recovery in retail sales has been supported by a UK consumer who, for the majority of the year, has been in reasonable financial shape. Low levels of unemployment with just 3.8% of people searching for jobs in the three months to February 2022, record job vacancies, wage growth, elevated savings ratios and a good year for house prices, having increased by 14.3% in the year to March 2022, have all supported increased consumer spending. With retail sales broadly back to pre COVID-19 levels, we have seen active demand for space in the market and in the UK overall, vacancy rates have fallen. In addition, there has been a significant decline in CVAs and tenant administrations.

More recently, the tragic war in Ukraine has led to significant inflationary pressure as a result of higher energy and commodity costs with inflation in the UK rising to a 30-year high with prices rising 7% in the 12 months to March 2022. This, coupled with the Bank of England implementing monetary tightening at the same time that the UK Government has adopted fiscal tightening, is clearly resulting in a contraction of economic growth. On top of that, the continuing large-scale lockdowns in China resulting in supply chain disruption, are only adding to the economic challenges.

It is therefore likely that consumer disposable income will be impacted in the year ahead. For retailers that means margins will be lower as not all of their increased costs will be passed on to the consumer. It is interesting to note that the pure-play online retailers are, in particular, challenged by a high inflation environment given their lower margins in the first place. In contrast, multi-channel retailers are better placed to deal with rising costs by using their physical store distribution network for click and collect.

For NewRiver, our portfolio, which is more focused on essential goods and services, is the right place to be when consumers prioritise necessity-based retail spend over discretionary spend and so will provide us with insulation. Our assets are located in the heart of their local communities, easily accessible to our shoppers with low travel times which means they spend less on fuel travelling to our assets compared to more destination-led, discretionary spend assets. With our occupiers facing rising costs, having affordable rents, which we do, is key to sustaining rental cashflows particularly in periods of high inflation and contracting economic growth. Moreover, next April our occupiers should receive a significant reduction in their rateable values which we currently estimate to be circa 30% on average across our portfolio.

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Graham Clemett, chief executive of Workspace – 17 June

The changes to working practices that we have been seeing for some time have accelerated in the post-Covid environment and I believe are here to stay. We benefit hugely from these changes; flexibility has become mainstream; businesses have realised that the office must be a place for collaboration and creativity and demand is broadening out to a wider range of locations in and around London. Employers are also aware of the growing importance of creating a culture and environment their employees want to be a part of and want to commute to, helping ensure they attract and retain the best talent. With all of this in mind we are very much in growth mode, both organically from our extensive project pipeline and from acquisitions.

While all our projects have different characteristics and asset plans, there is a common thread tying them together; the sustainability lens through which we operate our business. Our focus is on future proofing our properties for generations to come, often breathing new life into older character buildings, ensuring they are climate resilient and will have a positive impact on their local community and

environment. By generating hubs of economic activity we aim to create a flatter, fairer, more sustainable London.

This focus on sustainability extends to our engagement with people across all aspects of our business. We prioritise the satisfaction and wellbeing of our employees and our customers and work in partnership with them to drive more sustainable behaviours across our sites. Over the coming year, we will be rolling out a programme of engagement with local schools and youth organisations to offer workshops and work experience placements for disadvantaged young people with our customers' businesses to support the next generation of entrepreneurs.

Looking ahead we are of course conscious of the challenging economic environment in the UK, with inflationary pressures to the fore and concerns over a potential recession. That said, we have proved many times over the enduring appeal of our flexible offer and our ability to manage through these more challenging times. We have a distinctive flexible offer that chimes with the market, a scalable operating platform, a great portfolio of properties with a rich pipeline of project activity and the opportunity to add to this from selective acquisitions. With our like-for-like occupancy now back at its target level, customer demand strong and pricing improving we are well-positioned to deliver superior returns to shareholders over the coming years.

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Paul Arenson, chief executive of Industrials REIT – 10 June

Demand for multi-let industrial (MLI) space remains strong and is increasingly diverse. More importantly, the demand is coming from a large variety of non-industrial businesses which have never previously occupied MLI space. This is as a direct result of the advances in communications technology and the resulting e-commerce revolution, which has enabled many businesses to operate from MLI units and use the internet to access suppliers and customers in a way that could not be done before. Traditional industrial occupiers are simultaneously experiencing a revival, with less inclination for businesses to outsource manufacturing offshore due to increased transport costs and less reliable security of supply resulting in more local production and increased stock levels. We believe the trends of e-commerce and deglobalisation are both likely to continue for the foreseeable future.

Supply of new MLI units remains constrained. MLI units need to be situated in and around densely populated towns and cities and what little land is currently available in those locations tends to be developed for residential. Furthermore, even where industrial is the most viable use, it tends to be for single-let distribution units leased to strong tenants on long leases. An additional supply constraint is the fact that in all but very few locations, were a developer minded to build small MLI units speculatively, the level of current MLI rents and yields achievable relative to build costs would likely result in development losses. We estimate MLI build costs (excluding land) to be around £120 per sq ft compared to the current independent valuation of our portfolio of £90 per sq ft. For the foreseeable future, we continue to be able to buy MLI estates at around 70% of replacement cost.

Despite the positive long-term trends we are seeing in MLI, as we move into the financial year ending 31 March 2023 we are cognisant of several challenges that are emerging which will require us to be vigilant.

The first of these is the cost inflation being seen across the entire economy, to which we are not immune. From our perspective, operating costs are increasing primarily because of wage inflation, which is significant across all disciplines but especially

within the industrial property and technology skillsets. As an internally managed entity, this can impact overall EPRA cost ratios. Similarly, the cost of maintaining or building MLI units is also going up. We have very limited development exposure but estimate that the cost of building a new MLI unit has increased by over 20% in the last 18 months. This further reduces the likelihood of any new supply coming on stream and should therefore be positive for future rental growth, which over time we also expect to occur in any case as a result of inflation.

The second challenge is central banks' response to these inflationary pressures through increasing interest rates and withdrawing quantitative easing. This is having a material impact on borrowing costs. Eighteen months ago, we were able to borrow at an all-in fixed rate for seven years at 1.66%. Now, five-year all-in fixed rate borrowings are costing approximately 3.75%. This means interest costs are now getting close to net initial yields (after operating leakage) and are no longer enhancing cash flow at the time of acquisition. Leveraged returns are becoming dependent on future rental growth and/or yield compression to provide enhanced returns. In this environment, we need to be more prudent on debt and LTV levels and are likely to target lower overall debt levels of around 30% rather than 40%. We would also seek lower levels of leverage on new acquisitions.

If top line revenue growth is unable to keep up, these increases in operating costs are likely to dampen earnings. However, we believe the potential for revenue growth remains strong due to the demand/supply imbalances and other factors in the MLI market referred to above. These give us the potential of passing on increased costs through higher rents and mitigating cost increases through future scale savings from our platform.

In this changing economic environment, there is a risk of a fall in GDP and a possible recessionary environment for a period. Under such conditions, we do not anticipate that vacancy levels will rise to levels experienced in previous severe economic downturns such as in 2008 and in the early 90s. Our thesis is that the structural change in the nature of demand from e-commerce related businesses has created a whole new class of businesses, who now need MLI space compared to the past where it was only the industrial manufacturing and service businesses. This growth in the universe and type of occupiers has taken place at a time of no new supply due to cost and land availability constraints. In our view, the existence of this additional new group of occupiers will go a significant way to offsetting the impact of vacancies due to a downturn. We saw this in the downturn caused by the pandemic, although we appreciate that the specifics of that downturn caused an acceleration of the growth in demand for online solutions.

Notwithstanding these challenges, I remain excited and passionate about the prospects for Industrials REIT and its stakeholders. MLI is an asset class which offers significant potential and is a big beneficiary of several important structural and societal changes taking place in the world around us. It is an asset class where we believe our operational platform-based approach to management provides us with a clear competitive advantage. We benefit from the combination of an aligned internalised management team with significant skin in the game and a long-term approach through our permanent capital structure. This enables us to invest in the technology, systems and staff required to deliver the platform. It also needs a team with vision to do things differently and be passionate about changing the way an industry operates with a focus on delivering the customer service and systems this requires. We have all of these in place and are building on our brand and vision. In executing our strategy, I am confident we will deliver superior returns with low risk over a long duration and growth opportunities and value for all of our stakeholders.



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