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VIEWPOINT

Newsflash

A new month and the 157th issue of Viewpoint from **Imperium Capital**.

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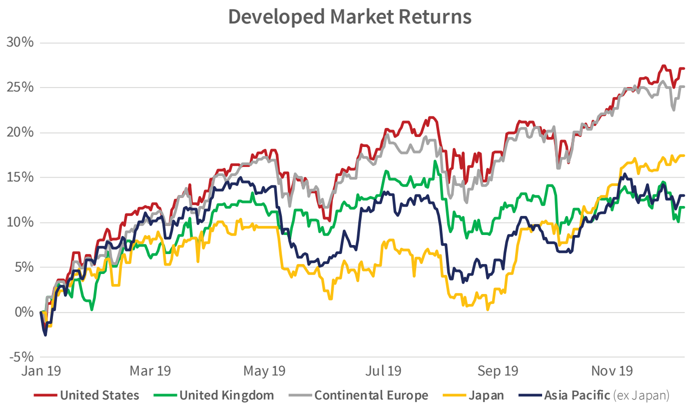
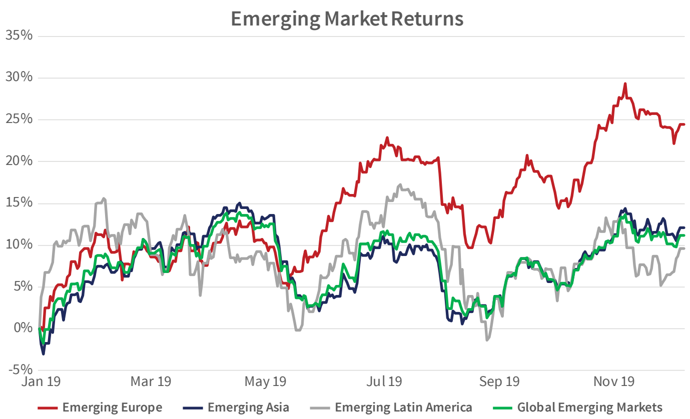
Market Commentary

Markets are heading into the final weeks of the year with some extraordinary gains for the year to date. November proved to be another strong month for risk assets, led by equities and in particular the US, up 3.6% for the month, taking its return so far this year to 26.9%. The contrast with the fourth quarter of last year, when Wall Street fell 20%, could not be more stark, and reflects to a large degree the policy pivot by the Fed, followed by other central banks, from tightening to easing policy. Markets have shrugged off the sharp downturn in global trade and manufacturing, as well as a tough year for corporate profits, which have been broadly flat, and have recovered all the ground lost in that sharp setback of Q4 2018. While the US has led the way and has reached a new all-time high other equity markets have also performed well: Europe ex UK gained 2.6% in November, 25.1% this year so far, while even the laggards among developed markets, Japan and the UK, have gained 16.4% and 13.3% respectively this year, after solid returns in November. The MSCI World index, dominated as it is by the US, was up 2.8% in the month, 24.0% year to date.



Source: Bloomberg, as of 09/12/2019

Emerging markets have fared less well than developed markets. The sharp slowdown in growth in China, especially in manufacturing, has spilled over to neighbouring countries through supply chains, while recently Latin America has been rocked by political unrest in several countries as well as economic strains and serious currency pressures. In November the MSCI Emerging Markets index declined marginally despite the strength across developed markets, with Latin America down 4.1%; this leaves the Global Emerging Markets index up 10.2% this year.

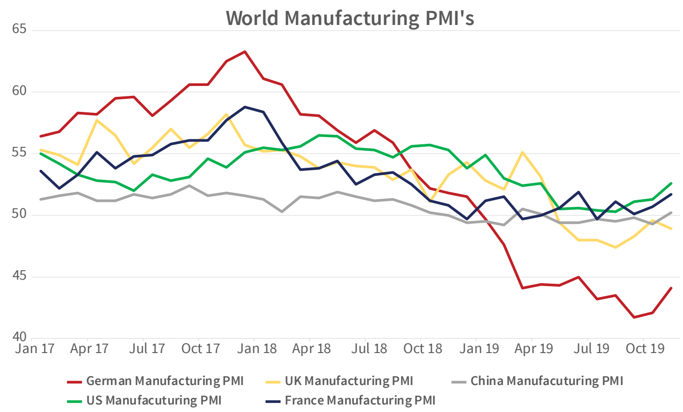


Source: Bloomberg, as of 09/12/2019

The positive tone in equities was reflected in weaker safe haven markets, with US Treasuries -0.3% and gold -3.2% in the month. Credit markets performed better, with returns of 0.3-0.4%, bringing YTD returns to 14.2% for US investment grade corporate bonds and 12.1% for US high yield, levels which are surely not repeatable in the year ahead.

While the Fed's policy pivot has been the key driver for markets this year sentiment has been helped in recent weeks by improved rhetoric around the US-China trade talks and a growing expectation that a phase one deal would be signed soon. Tariff increases by the US set for December 15th appear to be on hold and China has moved to introduce greater IP protection measures. The unpredictability of Trump continues to worry investors and overhangs the outcome of the talks but the sentiment has been increasingly positive.

At the same time there has been evidence that the slump in global manufacturing is stabilising and is not feeding into the key services sector as much as had been feared. Leading indicators across the US, Europe, Japan and China suggest that the slump in manufacturing is bottoming out while services have remained in expansionary territory. Together with modest expansionary measures announced by China, a fiscal stimulus package from Japan (in part to offset the impact of the 2% sales tax rise in October), the certainty of increased fiscal spending in the UK irrespective of which party wins the election on 12 December, the probability of fiscal pump priming in the US ahead of the election in November 2020, and the growing pressure in the Eurozone for fiscal loosening from those countries running fiscal surpluses (notably Germany), there are good grounds for expecting a modest bounce in global growth next year after this year's sharp slowdown.



Source: Bloomberg, as of 09/12/2019

With the US enjoying stronger growth and higher interest rates than other developed countries and with many emerging markets suffering contraction in growth and heightened political uncertainty, the US dollar has enjoyed a strong year. Perhaps surprisingly, one of the few currencies to appreciate versus the US dollar this year has been sterling, despite the overhang of Brexit and political uncertainty. However, all of its upward move has come in recent months, starting with the removal of a no-deal Brexit, at least for now and probably for good, and followed by the persistency of the Conservative Party's lead in the polls ahead of the general election. By common consensus anything other than an outright Conservative Party majority would result in further and prolonged Brexit uncertainty and the possibility of a government headed up by Jeremy Corbyn with a hard-left policy agenda the like of which has never been seen in the UK. The diminishing risk of this outcome has encouraged investors in sterling and taken it to close to its highest level of the past year versus the US dollar and its highest for over two years against the euro, although still well down on its pre-referendum levels.

With some of the big risks overhanging global markets – the US-China trade war, Brexit, a global recession – having diminished and with central banks almost without exception pursuing ultra loose monetary policy for the foreseeable future, investors have become more optimistic in recent months. However, that enthusiasm has pushed bond and equity markets to significantly higher valuations, particularly given the absence of growth in corporate earnings this year. Furthermore, risks have diminished but not disappeared. Much remains to be done to conclude a full and comprehensive trade deal between the US and China, and Trump seems intent on continuing to use tariffs and trade as a policy tool, as we have seen recently with threats of tariffs on Argentina and Brazil, and even the possibility of using trade as a stick to encourage its NATO partners to reach the 2% spending requirement of members. The signs of an end to the contraction in global manufacturing are encouraging but it is early days and any setbacks to the trade talks would further weaken business confidence and investment. The Hong Kong protests have destabilised their economy and introduced a new and sinister geo-political threat which overhangs the World's third largest financial centre. At the same time this extraordinary monetary policy era is potentially storing up unintended consequences and global debt levels remain a headwind to both growth and stability.

While we remain constructive about the global economy and markets, the background of these uncertainties and the materially higher valuations of most equity markets after the sharp rises this year give rise to shorter term caution. After a particularly benign year and low volatility in nearly all markets we expect there will be inevitable setbacks and periods of volatility. We are therefore somewhat more cautiously positioned in our portfolios but we continue to believe that this extraordinary market cycle has further to run and would use any such periods of volatility as an opportunity to add to risk assets.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 29 November 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
United States	S&P 500 NR	**USD**	3.6%	7.7%	26.9%	15.4%
United Kingdom	MSCI UK NR	**GBP**	1.7%	2.6%	13.3%	9.3%
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.6%	7.0%	25.1%	17.7%
Japan	Topix TR	**JPY**	1.9%	13.5%	16.4%*	4.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	0.4%	6.4%	12.6%	9.5%
Global	MSCI World NR	**USD**	2.8%	7.6%	24.0%	14.5%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	**USD**	-0.4%	9.6%	24.1%	20.8%
Emerging Asia	MSCI EM Asia NR	**USD**	0.5%	7.1%	11.3%	7.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-4.1%	2.8%	6.5%	5.6%
BRICs	MSCI BRIC NR	**USD**	0.3%	6.2%	14.0%	9.2%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-0.1%	6.1%	10.2%	7.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	**USD**	-0.3%	-1.2%	7.8%	10.2%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	0.2%	-1.1%	8.4%	9.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	0.3%	0.2%	14.2%	15.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.3%	1.0%	12.1%	9.7%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	-0.8%	-2.3%	8.9%	11.6%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-0.2%	-0.5%	9.6%	10.6%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	-0.9%	-2.4%	7.8%	8.8%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.3%	-1.2%	6.3%	6.5%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	0.9%	0.6%	10.1%	9.7%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	-0.4%	-2.3%	2.5%	3.4%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.7%	-0.5%	10.6%	12.8%
Global Government Bonds	JP Morgan Global GBI	**USD**	-1.1%	-2.0%	5.8%	8.5%
Global Bonds	ICE BofAML Global Broad Market	**USD**	-0.8%	-1.3%	6.4%	8.6%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	1.9%	3.2%	14.3%	10.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	0.4%	1.0%	9.8%	11.6%

Source: Bloomberg | ***Past performance is not indicative of future returns.*** | **) denotes estimate*

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 29 November 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
US Property Securities	MSCI US REIT NR	**USD**	-0.1%	-1.7%	2.2%*	1.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	2.3%	0.7%	21.2%	21.1%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	-2.8%	3.2%	9.2%	8.8%
Global Property Securities	S&P Global Property USD TR	**USD**	-1.1%	4.0%	20.9%	15.2%
Currencies						
Euro		**USD**	-1.2%	0.3%	-3.9%	-2.6%
UK Pound Sterling		**USD**	-0.1%	6.3%	1.3%	1.4%
Japanese Yen		**USD**	-1.3%	-3.0%	0.1%	3.6%
Australian Dollar		**USD**	-1.9%	0.4%	-4.1%	-7.4%
South African Rand		**USD**	3.0%	3.7%	-2.0%	-5.4%
Commodities & Alternatives						
Commodities	RICI TR	**USD**	-1.2%	2.6%	6.0%	-0.2%
Agricultural Commodities	RICI Agriculture TR	**USD**	0.0%	6.8%	-3.8%	-5.8%
Oil	Brent Crude Oil	**USD**	3.7%	3.3%	16.0%	6.3%
Gold	Gold Spot	**USD**	-3.2%	-3.7%	14.2%	19.9%
Hedge funds	HFRX Global Hedge Fund	**USD**	1.0%	1.8%	7.3%	5.2%
Interest rates						
United States			1.75%			
United Kingdom			0.75%			
Eurozone			0.00%			
Japan			0.10%			
Australia			0.75%			
South Africa			6.50%			

Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *e denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 29 November 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
UK - All Cap	MSCI UK NR	**GBP**	1.7%	2.6%	13.3%	9.3%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	1.3%	1.6%	11.7%	7.8%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	3.2%	5.3%	15.4%	10.5%
UK - Small Cap	MSCI Small Cap NR	**GBP**	4.0%	9.0%	23.2%	16.8%
United States	S&P 500 NR	**USD**	3.6%	1.3%	25.1%	13.8%
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.5%	0.9%	18.6%	13.1%
Japan	Topix TR	**JPY**	0.7%	3.8%	15.4%*	7.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	0.5%	0.1%	11.0%	8.0%
Global developed markets	MSCI World NR	**USD**	2.8%	1.3%	22.2%	13.0%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-0.1%	-0.2%	8.6%	5.8%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	-0.9%	-2.3%	8.8%	11.4%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	-0.1%	-0.3%	1.1%	1.3%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	-0.6%	-1.6%	5.4%	6.1%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	-1.3%	-3.5%	14.6%	20.0%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	-1.8%	-7.5%	8.4%	11.1%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	-1.2%	-4.8%	4.4%	4.7%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	-2.1%	-9.0%	10.6%	14.6%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-0.2%	-0.5%	9.6%	10.6%
US Treasuries	JP Morgan US Government Bond TR	**USD**	-0.3%	-7.1%	6.3%	8.7%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	0.3%	0.2%	14.2%	15.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.3%	1.0%	12.1%	9.7%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	-0.9%	-2.4%	7.8%	8.8%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.3%	-1.2%	6.3%	6.5%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	0.9%	0.6%	10.1%	9.7%
Global Government Bonds	JP Morgan Global GBI	**GBP**	-1.1%	-7.8%	4.3%	7.0%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	-0.8%	-1.3%	6.4%	8.6%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	1.9%	3.2%	14.3%	10.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	0.5%	-5.0%	8.3%	10.1%

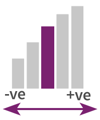
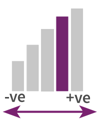
*Source: Bloomberg | **Past performance is not indicative of future returns.** | [e] denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 29 November 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
Global Property Securities	S&P Global Property TR	**GBP**	-1.0%	-2.2%	19.1%	13.6%
Currencies						
Euro		**GBP**	-1.1%	-5.8%	-5.2%	-4.0%
US Dollar		**GBP**	0.1%	-5.9%	-1.4%	-1.4%
Japanese Yen		**GBP**	-1.2%	-8.7%	-1.2%	2.2%
Commodities & Alternatives						
Commodities	RICI TR	**GBP**	-1.2%	-3.5%	4.5%	-1.6%
Agricultural Commodities	RICI Agriculture TR	**GBP**	0.0%	0.4%	-5.2%	-7.1%
Oil	Brent Crude Oil	**GBP**	3.7%	-2.8%	14.4%	4.9%
Gold	Gold Spot	**GBP**	-3.2%	-9.4%	12.5%	18.3%
Interest rates						
United Kingdom			0.75%			
United States			1.75%			
Eurozone			0.00%			
Japan			0.10%			

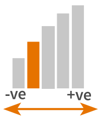
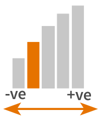
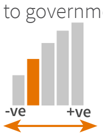
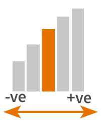
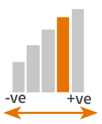
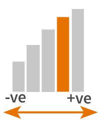
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *ᵉ denotes estimate*

Asset Allocation Dashboard

Asset class	View
Equities	
Developed equities  	» We retain our broadly neutral allocation to global equities today. Despite market volatility, valuations continue to look reasonable and thus global equities remain attractive, particularly versus ever more expensive sovereign and some corporate bonds. » Monetary policy and cross border politics will remain key drivers of risk appetite and global equity returns, the former being key to the recent repricing. The ongoing US-China trade war remains a pivotal factor in risk pricing today, as does the nascent concerns on slowing global growth. + Today's mostly dovish policy stance remains favourable for global equities, though we remain cognisant of weakening data across an increasing number of regions – The trade war back drop remains unresolved and remains a key risk for global equities – Earnings have increasingly come under pressure and the absence of EPS growth will be a headwind to further equity upside
UK equities (relative to developed)  	» The strong election result has seen UK equities move higher. There is a lot of work to be done negotiating eventual trade terms but the threat of prolonged inaction and the Corbyn government has been removed and should provide a tailwind for UK asstes. While the UK market's larger cap constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, the more domestically oriented names may face bigger challenges. » We expect the valuation discount to continue to narrow as the government makes headway on implementing Brexit and we upgrade our UK view in light of this outcome. + The UK market now has the catalyst required for an uplift in valuation; The market has been positioned at record short levels; that could lend support to UK risk assets. – Although the majority Tory government can set about 'getting Brexit done', the path to eventual trade terms may be rocky, and the government may face renewed constitutional issues (SNP) – The UK high street continues to face major challenges.
European equities (relative to developed)  	» European equity valuations remain favourable when viewed against corporate and sovereign European bond markets. The ECB has recommited to QE bond purchases but inflationary pressures have all but evaporated and it is difficult to identify a catalyst for meaningful earnings growth. Fiscal stimulus looks likely to follow. + Renewed ECB asset purchases or policy stimulus will likely provide a fillip to risk assets in the region. – Manufacturing, a mainstay of the German economy in particular, remains under pressure from shifting consumer and industrial trends. This poses headwinds for the broader German economy and the health of the region as a whole.
US equities (relative to developed)  	» The US remains the most expensive of the major developed markets, but the narrow market that has led indexes higher also offers selective value for the stockpicker. The US economy remains in reasonably good health and arguably warrants a premium, but the tighter valuation opportunity today means we continue to score US equities less highly than ex US bourses today. » Monetary policy remains crucial to keeping markets in check and volatility under control. It remains to be seen whether rates will be cut as much as markets expect over the rest of this year. + The economy remains in reasonably good health with several leading indicators remaining positive, albeit weakening + Following the Fed's policy pivot earlier this year, broader measures of financial conditions have loosened, which coupled with the current fiscal stance may help support earnings going forward. – US equity valuations remain elevated vs other regions today which may prove to be an obstacle to further index gains from current levels. Additionally, 2019 earnings growth could disappoint at the same time that margins potentially peak out. – Trade war policy remains firmly on the agenda for now and is a destabilising force.
Japanese equities (relative to developed)  	» Japanese equities continues to look attractive today against a backdrop of improving governance and working practices. The direction of the Yen is an important driver of returns with Yen weakness supporting Japanese equities and vice versa; recent Yen weakness has helped Japanese equities make up some lost ground. » Japanese assets should remain well buoyed by the Bank of Japan which continues to run an asset purchase program. + Japanese equities' relative underperformance leaves scope for further equity upside in the absence of broader based market volatility + Cash rich Japanese corporates are increasingly returning more cash to shareholders through dividends. – In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities – There is a notable absence of catalyst for any rerating
Emerging market equities  	» On a longer term view we remain in favour of EM assets more generally over DM as the relative growth dynamics remain favourable, which coupled with steady inflation and reasonable valuations should support EM equity returns over time. » Some caution is warranted today given the weaker macro backdrop and further bouts of volatility are inevitable. + EM currencies remain somewhat cheap and provide additional cushion to local EM equity returns through potential earnings enhancement over time. – Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk – The Sino-US trade war backdrop remains unresolved (notwithstanding the recent Phase One deal agreement) and remains a key risk for emerging markets as a whole.

Past performance is not indicative of future returns.

Fixed Income

Government 	» DM government bonds remain largely unattractive today with poor real return prospects in aggregate following the spectacular rally year to date. We remain cautious on bonds and look for more diversification to come from cash, gold and real assets. Other sovereign markets, such as Italy, offer some value but are also a source of price volatility. + Quality government bonds remain one of the better diversifiers in a multi asset portfolio, even when they are optically expensive. For that reason we advocate having some exposure, or owning higher quality investment grade in lieu of pure sovereign. – The reducing quantum of central bank bond purchases may be a headwind for all rate sensitive debt when the current buying frenzy ends (if indeed it does).
Index-linked (relative to government) 	» Index linked bonds offer some selective value but, like their nominal counterparts, they are expensive, particularly so in the UK. With inflation risk so poorly priced today however, we rate them slightly higher than nominals in aggregate. + Index linked bonds are one of the few ways to meaningfully protect against inflation risk. – Inflationary forces remain muted today and on any sustained slowdown in global growth they would almost certainly underperform nominal bonds.
Investment grade Corporate (relative to government) 	» Investment grade bonds provide some diversification benefit in a multi asset portfolio but valuations still remain quite tight. Fundamentals remain reasonable but we would advocate owning more shorter dated credit at today's levels as rate sensitivity remains near highs, and yields low. + A reasonable alternative to owning sovereign bonds with diversifying qualities and some spread. – In the absence of central bank bond purchases the risks appear more asymmetric today – Credit quality has drifted lower in recent years, and leverage has moved higher
High Yield Corporate 	» Spreads widened out in August but to a level that is probably about fair in our opinion considering the credit cycle is extended. » We favour owning shorter duration credit where the risk return looks more favourable today, with an opportunity to add spread duration if credit markets widen more meaningfully from here. + In the absence of a systemic market shock, and with the current dovish tone driving markets, high yield should continue to carry a decent return. – The global credit cycle is at best mid cycle, at worst late cycle, so spread volatility is to be expected going forward. Defaults are likely to come in higher with recoveries potentially lower than historical levels
Emerging market debt 	» The asset class remains attractive today with spreads continuing to offer some reasonable value » The healthy running yield means the asset class remains a preferred credit allocation for us and we continue to prefer hard currency to local exposure at this time. + We believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today. – Dollar strength may continue to weigh on EM assets, with local bonds and FX likely bearing the brunt, as evidenced recently Idiosyncratic events will continue to occur, as seen again recently in Argentina, so expect some periodic bouts of volatility
Convertible bonds 	» We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings. » Some caution is warranted given the concentration to the US market and technology names, although the Q4 2018 performance has shown the asset class can be quite resilient in a growth stocks led sell off. + The natural convexity provided by convertibles should continue to provide reasonable protection against any renewed equity weakness, as US markets trade near their highs. – The call optionality embedded into convertibles only really has any value if markets move higher, and the US, the largest regional market, remains one of the more expensive regions today in aggregate – If volatility reverts again to the recent multi year lows then the optionality holds limited value.

IMPERIUM CAPITAL

momentum

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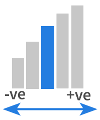
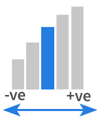
Real Assets /Alternatives

Commodities



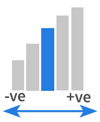
» The prices of some commodities continues be buffeted by the ongoing trade wars, and tensions in the gulf have impacted oil prices more recently. These geopolitical risks are unlikely to go away any time soon.
» Commodity prices are primarily supply and demand driven, and idiosyncratic factors can be as important as the global economic cycle.
+ With the US Dollar still near cyclical highs, and global growth still positive, commodities have scope to generate positive returns.
+ Gold remains a good hedge against risk off outcomes, and deflationary sentiment, as witnessed this year.
– Trade tensions may continue to weigh on the commodities sector which is particularly exposed to a slowdown in global growth, and China in particular
– Gold is sensitive to real rates and susceptible to pricing lower on any meaningful move higher in rates.

Property (UK)



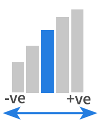
» Property remains an attractive asset class for investors requiring yield.
» Total returns will come mostly from income with limited scope for capital growth with global REIT stocks at somewhat elevated valuations today.
» When viewed against high quality, longer duration Sterling assets and inflation linked bonds, property holds appeal, with selective industrial and office space having more attractive fundamentals than under pressure high street retail.
+ Premium yields should continue to attract capital and provide some floor to prices, as will any renewed Sterling weakness (for UK property)
+ The longer duration qualities of the asset class make it a good diversifier within multi asset portfolios.
– As a long duration asset class property remains susceptible to any repricing in long term bond yields
– UK property remains sensitive to eventual Brexit terms, which will continue to evolve post election.

Infrastructure



» Infrastructure stocks trade at reasonable valuations today (although they continue to richen) and performance has been strong at the index level year to date
» Their income generating potential should continue to support the sector and attract buyers of quality infrastructure assets, at a time when the need for infrastructure capital and investment continues to grow.
+ In a multi asset portfolio the relatively defensive nature of the asset class and a degree of inflation protection make the asset class appealing.
+ The asset class offers a healthy yield at a reasonable valuation today - both equity and debt flavours.
– As a long duration asset class infrastructure remains susceptible to any repricing in long term bond yields.
– Regulation can work both for and against the underlying investments, and underlying infrastructure stocks remain exposed to these risks.

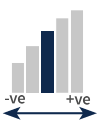
Liquid Alternatives



» We define this section as less/non-directional, absolute return type strategies that seek to capture long term risk premia or market mispricings, and includes hedge fund alternatives/systematic strategies in predominantly UCITS vehicles.
We favour an allocation to a basket of liquid strategies today to provide additional diversification with high quality bonds remaining very expensive.
+ These strategies provide additional diversification with reasonable return potential.
– The sector is relatively young and growing. Thorough due diligence is vital, and blend is recommended, as idiosyncratic performance can be unpredictable
– Poor 2018 performance has led this sector to be somewhat out of favour.

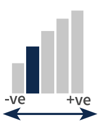
Currencies*

GBP



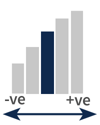
» We upweighted Sterling in October ahead of the UK election which ultimately ended with a significant Tory majority and a sharp uplift in the currency. The rerating feels justified but with negotiations to look forward to over the next year it may not leg higher from here anytime soon. For that reason the more neutral rating feels appropriate right now with the majority of the shorts squeezed out in recent months.

Euro



» The Euro has trended slowly weaker through 2019 as data has softened, finding a near term floor of late. Any kind of forward tightening is off the cards today and for the foreseeable future. In the absence of further US stimulus this will not lift the currency.
» In real terms the common currency looks about fair value today but there is no obvious and imminent catalyst for an uplift, and on balance the local fundamental backdrop appears weak which makes the currency largely unattractive today.

Yen



» Rate differentials continue to offer little reason to buy the Yen. However, in real terms the Yen remains cheap today.
» What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk, as evidenced by its recent mini rally. The neutral rating reflects this attribute which its Sterling and Euro peers lack.

*Past performance is not indicative of future returns. *Currencies views are expressed versus the US Dollar*

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