IMPERIUM CAPITAL

momentum

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Newsflash

A new month and the 156th issue of Viewpoint from **Imperium Capital**.

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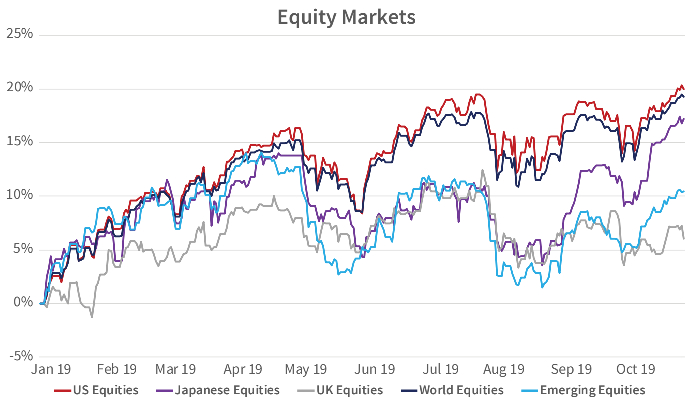
Market Commentary

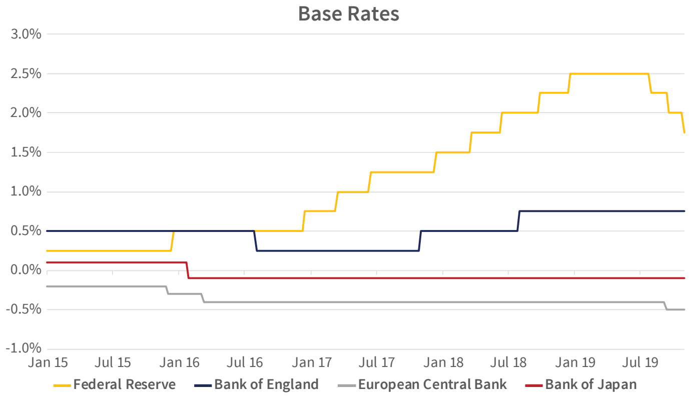
Risk assets made further progress in October, with equities leading the way. Wall Street gained 2.1% and reached a new all-time high, but, as in September, the best returns came outside the US: Japan was up by 5%, Asia ex Japan by 4.5% and emerging markets by 4.2%. Among the major markets only the UK was down (-2.1%) as a strong rally in sterling put pressure on the big overseas earners, which dominate the UK stock market. The improved appetite for risk was reflected in bond markets, with safe haven government bonds flat or down while credit markets produced positive returns, led by US corporate bonds up 0.6%.



Source: Year to date equity market performance, Bloomberg, as of 31/10/2019

The driving factors behind the improved sentiment in markets were threefold: a) the decision by the Fed to provide a new and substantial injection of liquidity amounting to $60bn per month through at least the second quarter of next year; b) positive signals from the US-China trade talks that an agreement has been reached in principle on phase one of the talks; and c) the success of the UK government in renegotiating the Withdrawal Agreement with the EU and winning the backing of Parliament, thereby removing the threat of a no-deal Brexit.

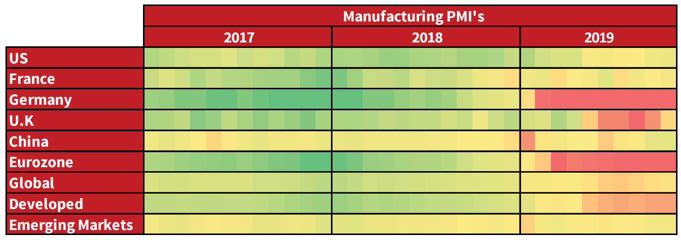
The Fed was at pains to emphasise that its new liquidity injection is a technical adjustment aimed at short term bills to dampen the recent volatility in money markets and is neither a return to its QE programme nor a signal about its monetary policy stance. Nevertheless, markets welcomed the move and there is little doubt that it has provided a meaningful boost to risk assets.



Source: Central Bank base rates, Bloomberg, as of 06/11/2019

In addition to the liquidity injection, the Fed, as widely expected, again eased policy with a further cut of 25bps to interest rates, the third since July, and several other central banks eased policy or provided dovish forward guidance. But the Fed was much less dovish than expected in its statement and signalled no further cuts either this year or next. This surprised investors and seems an unlikely outcome as the latest data on the economy is showing US manufacturing suffering from the global slowdown with some early evidence that the weakness is spilling over into the key service sector, with the ISM non-manufacturing PMI in September slipping to its lowest level in three years, albeit still with healthy growth. Nevertheless, the Fed's rate cuts, described as a mid cycle adjustment by Chairman Powell, designed to extend the expansion rather than fight a downturn, appear to be over or at least paused, depending on developments in the economy.

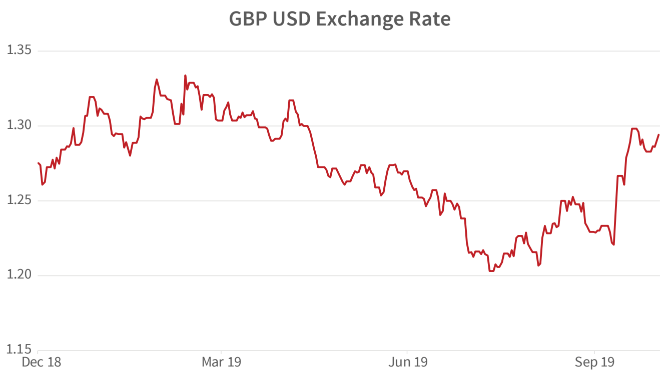
Data during the month continued to show global manufacturing in recession, led by Germany, where manufacturing indices are at 10 year lows, and China, where Q3 GDP growth of 6% is at the floor of this year's official 6-6.5% target. A fall below 6% is only a matter of time given the headwinds faced by China. There have been some signs of the weakness in manufacturing extending to services and consumption but so far the impact has been limited. In its latest report on the global economy the IMF noted that 90% of the World is in a synchronised slowdown, whereas 2 years ago 75% was in a synchronised upswing. Generally employment and consumer spending have been resilient; this is best seen in the US where Q3 growth of GDP was 1.9%, with personal consumption expenditure up 2.9% and employment and wage growth still healthy.



Source: Manufacturing Purchasing Managers Index, Bloomberg, blended conditional formatting set so that red is <47.5, yellow is <50 and green is 50 to 60, as of 31/10/2019

Confidence has been helped by clear signs of meaningful progress in the trade talks between the US and China; preparations are well underway for signing before year end of phase 1 of a trade deal. Trump says that this will represent 60% of an overall long term agreement; it is expected to cover intellectual property, access to financial services, and a pause in tariff escalation. While unquestionably a positive step forward it still leaves much to be done to conclude a full and comprehensive trade deal, including key issues such as forced technology transfer and industrial subsidies, especially so during an election year in the US.

Perhaps even more surprising was the success of the UK government in first renegotiating the Withdrawal Agreement with the EU-27, and then managing to get its approval by Parliament ahead of the 31st October deadline, only then for the timetable to be blocked by a coalition of remain MPs. The end result was that the inevitable general election has now been called, to be held on 12th December, with everything on hold until then. All general elections are important but this one carries huge implications for the UK for at least a generation ahead. At stake is whether the UK will finally leave the EU or not, since the Tory party is intent on pushing through its revised Withdrawal Agreement whereas nearly all opposition parties are committed either to ripping up the UK's exit or holding a second referendum, with all the continuing uncertainty that would entail. Arguably of much greater importance will be whether the UK makes a decisive and dramatic shift away from a pro-enterprise, low tax, small state government to one of the far left of revolutionary zeal and a belief in a hugely expanded state. While the early polls give the Tories a sizeable lead nothing can be taken for granted in view of the fluidity of the political situation in the UK and in the light of the disastrous election campaign in 2017 of then Tory leader Theresa May. While sterling rallied sharply in the past month, up by over 5%, as a no deal Brexit was in effect off the table and hopes for a Tory election success rose, very considerable uncertainty about the outcome of these major events remains and both the pound and UK markets will be susceptible to sharp swings in coming weeks.



Source: GBPUSD Spot Exchange Rate, Bloomberg, as of 31/10/2019

A combination of central bank, especially Fed, easing and meaningful reductions in risk from two of the big geopolitical overhangs, the US-China trade wars and Brexit, has underpinned both sentiment and fundamentals in the past few weeks. However, risks to the eventual outcome of both the trade talks and Brexit remain, now combined with the serious risk of a far left government in the UK. Against a background of these continuing uncertainties and a global economic slowdown recession there will be inevitable setbacks and periods of volatility in markets, which calls for some caution in the weeks ahead. But despite the Fed's pause in its rate cutting cycle there is no doubt that monetary policy will remain highly supportive for a long time ahead and the extent of the global slowdown needs to be kept in perspective; trade and manufacturing are in recession but the service sector continues to expand, employment remains strong and the consumer is generally in good shape.

We continue to believe that recent developments will mean growth is slower for longer and rates will be lower for longer. In turn that will extend this extraordinary market cycle, and with valuations of risk assets supported by ultra-low bond yields we expect markets to make further progress.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 October 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
United States	S&P 500 NR	**USD**	2.1%	2.3%	22.6%	13.6%
United Kingdom	MSCI UK NR	**GBP**	-2.1%	-3.4%	11.4%	5.7%
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.0%	3.6%	21.9%	14.1%
Japan	Topix TR	**JPY**	5.0%	7.6%	14.2%*	3.9%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	4.0%	1.3%	12.2%	13.9%
Global	MSCI World NR	**USD**	2.5%	2.6%	20.6%	12.7%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	**USD**	6.5%	3.4%	24.7%	24.2%
Emerging Asia	MSCI EM Asia NR	**USD**	4.5%	2.6%	10.7%	12.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	4.5%	-1.5%	11.1%	7.7%
BRICs	MSCI BRIC NR	**USD**	4.8%	0.8%	13.7%	15.2%
Global emerging markets	MSCI Emerging Markets NR	**USD**	4.2%	1.0%	10.4%	11.9%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	**USD**	0.0%	2.7%	8.2%	11.6%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	**USD**	0.2%	1.3%	8.2%	9.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	0.6%	3.1%	13.9%	15.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.3%	1.0%	11.7%	8.4%
UK Gilts	JP Morgan UK Government Bond TR	**GBP**	-2.0%	2.3%	9.9%	11.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-0.4%	1.2%	9.8%	9.3%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	-1.1%	1.0%	8.8%	10.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.2%	-0.3%	6.6%	6.1%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	-0.2%	0.5%	9.1%	6.5%
Japanese Government	JP Morgan Japan Government Bond TR	**JPY**	-0.5%	-0.2%	2.9%	4.4%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.5%	0.9%	9.8%	12.4%
Global Government Bonds	JP Morgan Global GBI	**USD**	0.5%	2.0%	7.1%	10.2%
Global Bonds	ICE BofAML Global Broad Market	**USD**	0.6%	1.8%	7.3%	9.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	**USD**	1.7%	0.2%	12.1%	9.2%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	0.4%	-2.1%	9.4%	11.0%

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

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 October 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
US Property Securities	MSCI US REIT NR	**USD**	-1.5%	2.2%	2.3%*	0.9%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	1.2%	-0.9%	18.5%	17.9%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	3.9%	2.6%	12.3%	20.9%
Global Property Securities	S&P Global Property USD TR	**USD**	2.7%	6.1%	22.2%	21.2%
Currencies						
Euro		**USD**	2.3%	0.7%	-2.7%	-1.4%
UK Pound Sterling		**USD**	5.3%	6.4%	1.5%	1.4%
Japanese Yen		**USD**	0.0%	0.7%	1.5%	4.6%
Australian Dollar		**USD**	2.1%	0.7%	-2.2%	-2.5%
South African Rand		**USD**	0.3%	-5.0%	-4.8%	-2.1%
Commodities & Alternatives						
Commodities	RICI TR	**USD**	2.3%	0.2%	7.3%	-3.4%
Agricultural Commodities	RICI Agriculture TR	**USD**	2.3%	1.1%	-3.8%	-5.5%
Oil	Brent Crude Oil	**USD**	-0.9%	-7.6%	12.0%	-20.2%
Gold	Gold Spot	**USD**	2.8%	7.0%	18.0%	24.5%
Hedge funds	HFRX Global Hedge Fund	**USD**	0.3%	1.1%	6.2%	3.5%
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.*** | ** denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 October 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Developed markets equities						
UK - All Cap	MSCI UK NR	**GBP**	-2.1%	-3.4%	11.4%	5.7%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	-2.5%	-4.1%	10.3%	5.0%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	-1.0%	-1.6%	11.8%	4.4%
UK - Small Cap	MSCI Small Cap NR	**GBP**	1.2%	2.6%	18.4%	8.0%
United States	S&P 500 NR	**USD**	-3.0%	-3.4%	20.8%	12.0%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.9%	-2.0%	16.9%	10.9%
Japan	Topix TR	**JPY**	-0.1%	2.1%	14.6%*	7.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-1.2%	-4.4%	10.5%	12.3%
Global developed markets	MSCI World NR	**USD**	-2.6%	-3.1%	18.8%	11.1%
Global emerging markets	MSCI Emerging Markets NR	**USD**	-1.0%	-4.6%	8.7%	10.3%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	**GBP**	-1.9%	2.3%	9.8%	10.9%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	**GBP**	-0.3%	-0.1%	1.3%	1.5%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	**GBP**	-1.1%	0.5%	6.1%	7.4%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	**GBP**	-3.1%	4.2%	16.2%	17.7%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	**GBP**	-5.5%	-1.6%	10.4%	9.4%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	**GBP**	-3.7%	-1.7%	5.7%	6.9%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	**GBP**	-6.5%	-1.5%	12.9%	10.9%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	**GBP**	-0.4%	1.2%	9.8%	9.3%
US Treasuries	JP Morgan US Government Bond TR	**USD**	-5.0%	-3.0%	6.6%	10.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	**USD**	0.6%	3.1%	13.9%	15.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	**USD**	0.3%	1.0%	11.7%	8.4%
Euro Government Bonds	ICE BofAML Euro Government TR	**EUR**	-1.1%	1.0%	8.8%	10.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	**EUR**	-0.2%	-0.3%	6.6%	6.1%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	**EUR**	-0.2%	0.5%	9.1%	6.5%
Global Government Bonds	JP Morgan Global GBI	**GBP**	-4.6%	-3.7%	5.5%	8.7%
Global Bonds	ICE BofAML Global Broad Market	**GBP**	0.6%	1.8%	7.3%	9.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	**GBP**	1.7%	0.2%	12.1%	9.2%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	-4.6%	-7.6%	7.8%	9.4%

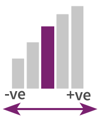
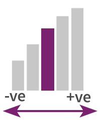
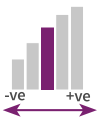
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | ** denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 October 2019				
		Currency	1 Month	3 Months	Year to date	12 Months
Property						
Global Property Securities	S&P Global Property TR	**GBP**	-2.4%	0.2%	20.4%	19.5%
Currencies						
Euro		**GBP**	-2.8%	-5.4%	-4.1%	-2.8%
US Dollar		**GBP**	-5.0%	-6.0%	-1.4%	-1.4%
Japanese Yen		**GBP**	-5.0%	-5.4%	0.0%	3.1%
Commodities & Alternatives						
Commodities	RICI TR	**GBP**	-2.8%	-5.4%	5.7%	-4.8%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-2.8%	-4.5%	-5.2%	-6.8%
Oil	Brent Crude Oil	**GBP**	-5.9%	-12.7%	10.3%	-21.3%
Gold	Gold Spot	**GBP**	-2.4%	1.0%	16.2%	22.8%
Interest rates						
United Kingdom			0.75%			
United States			1.75%			
Eurozone			0.00%			
Japan			0.10%			

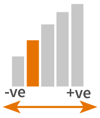
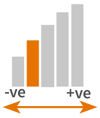
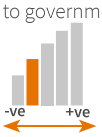
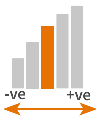
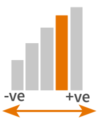
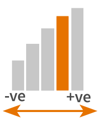
Source: Bloomberg | ***Past performance is not indicative of future returns.*** | *ᵉ denotes estimate*

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) 	» UK equities continue to look cheap today but caution is still warranted with an upcoming December election, in which the polls currently favour the Conservatives. 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 should expect to see continued volatility in Sterling and UK assets. Recent Sterling gains have crimped returns, but should be viewed favourably as a resolution seems closer. + The UK market remains exposed to global markets and factors and as such is somewhat insulated from the headline Brexit concerns, benefiting from any renewed Sterling weakness. – Today the chief worries lie within the political sphere. The general election is unlikely to unite the country nor the differing Brexit viewpoints. – 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 recommitted 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 a destabilising force.
Japan equities (relative to developed) 	» Japanese equities continue 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. Japanese assets should remain well buoyed by the Bank of Japan which continues to run an asset purchase program » In light of Japan's recent outperformance versus other regional bourses we take a more neutral view today. + Cash rich Japanese corporates are increasingly returning more cash to shareholders through dividends + Whilst growth is hard to find in larger more established corporates there are growth opportunities for the more active stockpicker. – In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities – There is a notable absence of a 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 deteriorating 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 and remains a key risk for emerging markets as a whole.

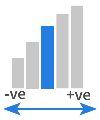
Past performance is not indicative of future returns.

Fixed Income

Government 	» DM government bonds remain largely unattractive today but a meaningful recent sell off offers an entry point to add some more protection in portfolios and we raise our view off the lowest level. We still remain quite cautious on bonds and continue to look for 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.
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, they look reasonably attractive vs nominals. + 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 are probably about fair in our opinion considering the credit cycle has extended with the more dovish central bank policy stance. » 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, which at some stage they will. + 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.

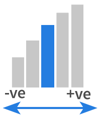
Real Assets /Alternatives

Commodities



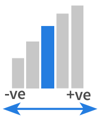
» The prices of some commodities continues to be buffeted by the ongoing trade wars, and tensions in the gulf have impacted oil prices more recently. These geopolitical risks are unlikely to go away any time soon.
» Commodity prices are primarily supply and demand driven, and idiosyncratic factors can 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
– The yellow metal is correlated with real interest rates and comes under pressure as bonds sell off, as seen in recent weeks.

Property (UK)



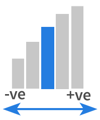
» Property remains an attractive asset class for investors requiring yield.
» Total returns will come mostly from income with limited scope for capital growth with global REIT stocks at somewhat elevated valuations today.
» When viewed against high quality, longer duration Sterling assets and inflation 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 sustained 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 continue to evolve.

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 infrastructure stocks remain exposed to these risks.

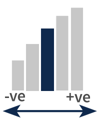
Liquid Alternatives



» 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.

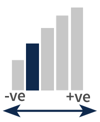
Currencies*

GBP



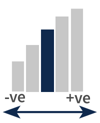
» We raised our view on Sterling last month as an improved Brexit outcome had been on the table. That however was voted down in Parliament and we now face a general election in December. The Conservatives hold a commanding lead in the polls but it remains to be seen how the eventual vote will split out. There is still risk but the shorts have probably had their best day
» In real terms the currency remains at the lower end of valuations and has room to appreciate over the medium to long term, but politics and rate policy remain a source of volatility and are likely to dominate its nearer term path.

Euro



» Any kind of forward tightening is off the cards today with the recent ECB rate cut and their commitment to restarting their asset purchase program. 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 to be deteriorating 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 and the neutral rating reflects this attribute.

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

Important Notes