Smithfield
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INVESTMENT OUTLOOK 2020

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FOREWORD

Andrew Wilde, Senior Director, Smithfield

Although our clients which have contributed to this collection each focus their pieces on different asset classes, they are all cognisant of the same macroeconomic and geopolitical factors. It is striking, therefore, that the views of the investors demonstrate the greatest degree of consensus since we began publishing this book several years ago. Put another way, as we enter the next decade, these factors seem to be being interpreted the same way by major asset managers.

A number of clear themes emerge. Firstly, there is broad agreement that there will be no global downturn in 2020. Rather, it will be a year of low growth, low interest rates and low inflation - an environment that is expected to last for a prolonged period. Andrew Wilson at Goldman Sachs Asset Management sees global growth "levelling off at around 3%".

Hal Reynolds of LA Capital notes that, against this non-recessionary but low-growth backdrop, claims of an imminent rotation from growth to value stocks seem premature. Growth stocks will continue to outperform, with value "not dead but effectively dormant". Similarly, Liz Anne Sonders at Charles Schwab highlights their continued preference for large cap US equities over small caps.

Another theme which was referenced in different contexts by various investment managers was the evolution of the political risk landscape. Whilst the US-China trade war continues to loom large in the minds of investors, in the UK, the General Election has alleviated the lingering twin risks of Brexit uncertainty and the prospect of a hard-left Government. Richard Buxton at Merian calls this "an overwhelming positive for UK equities" which should "trigger a re-rating of stocks". However, new political risks are emerging globally and with them, new uncertainties for the market to digest. Seema Shah at Principal predicts that Governments and Central Banks will perform a "role reversal of sorts" in 2020, with the result being "greater room for surprises to be sprung on investors".

It is interesting to see how investors are reacting to the low-growth environment - the strategies they are favouring in a world where the hunt for yield becomes increasingly challenging. There is evidence that today institutional investors are more prepared to sacrifice liquidity or move into asset classes that have traditionally been seen as riskier. Patrick Marshall states that "the structural shift towards private investment is here to stay" while Mario Giannini at Hamilton Lane says that, following the 10-fold increase in private market allocation over the last decade, "all signals point to this trajectory continuing." It is notable that of the three fund picks for next year from Nick Wood at Quilter Cheviot, one is focused on Emerging Markets and one on Small and Mid-sized companies.

A climate of heightened uncertainty, political surprises, bouts of volatility and an increasing challenge to find sources of positive return are predicted for 2020. But, to end on Andrew Wilson's cautiously upbeat note, "being caught in a new reality does not mean peril".

MACROECONOMIC

Seema Shah, Chief Strategist, Principal Global Investors

The era of hands-on central banks and hands-off governments is being overturned. Since the financial crisis, central banks have been proactive, maximising their monetary policy toolkits to ward off economic perils through quantitative easing and historically low rates. Conversely, over this same time period, Western governments have typically preferred a conservative approach to fiscal measures designed to move the economic needle.

2020 will be the year we see a role reversal of sorts between governments and central banks. The result will be greater room for surprises to be sprung on investors, and consequently an environment where risk velocity - the pace at which risks can transition from a threat to a real portfolio impact - is elevated further.

Central banks have been reconsidering the wisdom of negative policy rates. Slashing rates has distorted financial markets, crippled bank lending, and threatened pensions systems worldwide. So, while the still-sluggish economic backdrop means central banks won't withdraw monetary stimulus, they will increasingly look to fiscal policy to add the required additional economic stimulus.

Central banks will effectively become mediators between - and negotiators with - governments to encourage necessary fiscal changes. This will be most evident in Europe. Christine Lagarde has brought much of the IMF's agenda into the ECB, and the Euro area's fiscal stance is likely to be mildly expansionary next year.

In the UK too, while the Bank of England likely holds fire, the new government is set to indulge in fiscal spending. In the United States, President Trump has already been a more active, interventionist government. If he is voted President again, for a last term, he will likely adopt an even more direct approach, unencumbered by the need to consider re-election. By contrast, the Federal Reserve is already indicating that the bar to either lowering or raising rates is very high.

Our research has indicated that markets react more sharply and rapidly today than a decade ago in response to central banking and geopolitical surprises. We don't foresee a recession in the next twelve months, so there is no reason to take risk off the table. Yet, investors will increasingly need to be nimble and actively seek out opportunities, whilst also retaining a largely defensive positioning, in this low return, high risk world.

"2020 WILL BE THE YEAR WE SEE A ROLE REVERSAL OF SORTS BETWEEN GOVERNMENTS AND CENTRAL BANKS"

"A LOW GROWTH, LOW INFLATION AND LOW RETURN ENVIRONMENT IS NOT A CAUSE FOR PANIC, BUT SHOULD PROMPT A RETHINK FROM INSTITUTIONAL INVESTORS ABOUT THEIR ALLOCATIONS WITHIN FIXED INCOME"

FIXED INCOME

Andrew Wilson, EMEA CEO and Global Head of Fixed Income, Goldman Sachs Asset Management

There was a period of time during the late summer when a reality seemed to dawn on many of our European clients - that the world of negative rates was not just a fleeting blip. It now appears likely that we could remain in a negative yielding environment for a number of years. But being caught in a new reality does not mean peril. My view is that we are not in imminent danger of a recession. Without an unforeseen shock, conditions for a widening of credit spreads or a sell-off of risk assets do not exist at this point.

As institutional investors reach similar conclusions, the way that they invest is adapting. In order to generate positive returns, many are beginning to consider pushing out their duration, moving down the credit spectrum, giving up liquidity or taking on leverage. This is pushing up demand for those asset classes that can offer steady, fixed income like returns, but may be out of traditional comfort zones. These include private credit, high yield debt, emerging market debt, infrastructure and real estate.

In developed markets, with the scope to move rates in either direction looking unclear, there has been a great deal of emphasis on a shift to fiscal stimulus. In the early days of Christine Lagarde's ECB tenure, it seems a primary focus of the new Chair will be to encourage fiscal packages in major Eurozone economies as a means of staving off a downturn. The US and UK may also look set to push forward on a path of fiscal easing in 2020 depending on electoral outcomes. The question is whether these packages can actually move the needle on growth. The fiscal measures would need to be extremely significant to do so. Japan offers us a blueprint, demonstrating that fiscal expansions do not necessarily lead to higher growth and inflation rates.

As things stand, the world is more likely to experience a prolonged period of low growth - with global growth levelling off at around 3%. There is no obvious catalyst for a meaningful upward move in inflation and there appears to be no imperative for Central Banks to raise rates.

In 2020, we see a recession as unlikely but nevertheless it will be a year of important choices for fixed income investors. A low growth, low inflation and low return environment is not a cause for panic, but should prompt a rethink from institutional investors about their allocations within fixed income.

UK EQUITIES

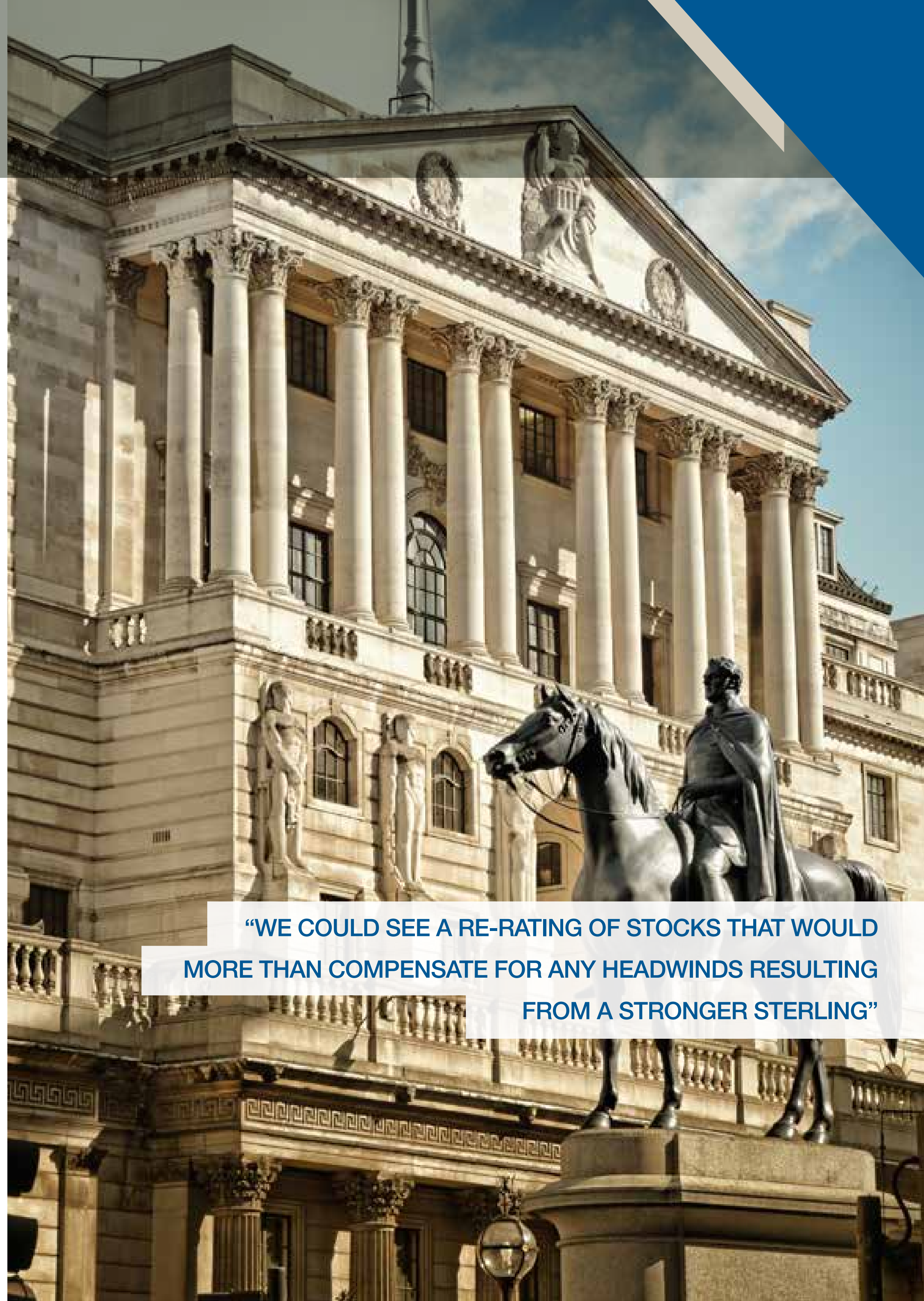
Richard Buxton, Head of UK equities, Merian Global Investors

Even before the Election, there were numerous indications of an improving outlook for the UK's manufacturing sector, which has been bumping along the bottom of a two-year downturn.

There is more to my optimistic outlook than progress with the Brexit process. Policymakers globally are doing their bit to support global economic growth, from the US Federal Reserve's decisions to ease monetary policy (not forgetting, also, its substantial actions in the Treasury market), to stimulus measures from the Bank of Japan and the European Central Bank, in addition to selected policy measures by China.

While a strengthening sterling is likely to weigh somewhat on the big dollar earners like the oil companies, instinct tells me that the effect of sterling strength will be outweighed by the sheer relief that a prolonged period of political stasis is, at last, over.

We could see a re-rating of stocks that would more than compensate for any headwinds resulting from a stronger sterling. I believe it is just such a re-rating that will win back over those international investors who pulled out of the UK market in such large numbers in the aftermath of the referendum. This will be an overwhelming positive for UK equities as we enter 2020.



"WE COULD SEE A RE-RATING OF STOCKS THAT WOULD MORE THAN COMPENSATE FOR ANY HEADWINDS RESULTING FROM A STRONGER STERLING"

> **"EARNINGS ARE EXPECTED TO ACCELERATE IN 2020, BUT THAT EXPECTATION IS PARTLY PREDICATED ON A POSITIVE OUTCOME TO THE U.S.-CHINA TRADE WAR, WHICH REMAINS UNCERTAIN"**

US EQUITIES

Liz Ann Sonders, Senior Vice President, Chief Investment Strategist, Charles Schwab

U.S. economic growth slowed in 2019, pulled down by weak business investment and manufacturing activity. Although strength in consumer spending and services persists heading into 2020, we expect stabilization - at best - in growth next year. Myriad uncertainties are clouding the outlook, including earnings and the presidential election. Ongoing trade war ambiguity could further depress corporate confidence and investment.

A key risk in 2020 is that manufacturing weakness and business investment fatigue could hurt services activity and consumer spending, by depressing job growth. Although the U.S. unemployment rate (a lagging indicator) remains low, weekly initial jobless claims (a leading indicator) in manufacturing-oriented states have been rising. As such, U.S. payroll growth may weaken if limited headway is made on a comprehensive trade deal. However, global economic stabilization could be positive for U.S. growth.

We expect bouts of market volatility will persist in 2020. Trade news may continue to drive market swings in both directions, absent a comprehensive U.S.-China trade deal. Investor sentiment should also be a factor in market swings, with late-2019's new highs ushering in elevated investor optimism (a contrarian indicator at extremes). Investor sentiment also may continue to swing more widely than usual, with new highs elevating optimism, only to be dented by negative trade news.

Earnings are expected to accelerate in 2020, but that expectation is partly predicated on a positive outcome to the U.S.-China trade war, which remains uncertain. In addition, due to the effects of tariffs and rising labour costs, profit margins could come under pressure in 2020. The macroeconomic environment, including easier monetary policy and lending conditions, supported price-earnings (P/E) expansion in 2019, but those effects are fading. The wide gap between stock market performance and corporate after-tax profits suggests the latter needs to accelerate.

High debt levels and a weaker profitability outlook likely will continue to pressure small-cap stocks. We continue to recommend an overweight to large caps and underweight to small caps within U.S. equities. Further, factor performance trends are likely to be more consistent than equity sector performance trends in 2020. Quality - such as strong corporate balance sheets, low debt, consistent earnings - and valuations likely will remain important. Availability and cost of credit will be a key to whether economic conditions support stock price gains. Corporate earnings may have to do more of the heavy lifting.

EMERGING MARKET DEBT

Denise Simon, Co-Head of Emerging-Market Debt, Lazard Asset Management

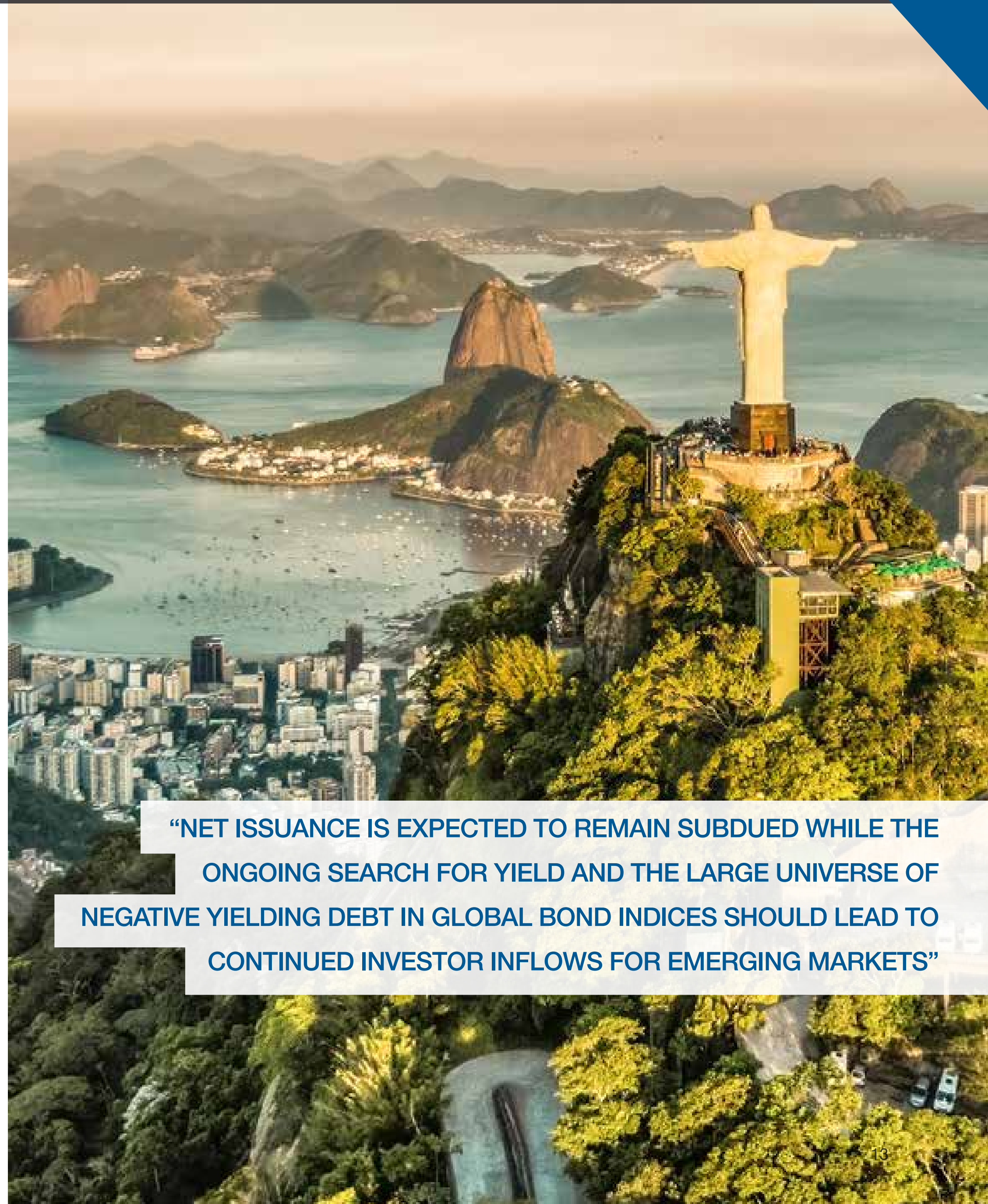
Emerging markets debt delivered double-digit gains in 2019, more than reversing the sell-off in 2018. Returns were largely driven by duration, benefitting from the benign inflationary environment and accommodative policies from central banks globally. As we head into 2020, the key question for investors is whether the asset class can continue to deliver strong risk-adjusted returns. We expect positive returns, albeit at more subdued levels. Investors are likely to earn returns commensurate with the carry on the asset class, which we believe is attractive both on a standalone basis as well as in comparison to other fixed income markets.

A number of factors support our constructive outlook. First, the global growth outlook has stabilized. The risk of an imminent recession in the US has receded and monetary easing across the globe should limit the downside risks to global growth in 2020. Additionally, the bar for monetary tightening in core markets is high, so global liquidity conditions should remain favourable. Also, from a fundamental standpoint, growth differentials between emerging and developed markets should widen in favour of emerging markets. While developed markets countries are clearly in the late stages of the economic cycle, many emerging markets countries exhibit early cycle characteristics. Leading economic indicators in emerging markets have begun to stabilize, particularly in those countries that have suffered some of the biggest setbacks in recent years such as Brazil and Turkey.

From a valuation standpoint, spreads in external sovereign and corporate debt, while less attractive than a year ago, are not stretched and provide adequate compensation for risk. Default rates should remain low with exceptions such as Argentina, Venezuela and Lebanon which are already either in default or priced as such. In fact, we believe restructurings in these countries could provide significant alpha opportunities.

Technicals should also remain supportive. Net issuance is expected to remain subdued while the ongoing search for yield and the large universe of negative yielding debt in global bond indices should lead to continued investor inflows for emerging markets.

As always, there is no shortage of things to worry about. The trade dispute between the US and China, which has been ongoing for nearly two years, has weighed on business sentiment and investment. Trade tensions are likely to linger and will therefore remain a source of anxiety for businesses and investors. The lead up to the November election in the US could also add to uncertainty. Nevertheless, we believe emerging markets are well positioned to deliver attractive risk-adjusted returns in the year ahead.



“NET ISSUANCE IS EXPECTED TO REMAIN SUBDUED WHILE THE ONGOING SEARCH FOR YIELD AND THE LARGE UNIVERSE OF NEGATIVE YIELDING DEBT IN GLOBAL BOND INDICES SHOULD LEAD TO CONTINUED INVESTOR INFLOWS FOR EMERGING MARKETS”

“AFTER NEARLY A DECADE OF 6-7% ANNUAL GDP GROWTH, 2020 WILL MARK A CRUCIAL PERIOD OF STABILITY AND CONSOLIDATION FOR VIETNAM”

FRONTIER EQUITIES

Bill Stoops, Chief Investment Officer, Dragon Capital

After nearly a decade of 6-7% annual GDP growth, 2020 will mark a crucial period of stability and consolidation for Vietnam. The economy has proved resilient so far especially in the current global environment of slowing economic growth and amid the US-China trade war.

The current rate of GDP expansion is among the highest in the developing world, driven by a combination of domestic consumption, exports, foreign direct investment, increased focus on infrastructure and the emergence of the private sector. All things being equal, the equity market should track the economy’s progress in the new year and the pace of financial market development delivering a low to mid-teens percentage return for the VNI index. The broader macro-economic backdrop meanwhile, should continue to deliver rising foreign-exchange reserves, low inflation, external-account surpluses, a strong currency and stable interest rates into 2020.

Over the past year many have argued that Vietnam has been a net beneficiary of the US-China trade war. Current estimates of FDI are at 9% of GDP and we expect this to continue given rising exports and domestic consumption. It’s unlikely the US will target Vietnam on trade issues despite its rising trade surplus, and whilst the size of Vietnam’s trade with the US is indeed growing, it is still insufficient for it to be targeted, and it ultimately represents a geopolitical counterbalance to China’s ambitions in the region.

The market has also been expanding and this is set to continue in 2020. Whilst 2019 has been a slower year for IPOs and divestments, the prospective calendar could be as large as $21 billion, but the anti-corruption drive, and possibly the National Assembly elections in 2020 may continue to suppress this vital activity into 2021.

On the issue of a working model for the handling of the transparency of foreign ownership limits and the potential progression to MSCI emerging market status, we see no signs of a quick resolution. However, new financial products in the form of ETFs and other specialised funds may begin to offer more access to the foreign portfolio investor in 2020.

In spite of great improvements in economic structure and management, Vietnam does remain subject to global risks, such as trade wars, market contagion, currency and debt shocks both from its immediate neighbours and beyond. However, the IMF forecasts Vietnam’s growth over the five years to 2024 to accelerate from the previous five-year period, potentially making it one of the world’s fastest-growing economies. If pitfalls can be avoided, we believe Vietnam will continue to remain a growth leader in developing markets.

TECH

Amanda Lyons, Senior Analyst, GAM Investments

2019 has been a strong year for technology with the MSCI World Tech index significantly outperforming the broader indices. Both software and storage were drivers for the outperformance as companies continue to move away from legacy software and shift towards the cloud. This in turn has led to increasing demand for storing data and memory. This trend is not limited to 2019 and we believe is set to continue. Survey work indicates that IT budgets continue to rise as businesses replace outdated technology.

During the Q3 reporting season several companies started to give 2020 guidance, particularly in relation to capex plans suggesting that spend will increase. This should be positive for the storage space, particularly HDD (hard disk drive). Although there has been speculation that flash will replace HDD in the data centre, this is far away from being a reality. HDD continues to maintain a significant cost advantage compared to flash and consequently we do not expect flash to gain share in the manner in which sell side analysts forecast.

Although we are still in the midst of an extended bull market, signs of slowing economic growth indicate that we are entering the sunset phase. As growth becomes tougher, there will be a stark contrast between secular growth themes driven by the rapid development of digital technologies - cloud, internet of things, automation of knowledge work etc. and those more economically more sensitive areas such as hardware and semiconductors that will see increasing headwinds from slowing growth and trade disputes.

During 2019 several high profile ‘unicorns’ went public and have since struggled under the scrutiny of the public markets. This culminated with the failed attempt to bring WeWork to the market at the end of the summer and its subsequent down round.

As we head toward 2020, the era of easy money and the mantra of ‘growth at any cost’ has gone away. While there is still an expectation of growth, investors want to see a clear path towards profitability and are not prepared to tolerate the risk and the hype associated with many of these companies. Companies will have to demonstrate how they can succeed in an environment with fewer subsidies and will have to prove their business models work, indicating that they can operate without generating billions of dollars of losses each quarter.

As a degree of rationality returns, 2020 will be a year where the polarisation between winners and losers becomes even more stark. As investors become more cautious, valuation will become increasingly important when determining which companies will be the winners.

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"THERE IS NO DOUBT THAT PRICES ARE AT AN ALL-TIME HIGH, BUT PRICES AND LEVERAGE LEVELS DON'T SEEM TO INDICATE INVESTMENT RESULTS"

PRIVATE EQUITY

Mario Giannini, CEO, Hamilton Lane

Over the past decade, private market assets have grown to $5.7 trillion, a 10-fold increase. All signals point to this trajectory continuing given a variety of factors, including overall outperformance across asset classes, as well as limited partners' increased understanding and appetite for private equity, especially in light of expectations for a sustained low interest rate environment.

The private markets have demonstrated considerably less performance risk than is commonly believed. In fact, during the last two decades the risk of loss, measured by the lowest 5-year annualized performance, has been substantially greater in the public markets than in private equity and private credit, which have not suffered losses.

There is no doubt that prices are at an all-time high, but prices and leverage levels don't seem to indicate investment results. If buying cheap is the recipe for success, then we should see the best results for the low-priced deals, but we don't.

While private markets do currently exhibit classic signs of being late in the cycle, including record fundraising and easy credit that have fuelled a rise in deal values, these signals are largely misunderstood, as evidence suggests such late-cycle indicators are often not the determinant of returns. In fact, fundraising has actually tailed off the past two years. Despite large amounts of capital raised, the private markets represent only about 2% of the MSCI World Market Cap. We believe we will continue to see quite a bit of growth for several reasons - better historical performance, risk-adjusted returns, a growing opportunity set, low interest rates and increasingly volatile public markets.

Investors need to have a long-term mindset to investing right now. Whether it's building a more defensive portfolio or lowering leverage levels, there are many ways an investor can prudently plan across cycles. With that being said, it is worth noting that private equity and private credit returns have historically proven resilient in down markets. In the end, if markets do turn down, the key, and what the private markets have historically been pretty good at doing, is to suffer fewer losses and having the capital to invest when others are fleeing.

PRIVATE DEBT

Patrick Marshall, Head of Private Debt, Hermes Investment Management

The structural shift towards private investment is here to stay. Companies are increasingly turning their backs on the public market in favour of raising capital from private equity and debt providers. Within the private debt market itself, fundraising for direct lending strategies are at an all-time high. Increased pressures for fund managers to deploy means that competition for the best loans will remain acute in 2020.

Competition will not be centred on pricing but primarily on loan structures and lender protection rights. The deterioration in loan terms in the European mid-market in recent years has been primarily driven by new entrants to the space competing for loans in order to deploy their funds. Unitranche lenders with return targets above current market yields, will continue to seek to make themselves attractive to borrowers by increasing leverage on offer or relaxing covenant protection for example.

The smaller SME lending segment, however, will continue to provide pockets of value as the banks are the lenders who control this segment. With the banks unwilling to compromise on loan protection rights, which is very important in a downside scenario, and with yields remaining generous, this segment will continue to offer investors value.

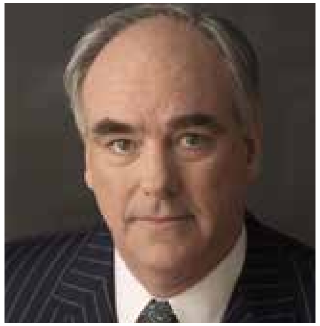
European loans continue to offer attractive risk-adjusted returns and present investors with diversification from US loans, which have recently been subject to weaker lender protection rights. In Europe, Scandinavia remains, in my opinion, the market that offers investors the best value. Lenders in this market benefit from a creditor-friendly legal environment coupled with attractive deal flow and a benign economic environment as well as healthy yields. Germany will continue to be competitive but there will be value in loans to smaller "Mittelstand" companies. France will offer little value due to weak legal environment and government initiatives which distort yields.

With ongoing uncertainty over Brexit, the U.K. market will continue to be less competitive. UK businesses in more cyclical industries or those with significant exposure to consumer spending will be shunned and lenders will concentrate on stable businesses in sectors such as healthcare, business services, education and IT. This should see the Sterling premium continue to rise.

"INCREASED PRESSURES FOR FUND MANAGERS TO DEPLOY MEANS THAT COMPETITION FOR THE BEST LOANS WILL REMAIN ACUTE IN 2020"

"VALUE ISN'T DEAD BUT IT REMAINS DORMANT FOR THE TIME BEING"

FACTOR INVESTING



Hal Reynolds,
Chief Investment Officer,
Los Angeles Capital Management

Many questions were asked of quantitative investment managers over recent months, with the majority focused on returns. Quantitative strategies struggled to deliver in 2019 largely due to the underperformance of a number of key factors - common characteristics among stocks used to create portfolios and that underpin many quantitative processes - including value, momentum, and quality.

Exploiting the payoffs to these factors within diversified portfolios has been challenging as the efficacy of these investment themes has been particularly pronounced and localised within the largest names in the index, notably the FAANG stocks. In an environment where equity valuations have expanded on monetary stimulus, a flat yield curve favours longer duration growth assets, and slowing growth rates benefits large cap stocks, the construction of active diversified portfolios has tended to result in an underweight to the top size quintile. By mitigating concentration risk, quant funds have sacrificed performance. In addition, index fund flows have exacerbated the underperformance as capital flows to index portfolios with weighted market caps greater than $200 billion have created a buoyancy effect for the largest companies.

Looking forward, the biggest question in markets in my view is whether the oft-heralded reversal of the outperformance of growth stocks to value stocks will occur in 2020. Many commentators have identified this as the year.

There are two schools of thought here. The first is that value is dead. Value has underperformed growth for over a decade, and its reputation this year, in particular, has taken a battering. Growth will therefore continue to outperform in a low growth, low interest rate environment and earnings will be driven by human capital, not hard assets as evidenced by the challenges facing the industrials sector.

The second camp argues that value is poised for a 2000-2007 like rebound. The expected return spread between value and growth is close to historic highs and the rotation has begun.

Our sentiment analysis, however, shows that growth stocks remain in favour. As such, relative to value stocks, our portfolios are still overweight growth stocks.

The catalyst for a value rebound will likely include better economic growth (which favours leveraged, capital intensive assets), accompanied by higher interest rates in Europe and the U.S. Continued flows from active to passive will likely push growth multiples higher which would ultimately increase the probability of a value rebound. In the meantime, low interest rates and anemic economic growth rates favor growth stocks.

Value isn't dead but it remains dormant for the time being.

IMPACT INVESTING

Daniela Barone Soares, CEO, Snowball

Interest in impact investing has increased significantly in recent years, but in 2019, at $502bn, it still represented only a fraction of the $74 trillion global asset management industry. This is not good enough. The movement towards creating an impact economy needs to accelerate quickly - not least to avoid a complete climate catastrophe - and there are many signs to suggest in 2020 it will.

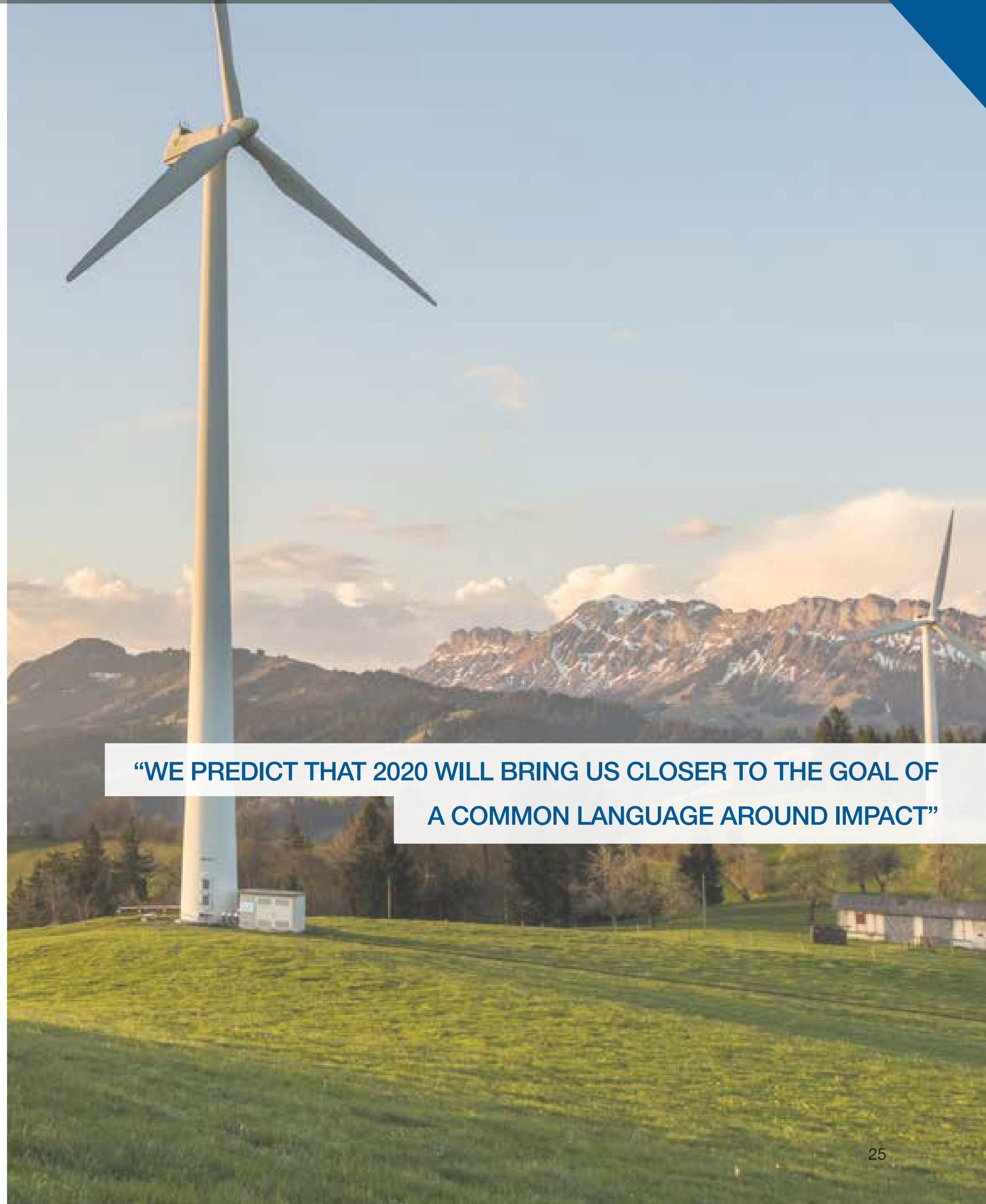
We are seeing a huge change in public opinion and awareness about the need for companies, and individuals, to behave more sustainably. Extinction Rebellion, David Attenborough's Blue Planet and wider media coverage have made this a live issue in the UK, with the UK government declaring a climate emergency in 2019. Across the investment industry, 2019 saw the creation of the Impact Investing Institute in the UK, and an increase of impact funds created by independent and mainstream organisations alike - all suggesting that momentum is building.

Another key driver of change is the gradual transfer of money from the Baby Boomer generation to Gen X and Millennials who, in research conducted by Deloitte, most commonly cited business' primary responsibility is to "Improve Society", ranking this more highly than to generate profit.

Whilst we're pleased that impact investing is becoming increasingly mainstream, there is a risk that it may get diluted or discredited by people who see it as 'just another product'. To avoid this, the sector needs to agree a common language around impact as soon as possible to help investors differentiate between the serious players and the 'cowboys'.

I suspect we may not reach complete agreement on this shared language in 2020 but it's clear that the industry is making good progress. And we predict that 2020 will bring us closer to the goal of a common language around impact. This in turn will help investors ask better questions, share knowledge and improve their reporting. We at Snowball, working with the Impact Management Project have published an award-winning report on how we assess impact and are committed to open sourcing our work with other investors. We would encourage others to adopt this approach to improve collaboration across the industry.

Whilst standardising the industry's approach to impact is essential, we would caution against collating data for data's sake. In 2020, the focus should instead be on creating a culture of purpose and intention - ensuring that real impact is being created over the long term and identifying outcomes that would not have been achieved if the investments were not made. An industry traditionally reliant on data for demonstrating results needs to recognise that cultural change across the sector must come before we can begin to meaningfully measure impact.



"WE PREDICT THAT 2020 WILL BRING US CLOSER TO THE GOAL OF A COMMON LANGUAGE AROUND IMPACT"

> “WE LIKE THE FUND’S BIAS TOWARDS THE GROWTH IN THE ASIAN CONSUMER, WHICH WE BELIEVE IS A POSITIVE LONG-TERM DRIVER”

FUND SELECTION

Nick Wood, Head of Research, Quilter Cheviot

This year, our top three fund picks are Matthews Asia ex Japan Dividend Fund, Montanaro UK Income Fund and Schroder European Alpha Income Fund. All three funds have an income bias and could be seen as going against the grain a little, given investor nervousness around China and Hong Kong, the UK and political risk, and Europe.

The Matthews Asia ex Japan Dividend fund invests in companies that pay a growing dividend and which have a strong balance sheet to continue paying said dividend. The philosophy is based on the premise that dividends can be an important signal about the business quality and management’s ability to allocate capital well. Many companies they own still have significant family or management ownership, with family ownership a proven factor in producing long-term outperformance.

Firstly, we like the fund’s bias towards the growth in the Asian consumer, which we believe is a positive long-term driver. Additionally, the fund tends to have exposure to smaller companies as well as more ‘frontier’ markets such as Vietnam, a growing market which has also benefitted somewhat from the US-China trade war. The fund is growing but has assets of less than £100m today, which means it can be fairly nimble and gives it more opportunities than much larger funds.

Our second fund is Montanaro UK Income. Brexit discussions have taken a heavy toll on the popularity of UK equities and, with the home market fairly unloved, I wanted to highlight a potential winner. Run by Charles Montanaro, the fund is focused on small and mid-sized higher quality businesses. It invests in companies that have a reasonable dividend yield of at least 1.5%, but that also have potential for growth. The fund has done well this year, but we think a more positive view on the UK could see another good year. It is also somewhat more liquid than other smaller company funds, something we are very conscious of post Woodford.

Our final fund pick is Schroder European Alpha Income, a more contrarian choice. Portfolio Manager James Sym has managed the fund for seven years, outperforming every calendar year from 2013-2016. 2018 and 2019 have been tougher, however, with Sym, lagging the market significantly.

We rate Sym highly and the combination of manager skill and a portfolio of undervalued stocks is attractive. Sym makes a persuasive case for Europe, arguing that the consumer is looking strong, that governments are likely to start spending more, and that capital expenditure is likely coming back. The fund’s current pro-cyclical value style would strongly benefit from a reflationary environment, and while Sym is probably not in the majority, his fund offers investors an interesting opportunity to diversify their more growth-focused holdings.

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