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Further challenges ahead as war rages on

T. Rowe Price's Razan Nasser discusses some of the ongoing economic challenges as the Russia-Ukraine war continues (page 2)

PGIM Real Estate raises \$400m for Euro Core Plus

P GIM Real Estate's European Core Plus strategy has raised more than \$400m in less than six months after inception of the new vehicle.

PGIM Real Estate is the \$204.4bn real estate investment management business of PGIM.

The strategy targets Europe's most liquid markets, allocating to sectors benefitting from structural trends driven by digitalisation, changing demographics and decarbonisation. Focusing on these high-conviction themes, the strategy will invest in sectors like last mile logistics, senior and student housing, and the new generation of offices.

Jocelyn de Verdelon, senior portfolio manager of the strategy, says: "In this high inflation environment and amid market dislocations, investors increasingly want strategies that are able to distribute sustainable income and generate alpha.

"Our European Core Plus strategy aims to do just that by focusing on high conviction investment themes across the true core-plus universe to deliver growing income combined with value creation. Our experience in alpha-driven strategies provides a strong platform to create another high-quality vehicle that aims to capture compelling investment opportunities in Europe."



Razan Nasser
T. Rowe Price

"It would be a mistake to assume the energy crisis is over"

Russia's invasion of Ukraine a year ago has become the most significant conflict in Europe since WWII.

The ensuing humanitarian crisis remains deeply concerning, with the lives of ordinary Ukrainians immeasurably disrupted.

Ukraine's wartime economy continues to face significant challenges, with GDP estimated to have shrunk by more than 30% in 2022. With continued attacks on infrastructure, we expect economic activity to contract again this year, albeit at a low single digit rate. Meanwhile, although the budget deficit is expected to remain large, strong external support from Western governments and the IMF is likely. This should help plug the financing gap, which in turn should help reduce reliance on monetary financing this year.

Given the immense pressure on Ukraine, external creditors agreed to a two-year standstill on its sovereign debt in August. This will likely be the first step of the restructuring, with a deep haircut on the debt likely. It is difficult to predict the size of this debt reduction as it

depends on the state of the Ukrainian economy at the time the restructuring is agreed. There will also be a political decision to be made about how much private creditors should share in the reconstruction cost. The damage to infrastructure has been huge so far. When this war does eventually end, the scale of the reconstruction and recovery effort is likely to eclipse anything Europe has seen since WWII.

As for Europe, an energy crisis has so far been avoided as countries largely succeeded in filling gas storage facilities. This, combined with the mild winter, has helped wholesale gas prices come down meaningfully.

While this is encouraging, Europe's transition from Russian gas remains a major challenge, so it would be a mistake to assume the energy crisis is over. In many ways, it is only just beginning. Europe's gas infrastructure was set up to receive imports from Russia through pipelines, and it will require time and money to change this. Imports of LNG from the US and Qatar offer a potential alternative, but it is unlikely there will be enough supply to meet demand beyond the short term.



Gresham House Ventures boosts investment team

Gresham House Ventures has bolstered its investment team with the hire of Grant Paul-Florence as director of investments.

With decades of investment experience working with early stage, growth and mid-market businesses, Paul-Florence brings a wealth of knowledge and will provide further deal and portfolio management resource to the team. He joins from BGF, a £2.5bn private equity firm focused on small and mid-sized businesses in the UK and Ireland.

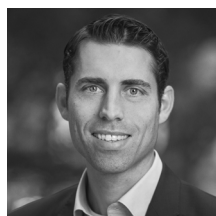
The appointment continues a busy period in terms of dealmaking and fundraising for Gresham House Ventures. Recent deals include an exit from Equip Outdoor Technologies, and investments into eating disorder clinic Orri and navigation satellite business FocalPoint.

Trevor Hope, CIO at Gresham House Ventures, says: "Gresham House Ventures plays a valuable role in seeking out and backing Britain's most talented entrepreneurs, and we are confident Grant's wealth of experience and passion for innovation will prove invaluable in this mission over the coming years.

"This appointment comes at an important time amid another strong period of fundraising, and the team looks forward to working with Grant as we continue to strengthen our offering."



The immense 'S' opportunity



Henning Padberg
Nordea

"An estimated \$5-7trn of 'S' investment is needed per year"

Until recently, the ESG landscape has been dominated by the 'E' – with the spotlight mostly fixated on finding solutions to combat climate change.

While this remains vital, environmental and social issues are closely linked. Man-made climate change, for example, affects societies through changes in water, air, food, the ecosystem, our livelihoods and infrastructure. To achieve an inclusive green economy, we must continue to provide solutions to combat many of the challenges surrounding the social, or 'S', in ESG.

Of the UN SDGs, 11 are predominantly addressing social issues. To achieve the 2030 goals outlined by the UN, an estimated \$5-7trn of 'S' investment is needed per year – but only half of this is currently being spent. This annual investment gap of about \$2-4trn presents a huge opportunity for companies able to meet this demand. For

investors, this means bridging the financial gap by backing those companies offering social goods and services. Beyond the importance of contributing to a better society, it also makes financial sense.

An example is Safaricom, the largest telecommunications provider in Kenya.

With roughly one-fifth of adults in Kenya lacking access to financial services, Safaricom is expanding financial inclusion via its M-Pesa mobile platform, which provides transaction services through a SIM card. Financial inclusion is a key element of social inclusion and is particularly useful in combating poverty and income inequality.

Aligned with SDG 1 – No Poverty, M-Pesa, which has grown to 28.3 million active monthly customers, also supports economic growth by offering small business owners a one-stop solution for receiving and managing payments.

Cohen & Steers names new head of UK wealth

Cohen & Steers has appointed Sean Cooney to the newly created role of head of UK wealth.

This appointment reflects the continued growth of Cohen & Steers' client base in the UK and strong demand from investors seeking inflation protection and uncorrelated returns.

Cooney joined Cohen & Steers in 2021 as senior director of EMEA wholesale distribution. He joined from GAM, where he was client director for UK wholesale distribution – managing strategic relationships and growth within the wealth manager, discretionary, multi-manager, ratings agency and IFA spaces. His two decades of experience will boost Cohen & Steers' UK wholesale growth efforts and further strengthen relationships in the region.

David Conway, head of international wholesale distribution at Cohen & Steers, says: "Cohen & Steers has invested considerable resources in the UK wholesale channel, significantly increasing accessibility of our strategies in a market that has seen a surge in demand for listed real assets and alternative income.

"We look forward to engaging with potential clients as they continue to increase allocations to liquid alternative strategies that provide strong inflation protection and diversification to portfolios."



Joe Amato
Neuberger Berman

"Congress is split once again, as it was in 2011"

A debt ceiling close call

This month, the Congressional Budget Office (CBO) projected the US government would run out of money sometime between July and September. Sounds ominous.

Specifically, unless Congress raises the federal debt limit, the 'extraordinary measures' the treasury can use to access more funds could be exhausted as soon as this summer. Do investors need to worry? Well, yes and no.

We strongly agree with Fed Chair Jerome Powell that the only way forward is for Congress to raise the ceiling. But there are reasons to prepare for another very close call this year.

Congress is split once again, as it was in 2011. But this time, the Republican Party's narrow majority in the House

of Representatives creates a challenging additional dynamic. Speaker McCarthy's tortuous election in January is a worrisome indicator of how difficult it could be to instil discipline and secure the critical votes. Brinkmanship is one thing; ideological conviction is another.

Moreover, US federal debt held by the public was 64% of GDP back in 2011 and it is 96% of GDP now – with the CBO now projecting it to reach 118% in 2033. The cost has risen, too. The 10-year yield averaged 2% between 2011-21 and is now 3.8%. It is getting more difficult to dismiss the debt hawks as ideologues. At some point in the future, though not right now, markets will focus on this issue in pricing the 'risk-free' rate.



Mark Barnett
Tellworth

"This positive backdrop is likely to persist"

FTSE powers to new high

The FTSE 100 reached a new record high this month, following a virtually uninterrupted run from mid-December last year.

It had been trading close to this level for a year or two prior to the pandemic but did not manage to decisively breach the previous high, due in large part to index composition.

The FTSE 100 is dominated by mega caps in relatively mature industries – commodities, banks and pharma – with strong cashflow and decent dividends. These industries did not entirely fit the bill in the era of low inflation and negative yields.

The current environment of higher inflation and rising rates suits these types of businesses, where tangible free cash flow

and dividends are available to shareholders in the immediate future. The good news for investors is that the UK market offers numerous companies of this type, most of which are trading at low valuations given the constant negative sentiment towards UK equities since the Brexit vote. This positive backdrop is likely to persist as long as financial conditions continue to normalise, moving away from the abnormal policy settings since the financial crisis.

A good example of a UK company with an attractive market position is Whitbread. The business emerged much stronger from the pandemic than its peers, with its budget hotel brand in the UK gaining a sustainable market share.

Biotech breakthroughs in sight



Ailsa Craig
International
Biotechnology
Trust

"The biotech space presents a fertile hunting ground for astute investors"

After its 2021 highs, last year was tough on the biotechnology sector.

Several powerful headwinds – including surging inflation, rising interest rates, and the outbreak of war in Europe – contributed to heightened volatility across global markets in 2022, and the biotech space was not immune. While uncertainty and turbulence will likely persist this year, as markets adapt to a new regime of elevated rates and slowing growth, the coming months offer cause for optimism.

Abounding scientific innovation continues to fuel the supply of new drugs for the sector, and 2022 bore witness to a record number of drugs reaching the clinical trial phase – many with the potential to radically transform the way we tackle diseases. Meanwhile, the developing world's growing healthcare requirements and an ageing global population underpin resilient demand for products.

One ailment we may witness considerable progress in combatting over the coming months is Alzheimer's disease, a devastating brain disorder that gradually destroys memory and thinking faculties. The disease – which makes up the majority of dementia cases – has historically been difficult for scientists to understand, and progress on treating it has been slow. In fact, no new products had been approved to treat Alzheimer's

in more than 15 years – until recently.

US biotech firm Biogen's recent news that its Alzheimer's treatment, Lecanemab, is proving effective in reducing the cognitive and functional decline of patients with mild Alzheimer's symptoms, represents a major development for the space. The US FDA has granted approval for Lecanemab, and we hope this will result in an influx of similar treatments receiving approval over the coming months.

Looking beyond Alzheimer's, there is also considerable excitement around new treatment modalities coming to market, such as gene, cell and RNA therapies. These have the potential to radically transform healthcare across a variety of diseases where there remains significant unmet need.

For example, there has been

substantial innovation within the cell therapy arena over recent months. This refers to the administration of cells into a patient's body to grow, replace, or repair damaged tissue for the treatment of a disease. Over the coming year, we will closely be following various clinical readouts and new drug launches, for example Uniqure's launch of its gene therapy indicated to treat Haemophilia B patients.

As biotech innovation motors on, there is plenty to be excited about on the horizon – not only for the countless patients globally who stand to benefit from the output. The space also presents a fertile hunting ground for astute investors. However, the space is highly sentiment driven, and investors must understand its distinctive cyclical nature to have the best chance of capitalising on it.

