View from the Dome

Newsletter, November 2019

Woodford fund demise illustrates the importance of liquidity when investing

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Woodford fund demise illustrates the importance of liquidity when investing

The fall of fund manager Neil Woodford last month shocked the finance industry and raised serious questions about liquidity, fund management, oversight and the very future of open-ended funds. It also highlights a simple investment truth – be sure to know what it is you are investing in before handing over your money. To this end, professional advice can be worth its weight in gold.

Woodford, one of the most famous names in the investment world, was last month sacked by the directors of his own flagship fund, the open-ended Woodford Equity Income fund, four months after it ran into severe liquidity problems and had to be suspended.

Having objected to the decision by Link Fund Solutions, the authorised corporate director of the fund, to wind it up, he promptly resigned from his remaining two investment vehicles and announced his company, Woodford Investment Management, would close.

He also issued an apology to angry investors who now face months of anxious waiting to see how much money they will get back as the Equity Income fund's assets are sold down. Link has stated publicly that it will

begin to return any remaining assets to investors from January 2020.

But while investors have been left worried and furious, many inside the fund industry say the fund's closure has been a landmark event.

Adrian Lowcock, head of personal investing at British financial services firm Willis Owen, told the Financial Times: "We have seen the complete demise of the most famous fund manager the UK has seen for years… it will shake the funds industry to its core."

Rock star manager

Woodford was one of the biggest names in the fund industry having racked up success after success managing funds at Invesco over decades.

Dubbed by some as the fund manager with the Midas touch, his name drew in billions in investment into new funds he launched after leaving Invesco to set up his own company in 2014.

The funds were widely tipped to be a success, sometimes seemingly just because he was involved in them.

But after some strong initial performance, the Woodford Equity Income fund began to falter, lagging peers. Then earlier this year serious concerns were raised about its liquidity and, in June, dealing was suspended to avoid the threat of a fire sale of its assets to meet the growing flood of redemptions by investors.

Link Fund Solutions initially said it planned to re-open the fund in September. But last month it admitted that would not be possible and made the announcement it would be wound down.

Growing problems

Woodford had built up a stellar track record in the industry, often going against the herd. His strategies while at Invesco had largely involved investing in large and mid-cap stocks as well as a small number of investments in more illiquid unquoted entities.

But with the Equity Income fund, the strategy was different, with more investments in smaller companies as well as less liquid unquoted firms.

After a good start, the fund began underperforming peers and investors started pulling money out.

Funds that hold illiquid assets but offer daily redemptions are "built on a lie, which is that you can have daily liquidity for assets that fundamentally aren't liquid"

Mark Carney
Governor, Bank of England
June 2019

The first signs of problems became apparent in 2017 but the situation worsened - at one point, outflows were totalling GBP 9 million per working day - and the fund was eventually suspended in June when the outflows, combined with poor performance, had reduced it from GBP 10 billion in size to just GBP 3 billion.

The winding down of the fund is likely to be a drawn-out process with any initial pay-outs to investors coming on January 17 at the earliest, the official date of the fund's closure.

Investors, who have been locked out of their money for months already, are looking at heavy losses. Depending on when they invested, it is thought some may be set to lose as much as 50% of their original investment.

Between its suspension and the announcement that it would be wound down, the fund dropped 19.4%. It was down 27.7% in the past year and 35.9% over three years.

Unsurprisingly, furious investors have criticized Woodford himself for the debacle, but fingers have also been pointed at the role played by those seen to be involved in encouraging Woodford to run the fund as he did, such as research companies and investment platforms recommending his fund.

And the UK regulator, the Financial Conduct Authority (FCA), has also come under attack not just from the people set to lose money, but also some inside the fund industry itself who say authorities need to tighten up their oversight of fund managers, and, in some cases, those promoting them.

What went wrong

The Equity Income fund's problem was liquidity, or rather a lack of it.

Asset managers who decide to invest in unlisted companies usually do so using investment vehicles where investors' money is locked in for a lengthy period of time.

The Equity Income fund was, however, a mutual fund where investors can get hold of their money on a relatively frequent basis. Many, like Woodford's fund, offer daily redemptions.

In a very large fund with good liquidity - under EU financial rules, mutual funds can have up to 10% of holdings in unlisted stocks - this is usually not a problem, although unforeseen circumstances could cause redemption problems for even the most well-managed of investment vehicles.

But if a fund has a number of very illiquid holdings, the potential for problems is greater.

If a large number of investors decide they want to pull money out quickly from the fund, the fund may suddenly find it has difficulty converting assets into cash to meet all the redemptions.

And, much like a run on a bank, once word gets round that there are problems, fearful investors are likely to want to get their money out as soon as they can, putting even more pressure on the fund as it offloads more and more of its liquid holdings, leaving it with harder-to-move less liquid assets. Eventually, the fund no longer has the means to pay out redemptions.

This is what happened with Woodford's fund.

Growing numbers of investors, unhappy with performance, started taking their money out. To meet these redemptions the fund sold off its liquid holdings leaving a portfolio full of more illiquid assets.

The crunch came when the Kent County Council pension fund (Kent is a county in the southeastern corner of England) tried to take its GBP 260 million investment out, forcing Woodford to halt all redemptions.

Not the first, maybe not the last?

Woodford's fund is not the first to have run into such problems and the issue of holding illiquid assets in open-ended funds has been a contentious one for years, most notably hitting the headlines in 2016 when a number of commercial property funds were closed following the Brexit vote.

In fact, in the three months prior to June when the Equity Income fund was officially suspended, investors in the UK had taken GBP1.9bn out of actively-managed open-ended funds.

Since Woodford's fund collapsed, there have been calls for a rethink on open-ended funds.

Bank of England Governor Mark Carney has been highly critical of them. In June this year he told journalists that funds that hold illiquid assets but offer daily redemptions are "built on a lie, which is that you can have daily liquidity for assets that fundamentally aren't liquid".

A few weeks later the bank warned of the growing risks to financial stability posed by massive open-ended funds estimated to hold USD 30 trillion in assets globally.

In October, the FCA unveiled new rules for open-ended funds investing in hard-to-sell assets. The regulations, designed to help protect investors in such funds, include, among others, greater disclosure rules, enhanced depositary oversight and a requirement to produce liquidity risk contingency plans.

However, the new rules only apply to property funds and will not come into effect until September next year.

In announcing them, the FCA did, though, acknowledge that the Woodford fund suspension had highlighted that problems were not limited to just open-ended property funds and that it was considering implementing the regulations across the wider fund industry.

Together with the Bank of England, the FCA is currently looking at redemption terms on open-ended funds which have a liquidity mismatch with the assets they invest in.

New ideas, better controls

Some within the fund industry have suggested new types of open-ended funds be introduced.

One, known as a "long-term asset fund", would get around problems with owning illiquid assets by only allowing investors to withdraw their money at "appropriate time intervals", its supporters say.

While this has its champions, notably the Investment Association, the UK trade body for open-ended fund managers which proposed it, it also has its share of detractors who question, among others, what would be an "appropriate time interval".

Others are suggesting there needs to be a much tighter rein on fund liquidity.

Writing in WhatInvestment.co.uk, Ian Sayers, chief executive of the Association of Investment Companies, which represents closed-ended investment funds, says new FCA rules on illiquid holdings in funds, which are designed to help stop similar problems, do not go far enough and only apply to certain funds.

"The regulator has made changes that appear to be a move in the right direction but fall far short of what is required and only apply to some funds," he said.

Others have said questions need to be directed at Woodford himself and his strategy.

In an opinion piece for CityAM.com in October, the financial news website's feature writer Katherine Denham wrote: "While it's impossible for stock pickers to make the right calls all the

time, Woodford increasingly moved into riskier stocks, and very few of these recent bets paid off.

"His flagship fund, which held GBP 3.1 billion assets on 31 August, has underperformed since 2017, and he put investors' money on the line by having an excessive allocation to early-stage companies."

Investors have also railed against Woodford over the GBP 8.7 million in fees the fund charged them after dealing was suspended in June. They say he should pay the money back and want him punished in some way by the FCA. The general apology he offered to investors is not enough, they say.

Questions have also been raised over the action of third parties who promoted the fund.

Investors have pointed out that fund platform Hargreaves Lansdown was touting the Equity Income fund, as well as another of Woodford's vehicles, the Income Focus fund, as 'best' buys right up until the start of June.

They also claim the fund's overseers failed to protect their interests by allowing Woodford to repeatedly break regulations on funds.

Wider ramifications

The incident has not just left investors in the fund angry and upset, but has appeared to have dented confidence in the industry in general.

Speaking to CityAM soon after news broke of the fund being wound up, Peter Mann, chairman of business and financial services consultancy TORI Global, said: "This is a very sad day for the reputation of investment management. Our industry depends on trust and faith in good governance, and there can be no doubt that the public's feelings in both areas will be shaken."

Peter Brunt, an analyst for fund ratings and research group Morningstar, said the incident had underlined "the importance between making sure that there's a match between the vehicle requirements and the underlying asset pool…[and] underlines the importance of trust in the industry and making sure that asset managers are fully transparent and give full disclosure where appropriate on what they're doing."

Others in the industry hope that the FCA will be taking note of the fall-out and looking to tighten regulations on fund holdings.

Ryan Hughes of AJ Bell, told CityAM: "To have any positive outcome, this must now serve as a catalyst for the FCA to speed up its review of illiquid assets held in funds."

Investors in the dark?

The investors themselves have also come under the spotlight. The FCA has said it appears that a number of investors in Woodford's fund were unaware of exactly what they were investing in and the potential risks involved.

A basic tenet of investing is that there is some kind of risk involved, and this is true for any investment. Usually, potential risk is explained to investors by an IFA or some other qualified person before the investment takes place.

But in this case, many investors claim they had no idea about the fund's actual strategy, saying they thought they were investing their money in a fund

emphasizing the generation of income, but instead they were exposed to riskier illiquid stocks.

Some now want the FCA to crackdown on misleading fund names, arguing that some have names suggesting they are aiming to generate income for investors when instead they are heavily invested in illiquid or unquoted stocks which do not produce an income.

The true value of an IFA

The collapse of the Woodford fund underlines the importance of seeking professional guidance and advice from a qualified financial adviser before investing.

The fact that many investors claimed to be unaware, poorly informed or even misled over the fund's strategy raises questions about what advice, if any, they had taken prior to investing.

Many people today are time poor and struggle to find the time to research investments fully. While some may have experience of investing, most are unlikely to have the kind of specialist knowledge and training that a good IFA can offer.

IFAs also have access to specialised research which can help give clients a more complete picture of their proposed investment. They are also in a position to leverage their own experience and that of their colleagues in helping investors develop an overall financial plan designed for their specific situation, identifying the best way to allocate assets and offering guidance at times when markets can be volatile or performance in a certain investment may dip.

Many investors cite daily dealing as one of their core investment requirements. The Woodford experience illustrates quite clearly that daily dealing may not necessarily be worthy of its place in the investor's selection criteria. Clearly it is far more important to understand what it is that a fund or investment vehicle is investing in as well as the nature of any underlying assets. In this case, investors would have been better off looking at how liquid the underlying assets were and how, if at all, those underlying assets sat within the fund's overall investment strategy.

This is where an IFA's true value becomes apparent. By applying their expertise and experience they can research potential investments thoroughly - essentially showcasing their knowledge and commitment to their clients - while hopefully, playing an essential role in guiding those clients to make informed, carefully considered investments that deliver positive returns.

And there can be no better positive reinforcement of an IFA's value than delivering returns to clients.

Well-managed, transparent

Wherever the blame for the Equity Income fund's problems lies, or what the best path now for the industry is, the failure of the fund has highlighted the need for proper fund management, oversight and transparency.

Cornhill has an award-winning suite of equity, bond and specialist funds offering investment opportunities as standalone products or as part of a complex financial solution for investors.

While Woodford appears to have been investing in illiquid assets beyond the scope of the fund's remit as well as that of the regulator, Cornhill's

funds and their dealings meet the full requirements of the financial authorities in the jurisdictions in which they are offered.

And, crucially, the funds are managed in cooperation with award-winning, specially-selected asset management partners whose knowledge and experience not only allows for the potential of that investment to be maximized, but also ensures that the funds are in safe, experienced hands.

"We offer our clients expertly-managed, properly-run, transparent and regulatorily-compliant investment solutions, working with experienced partners to ensure that investors know what they are investing in and are aware of the proper, clear redemption procedures for our funds," explains Cornhill Management Chairman Derek Chambers.

"Our products offer clients the freedom to invest, and part of that freedom comes from knowing that they are investing in a product they can fully trust and understand," he adds.

Liquidity and redemptions are constantly reviewed at Cornhill.

Indeed, the company has recently gone through a process of making it's specialist funds more liquid - investors can now redeem their investment at any time with redemptions paid out within 28 days following the acceptance of the redemption request.

"This is a significant turnaround from what it was," says Chambers. "And underlines our commitment to our products and the people investing in them."

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Morningstar fund rating changes

Global fund ratings agency Morningstar has revamped its ratings system in an important change it says will give investors a clearer idea of the differences between share classes and help improve investment outcomes.

The overhaul of the way the group gives its ratings for funds will see more weight given to fees.

Until now, the group has assigned the same rating to each of a fund's share classes irrespective of fee differences. Under the new system, which was implemented at the start of this month, ratings will take into account the difference in fees between various share classes of a single fund.

Ratings will now be assigned to a particular share class to reflect this, meaning that costly share classes which include advice and sales fees could be downgraded, while cheaper clean share classes may be rated more highly.

In an interview explaining the changes, Jonathan Miller of the Morningstar Manager Research team, said: "Ultimately, when we look at what's going on in the world of investing, fees, as we all know, can be a drag on returns… up until now we've rated a fund and then every single share class has had the same rating.

"Now, when we analyse a fund, different share classes might have different

ratings, and that's ultimately down to the drag that price and fees can have."

The group says this means a clean share class is more likely to get a better rating than a bundled share class where investors are still paying a commission.

"Ultimately, it's about better signalling for investors on where the differences are, and hopefully better outcomes as well," said Miller.

The new fund rating methodology relates to the qualitative analysis carried out by its analysts used to give funds a Gold, Silver, Bronze, Neutral or Negative rating depending on the analysts' conviction in the fund's ability to outperform its peers.

Morningstar has said that it expects around a third of its Analyst Rated funds and ETFs will see a change to their rating under the new system and that the number of funds downgraded will outnumber those being upgraded by a two-to-one margin.

A report by the group before the changes were implemented stated: "The distribution of analyst ratings would shift away from gold, silver, and bronze ratings and toward neutral and negative ratings under the updated methodology. Around 1,000 more share classes would receive neutral and negative ratings compared with today."

However, while the percentage of active funds rated Gold, Silver or Bronze is set to fall, the proportion of index funds earning an Analyst medal rating is likely to increase, Morningstar says.

Research prior to the new methodology going into effect indicated that up to 52% of Bronze Rated funds will see a change to their analyst rating, 30% of Silver Rated funds, and 13% of funds rated Neutral.

Morningstar has stressed that it does not expect the frequency of ratings changes to rise substantially under the new system as ratings are only changed when an analyst conducts a formal review, which typically happens on an annual basis.

Miller said the changes were designed to help investors.

"We want to make sure that the golds, silvers and bronze have differentiation, and that with the neutrals, where we feel there's less chance of outperforming, and the negatives, where we've got a negative view, you get clear differences across the rating spectrum, which help investors with their outcomes."

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WORLD MARKETS UPDATE

General

Equity markets pushed higher for the month as risk appetite rose on the back of improved trade sentiment and positive corporate and economic data out of the US. Both developed and emerging market (EM) equities posted solid gains with the latter outperforming the former.

The major developed markets were largely positive with the US, European and Japanese markets all doing well. However, there was some mixed data and the effects of the trade dispute between the US and China are becoming apparent, specifically in Europe. The UK market did not fare quite so well. The FTSE 100 index was down, although this came on the back of Sterling strength as receding Brexit tensions helped the UK currency.

The rising hopes for a US-China trade deal and subsequent healthier risk sentiment helped emerging markets.

Asian markets performed well, buoyed by trade news, global bank central easing and good corporate reports. There were solid gains for stocks in other EM regions too. Latin American markets were up overall, although while the region's biggest markets did well, local political and economic concerns pushed some others lower. Meanwhile, most of the major African markets closed higher, supported by rising risk appetite globally. This

included the continent's biggest equity market, South Africa which also ended the month on a positive footing, despite serious concerns over the country's finances and credit rating.

US

S&P 500	2.2%	Dow Jones	0.6%
MSCI USA	2.1%	NASDAQ	3.7%

In the US, markets took support from encouraging corporate results, a rate cut and optimism on US-China trade negotiations. All the major benchmarks were up for the month. Among individual sectors, health care and technology did best, but energy counters lagged on a slowing of the US shale oil boom.

Stocks welcomed news of Beijing and Washington reaching what US President Donald Trump called a 'phase one' trade deal. The deal, which would see China agreeing to a number of measures such as buying more US agricultural products and speeding up moves to open up its financial sector, is not being seen as a major breakthrough in the trade conflict between the two countries but rather a welcome positive step after a long period of tension.

Analysts have urged some caution though as the history of the dispute between Beijing and Washington suggests tensions could rise again very quickly.

Shares pushed higher after the Federal Reserve cut rates for the third time this year, as had been expected. The bank signalled though that it was unlikely to move rates either way for the foreseeable future with progress in US-China trade negotiations and the receding threat of the UK crashing out of the EU without a deal giving support to businesses.

Corporate earnings also provided a boost for stocks with many firms reporting better than expected results. The encouraging reports for the last quarter have gone some way to allaying recent fears about slowing global growth. However, many US firms have issued lower guidance for next year as the trade war drags on.

Economic data was mixed. While there were some solid labour market and economic growth readings, the latest Institute for Supply Management's manufacturing Purchasing Managers' Index (PMI) reading suggested manufacturing activity is contracting. This weakness also seems to be seeping into the consumer sector with US consumer confidence dropping in October.

Europe

MSCI EMU	1.2%	DAX	3.5%
FTSE 100	-1.9%	CAC 40	0.9%

Easing trade tensions and the receding threat of a no-deal Brexit helped underpin sentiment in European markets over the month and local shares posted moderate gains. In terms of individual sectors, industrials and materials were among the best performers amid the more positive trade sentiment while more defensive sectors, such as consumer staples and utilities, were among the laggards.

Economic news was mixed, although data showed there was better than expected growth in the third quarter with the Eurozone economy expanding 0.2% for the period. The consensus estimate had been for a stagnation. But inflation was lower in October, coming in at 0.7% compared to 0.8% in September and, while the flash composite Purchasing Managers' Index

(PMI) reading ticked up marginally to 50.2 in October from 50.1 in the previous month, the manufacturing sector reading suggests contraction in the industry.

In the UK, the FTSE 100 index fell for the month. Performance suffered from a strengthening GBP as the threat of the UK leaving the EU without a deal at the end of October disappeared after the EU granted the UK a further three-month Brexit extension. Despite the removal of the threat, politics will remain firmly in focus over the coming weeks after Prime Minister Boris Johnson got MPs to agree to a December 12 general election. If Johnson manages to secure a majority in parliament after the elections it is expected that he will be able to push through the withdrawal agreement he has agreed with Brussels relatively quickly.

Asia

MSCI Asia ex-Japan	4.6%	Shanghai Composite	0.8%
MSCI ASEAN	2.3%	Nikkei 225	5.4%
		SENSEX	3.9%

It was a positive month for Asian stocks overall with almost all major markets rising. An improvement in trade sentiment, global bank central easing and good corporate reports all helped support markets in the region.

In Japan, the benchmark Nikkei 225 index delivered very strong returns, rising more than 5%. Japanese tech stocks saw good gains in the latter half of the month on the back of positive earnings reports by foreign tech firms. But there was some discouraging economic data – exports fell for a tenth month in a row in September and conditions in the country's manufacturing sector continue to deteriorate. The latest quarterly earnings reports season got underway towards the end of the month and initial results appear to be largely in line with expectations. In other news, the government has mooted tightening rules on foreign investment as it looks to stop foreign control of key strategic firms.

In China, stocks reacted to positive trade developments with news that Beijing and Washington had agreed on the outline for the initial phase of a trade deal. Meanwhile, decent earnings reports and a RMB250bn (USD35bn) central bank liquidity injection into the financial system ahead of company tax deadlines also helped mainland shares. The gains came despite some mixed economic data. Latest official figures showed the country's economy grew a below-forecast 6.0% in 3Q2019 – the slowest growth since 1992 – while expansion in China's service sector came in at a seven-month low in September and imports fell on weaker demand. But there were some positive industrial production and retail sales figures and the private Caixin manufacturing Purchasing Managers' Index reading for October surprisingly rose to 51.7. It was the index's best reading for two and half years.

Elsewhere, trade optimism gave some support to stocks in Hong Kong, but the month saw a continuation of the violent anti-government protests which have rocked the city, and its economy, since the summer. It was reported that Hong Kong's economy slipped into recession for the first time since 2009 after GDP shrank 3.2% in the last quarter following a 0.5% fall in 2Q2019. Things were better in Taiwan though where stocks rose 4.9% in October – the biggest monthly gain since 2012 – driven by rising foreign investment, trade optimism, corporate earnings revisions and a positive outlook for local tech firms amid a recovery in the semiconductor industry.

In the ASEAN region, local stocks posted an overall gain for the month with the MSCI ASEAN index closing more than 2% higher, but performance was mixed across individual markets amid volatile trade sentiment and mixed economic readings. Thai shares were among the more prominent losers in the month, dropping 2.2% for the period on economic worries. But the picture was brighter in some other markets, notably the Philippines, where equities were up 2.6%, and in Singapore where the market climbed 3.6%. The gains came despite warnings over the health of the city state's economy with the central bank saying the economy will struggle next year because of the US-China trade conflict and a slowdown in China.

Indian markets delivered solid gains in October, climbing on positive global cues, strong local corporate results and expectations of further economic reforms. The gains came, however, despite further worries about specific sectors and the wider economy. A slew of negative news deepened existing fears over major banks' exposure to the troubled real estate sector. India's banking sector has been struggling with bad debts for some time and has been rocked recently by fraud scandals. Meanwhile, latest data showed the key automobile sector also struggling – sales of commercial vehicles plunged 39% in September, passenger vehicle sales fell 22.4% in the same month. Economic news offered little cheer. The central bank cut its real GDP growth forecast for 2019-20 to 6.1%, down from 6.9% previously. The month ended with growing expectations the government will move to implement further economic reforms, including the strategic divestment of state-run companies and tax cuts.

Australian stocks, as proxied by the ASX 200 index, registered a minor loss for the month as fluctuating trade sentiment and fears of an imminent global recession – specifically in the earlier part of October – weighed on performance. Among data releases in the month, the Westpac—Melbourne Institute Consumer Confidence survey for October showed consumer sentiment falling to a four-year low, while the Australian Industry Group's manufacturing Purchasing Managers' Index (PMI) reading for October was down on September, dipping to a three-month low of 51.6.

South Korean shares posted a moderate gain as macroeconomic worries eased and expectations grew that demand for tech products would rise. Latest economic data was generally weak though – growth stood at just 0.4% in the third quarter of the year, down from a 1.0% expansion in the previous quarter and a larger slowdown than had been expected. Meanwhile, exports fell 14.7% in October – the biggest drop in four years – as shipments to China slowed further.

Latin America

MSCI Latin America	4.5%	FBOVESPA	2.4%
MSCI Brazil	6.1%	MSCI Mexico	3.5%
MSCI Argentina	-4.8%		

Latin American stocks, as measured by the MSCI Latin American index, posted good gains for the month. However, while the region's biggest markets did well, there were some significant losses in others, notably Argentina and Chile.

In the latter, markets dropped as rioting and violent protests took hold of the country. The deadly unrest, which has claimed scores of lives, was sparked initially by a hike in public transport fares in the capital, Santiago, but soon morphed into protests against massive inequality across the country. A state

of emergency was declared, and troops were sent out onto the streets. In the wake of the violence, Chilean President Sebastian Pinera has proposed a range of measures designed to help the country's lower and middle classes, including a guaranteed minimum income, higher pension contributions, and cheaper electricity and health care.

In Argentina, presidential elections at the end of the month saw populist candidate Alberto Fernandez defeat incumbent Mauricio Macri. A win for Fernandez in primary elections in August – a dry-run for October's poll – prompted a massive sell-off in Argentine securities, and while the initial reaction after the October 27 vote was not as bad, markets remain worried that Fernandez's regime will roll back business-friendly market reforms carried out under Macri. Authorities have moved to prop up the Argentine peso, reinforcing existing capital controls on amounts individuals can convert from pesos to US dollars.

Brazilian equities finished higher for the month, climbing on the back of positive news on key pension reforms, rate cut speculation, and improved risk sentiment globally. During the month, Brazil's Senate gave final approval to a pension reform bill which analysts say is key to improving public finances in the country. Concerns about global growth had weighed on sentiment at the start of the month but lessened as optimism grew over a potential US-China trade deal. Shares were also boosted by growing expectations a rate cut could be in the offing after consumer price inflation came in at -0.04% for September. Markets speculated that the rare deflationary trend could allow the bank to reduce its overnight lending rate to a new record low, which it duly did at the end of the month, cutting it to 5.0%.

Mexican equities closed the month in positive territory, making gains on the back of easing concerns about the economy of its biggest trade partner – the US – and growing hopes of a trade deal between Washington and Beijing.

Africa

MSCI Africa	1.6%	FTSE/JSE	4.5%
MSCI South Africa	3.2%	NSE	-4.6%
MSCI Kenya	13.5%		

Most of the major African markets saw gains for October against a background of rising risk appetite and improving sentiment on emerging markets.

South African stocks posted a healthy gain. This was despite generally poor economic news in the month and continued problems with state-owned power utility Eskom weighing on equity performance. The heavily indebted firm is expected to be split into different units by the government to help with its finances, but plans unveiled by officials for the firm during the month were criticised by analysts as lacking detail and hard to implement.

Meanwhile, Eskom is due to get a government bailout to the tune of around USD9.4bn up to the end of the first quarter of 2022. The bailout has been criticised by some and has deepened concerns over the country's finances and its credit rating. A medium-term budget policy statement (MTBPS) during the month showed the government's fiscal position worsening amid poor economic growth, large shortfalls in tax revenues and spending on the likes of Eskom. The World Bank also lowered its growth forecasts for the economy to 0.8% in 2019, down 0.5% on an earlier estimate.

Elsewhere, there were good gains for equities in Kenya, driven largely by gains for large-cap banking counters on the back of an expected repeal of limits on interest rates. Banking stocks soared on the news that lawmakers were considering removing the cap as investors speculated the move would lead to increased profitability and stock gains for financial counters. The cap was imposed three years ago, limiting rates banks could charge customers to a certain level above the central bank's benchmark. This made bank stocks unattractive as, previously, interest rates of up to 25 percent had guaranteed finance houses healthy profits and dividend growth.

In Egypt, where stocks also closed in positive territory for the month, President Abdel Fattah al-Sisi called for military-owned companies to be listed on the country's stock exchange, along with other state-run firms and assets. The government has been working on floating state companies and assets for a number of years. The Egyptian military is involved in many parts of the economy, although the roles it actually plays in everything from production of electrical products to food to infrastructure, are opaque.

The Nigerian market was a big loser though with the MSCI Nigeria and NSE All Share closing the month well into negative territory. This negative result coincided with the end of what turned out to be an unimpressive earnings season. In economic news, the country's Purchasing Managers' Index (PMI) reading for October was up on the previous month with the manufacturing PMI reading climbing 0.5 points to 58.20 – the highest since January 2019 – while the non-manufacturing PMI reading was 0.2 points higher.

To find out more please speak to your Regional Sales Manager or get in touch with us at ***newsletter@1cornhill.com***

Cornhill Sales Diary

Welcome to the Cornhill Sales Diary... here we outline the upcoming movements of our Sales team. If you would like to meet with any of them while they are in your region, please drop them a line.

IN ASIA this month…

Richard James

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November

Su	Mo	Tu	We	Th	Fr	Sa
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

Hong Kong (1)
Tokyo (4–6)
Jakarta (26–27)

December

Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31	1	2	3	4

Hong Kong (10–11)

IN CONTINENTAL EUROPE this month…

Colin MacLean

Regional Director Europe
colin.maclean@1cornhill.com

November

Su	Mo	Tu	We	Th	Fr	Sa
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

Germany /The Netherlands (11–15)
Spain Gibraltar (18–22)

December

Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31	1	2	3	4

IN THE MEDITERRANEAN this month...

Kenneth Hughes

Director – Global Sales

kenneth.hughes@1cornhill.com

November

Su	Mo	Tu	We	Th	Fr	Sa
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

Hong Kong

Asia

London

December

Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31	1	2	3	4

IN THE MIDDLE EAST, AFRICA AND ASIA this month...

Simon Smith

Regional Director

Middle East, Africa and India

simon.smith@1cornhill.com

November

Su	Mo	Tu	We	Th	Fr	Sa
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

Dubai
Nairobi
Bangalore
Delhi
Mumbai

December

Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31	1	2	3	4

IN THE MIDDLE EAST, AFRICA AND ASIA this month...

David Oliver

Regional Manager Africa

Covering South Africa, Botswana, Zimbabwe and Mauritius

david.oliver@1cornhill.com

November

Su	Mo	Tu	We	Th	Fr	Sa
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

Cape town
Zimbabwe
Bulawayo
Harare

December

Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31	1	2	3	4