ISA DEADLINE
5TH APRIL

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Patrick Ryan

Manager of the Lazard Global Equity Income Fund talks to Selftrade's Stephen Barber about his fund and the sector

What is the fund's yield target?
We target an annual yield of 5 %. At present the portfolio is yielding 6 % on a forward-looking basis.

Overseas equity income funds are becoming an increasingly popular concept. Why has it taken so long for them to become available to British investors?
It's all to do with the expanding dividend culture outside the UK. This has increased the opportunity set and allows us to create a more diversified portfolio than we could a few years ago. The UK does continue to be an attractive market, but dividends are growing less strongly than they are outside the UK, meaning its yield advantage has dwindled. The spread has also compressed, and we expect this to continue. Owing to the fact that UK companies are already very dividend-orientated, there is not much room to raise this ratio, whereas outside the UK there is much more room because companies are starting from a lower base.

Which sectors globally offer the best dividends?
Right now the financials sector represents one of the best long-term opportunities. The sector is traditionally a strong income provider, but the credit crunch has led to marked weakness. However, this volatility has created a number of opportunities that we are taking advantage of. At the moment, we have a 27 % weighting in financials. We also like the telecoms sector, as it is very cash generative and income-orientated. We have a 16 % exposure there.

In which global regions is the fund currently most invested?
The largest regional weighting is in North America, where we have 31 % of the portfolio's assets. However, this is less than the fund's benchmark (MSCI All Countries World Index), which is 43 % invested in North America. The second largest country weighting is in the UK, which currently represents 14 % of the fund, which is above the benchmark weighting of 9 %. These are the only two countries to represent more than 10 % of the portfolio. The rest of the fund is invested across a diverse range of regions, including a 7 % position in Italy and a 4 % weighting in Australia.

Our strategy is very value-orientated. This means when areas perform strongly, as emerging markets did in 2007, our weighting to them decreases. As such, if the US continues to struggle this year, our weighting to it may increase.

How many holdings are there in the portfolio and how are they selected?
The typical range of holdings is 60 to 100, and we currently have 66 stocks in the portfolio. These stocks represent the highest yielding stocks that are held across Lazard's suite of investment strategies. The screening process starts by compiling a list of all securities held in the various Lazard strategies. This list is then sorted by trailing 12-month dividend yield and the 100 highest yielding stocks over US$3 billion (£1.5 billion) form the focus list for the fund. At any one time the fund is required to hold at least 70 % of its assets in the focus list, while up to 20 % can be held in stocks present in other Lazard portfolios but which aren't in the top 100 list. The fund can also hold up to a maximum of 10 % in stocks that aren't held in any Lazard-managed funds. We do seek to avoid companies whose one-time 'special dividend' causes them to appear in the top 100 list in favour of companies with a longer-term record of robust and consistent dividend payments.

What risk controls do you have on the fund?
The maximum size position we will take in any holding is 4 %. In addition, the fund will only hold a maximum of 10 % of the portfolio in stocks with a market cap below US$3 billion, a maximum of 25 % in emerging market companies and a maximum of 35 % in any one sector. At present, 4.5 % of the fund is held in companies that are not in any other Lazard funds and this will be the typical average.

What is the outlook for dividend paying companies this year?
The outlook is excellent. One of the reasons why we launched the fund when we did is that the turmoil in credit markets is creating strong opportunities in high yielding sectors. We can probably expect more bad news flow within the financials sector and conditions may deteriorate further before they improve. However, we are encouraged by the fall in inter-bank lending rates seen in 2008 and the active stance adopted by the US Federal Reserve and other leading central banks in aiming to restore calm to the credit markets.

Patrick Ryan CV

Senior Vice President and portfolio manager, lead manager on the Lazard Global Equity Income Fund, which launched in October 2007. He began working in the investment industry in 1989. Prior to joining Lazard in 1994, Ryan was an equity analyst at Hudson Management.

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ISA season

As the new tax year approaches Stephen Barber offers some food for thought over your tax efficient investing.

Individual Savings Accounts (ISAs) remain one of the most accessible, flexible and tax efficient ways to invest. And those choosing a self-select ISA are not wedded to a single fund but can benefit from a full range of fund mangers, sectors and investment objectives – not to mention the shares, ETFs and bonds also available. With time running out for 2007/8 subscriptions and a new ISA year on the horizon, we should spare a thought for our tax wrapped investments.

This April sees the merger of PEPs and ISAs and an increase in the annual allowance to £7200. The pooling of funds for those fortunate enough to have both account types demonstrates once again that your ISA should not be a separate part of your investments; it should complement your portfolio. Use it to make your portfolio as tax efficient as possible. Don't forget, under the current regime, everyone has a capital gains tax allowance each year so, if appropriate, 'bed and ISA' securities with built in capital gains. This means you can take a paper gain outside of your ISA (or PEP), re-purchasing inside the wrapper.

The ISA allowance has been increased to a sum which, for the first time is easily divisible by twelve. Drip feeding funds into the market on a regular basis can be a good idea especially during times of market turbulence as it helps to ease the risks of volatility. This can be true when regularly investing into funds, ETFs or even equities. Remember, with a self-select ISA, you can subscribe the funds and invest with a degree of leisure.

Over the long-term, it is shares that have out-performed almost every other asset class including bonds, gold and even property. But even the headline figures mask this growth. For instance, the FTSE 100 biggest UK quoted companies by market capitalisation, grew 26 % over the decade 1997 and 2007. That, by any measure is a good return. But if you were to include re-invested dividends over the same period, growth is a staggering 70 %. While past performance is only a guide to what might happen in the future, the simple lesson is don't let your dividends sit around in your ISA; make them work for you by re-investing in the market.

An ISA should be a key element in your investment armoury and where appropriate, the annual allowance should be taken up in full. With a bit of thought and planning an ISA can prove profitable over the longer-term. But don't forget the 5 April deadline. Use it or lose it.

Asset Allocating your ISA

Many academic studies have shown the benefits of asset allocation. Brinson, Hood, and Beebower's 1986 study Determinants of Portfolio Performance is one of the most notable as it argued that asset allocating a portfolio could produce returns as impressive as active stock picking. While the article has attracted its critics over the two decades since it was written, the benefits of diversification in a portfolio remain: uncorrelated instruments can produce solid returns over the longer-term, reducing volatility and risk.

ISAs lend themselves to asset allocation. After all, they are ring-fenced accounts that can start small and grow over the longer-term into substantial portfolios in their own right. Building these investments into portfolios can, therefore, be a worthwhile pursuit. Asset classes to consider might begin at a broad level with a split between shares, bonds, property and commodities. Simple geographic sectors might follow, apportioning equity investment between UK, Europe, US and emerging markets for instance. You might then consider industry sectors such as banks, pharmaceuticals, energy, telecoms, utilities, mining and food, ensuring a balance between the large cap and smaller companies. There are different ways of looking at an investment mix and it need not be overly complicated.

Indeed, allocating assets can be straightforward because of the range of instruments available. The simplest way to create an asset allocated ISA is to select a diversified collective such as a unit trust, OEIC or investment trust whose manager already invests using these principles. Every fund has a published objective which can help in the selection process. But as your investments grow, you might wish to put more thought into your investment choices. There are no hard and fast rules and mixing instrument types can produce attractive results.

For example, over the longer-term, you might decide that your headline asset allocation is the following: 35 % UK, 10 % US, 25 % Europe, 10 % Emerging, 7 % property, 8 % bond, 5 % commodities.

You might be content to buy direct equities to satisfy the relatively large UK allocation and have a reasonable spread of industry sectors in the process. Similarly, a well selected bond or two might meet your requirements there. Actively managed specialist funds, unit trusts or investment trusts, could be suitable ways of gaining exposure to emerging markets and Europe while you might be content with tracking the index with the United States and commodities respectively, selecting appropriate exchange traded funds. Finally a Real Estate Investment Trust (REIT) might satisfy your need for property exposure.

If the studies are to be believed, such asset allocated portfolios can prove to be both low maintenance and profitable. Invested in an ISA, they can be tax efficient too.

Stephen Barber is Head of Research at Selftrade and editor of Asset Allocator.

Dealing with volatility

Mark Glowrey considers portfolio construction in turbulent markets

The last few months in the markets have been a stressful time for investors, and most of us have seen the value of our portfolios take a sharp hit as the FTSE100 plunged 15 % peak to trough over the October to January period. Of course, it would be unreasonable to expect markets to move ever upward in a straight line but this kind of volatility is unnerving. In this article I attempt to explore some strategies for coping with events of this nature.

Firstly, I would like to point out that ignorance can sometimes be bliss! Only a decade or so ago the majority of pensions were highly opaque "with-profits" schemes and policyholders would be unlikely to see short or medium term volatility reflected in their annual statements. Nowadays, particularly with the advent of SIPPS, private investors are taking greater responsibility for the management of their own investments. This, combined with the immediate visibility of online portfolio valuation and dealing can make investment a white-knuckle ride.

But does it matter? At the end of the day it is the destination, not the route that matters, and if we achieve good capital growth at the end of the day, shorter-term fluctuations are less important. Certainly, it is important not to get "spooked" out on a regular basis and investors who constantly chop out stocks that have fallen in order to rotate into a then fashionable sector may find the experience akin to switching queues in the supermarket, only to see a sudden increase in speed in the original queue…

So just ignore it and keep buying? Certainly, for investors making regular new contributions into their accounts, market pullbacks are a good thing over the longer term, allowing one to average in at lower entry costs. However, as one's portfolio matures and the overall size grows, the effect can be less beneficial. One approach for investors in this position is to reduce existing invested holdings as bull market cycles mature but to continue or increase the regular inward contributions, buying into the decline and (hopefully!) the subsequent recovery.

Portfolio planning

So how to manage this volatility? One thing to consider is that a well diversified and managed portfolio will be less volatile than the average of its constituents. For this reason, funds are less volatile than stocks. Diversification is key and whilst I remain a fan of the low cost, access and transparency offered by index trackers, on this point, watch out. Index trackers, at certain points in the cycle can be less diversified than one might think. For instance, during the tech boom of the late nineties the FTSE100 became heavily weighted towards telecoms as the market cap of these companies grew to stratospheric levels. At one point Vodafone accounted for 10 % of the index's market cap. Moving to the present, the FTSE100 is now heavily weighted towards the miners whilst the iShares FTSE Dividend Plus ETF, which might be expected to be defensive in nature, contains a good chunk of the banking sector (27 % in financials as of Dec 07).

It pays therefore, to moderate the tracking approach with a little common sense, particularly at the top of sector-driven bull markets.

In search of uncorrelated assets

As part of one's portfolio planning and asset allocation strategy, investors should consider the mix of assets, and how they behave vis-à-vis each other. Ideally one should seek a mix of assets that provide a natural hedge compensatory support against a weak equity market.

Gilts and high quality bonds are classic non-correlated assets (note, lower rated and high yield debt will have a stronger correlation to equities). I currently have around 20 % of my assets across my ISA and SIPP accounts in fixed income and I was pleased to note that these performed positively over the last few months, helping to moderate some of the lower valuations seen in my equity holdings.

Another asset to consider is **Gold,** which benefits from a flight-to-quality effect in times of severe falls in investor confidence. Luckily, one no longer has to employ the services of a Korean butler if one wishes to invest in the precious metal. ETFs provide a simple and effective vehicle and we highlight the **Lyxor Gold Bullion Securities**. This fund holds physical stocks of bullion and can be easily traded online.

Moving on to a newer class of non-correlated assets takes us into the world of hedge funds. Much of the attention devoted to hedge funds and the like focuses on the gearing and related prospects for high risk/reward plays. However, professional asset allocators are also interested in these types of funds because of their low market correlation. It was hard for the man on the street to get access to funds of this nature, but recently a number of retail vehicles have sprung up. One is the **BlackRock** (Merrill Lynch) **Absolute Alpha Fund**.

This £300 million fund aims to make a positive outright return regardless of market conditions, primarily through a combination of long and short side trades in large and mid-cap UK equities. I have added a small position in this fund to my SIPP and will be monitoring the performance over the next year. The fund made a healthy 10 % over the year to last November, but as the risk warnings say, past performance is no guarantee! I look forward to reporting on my experience in editions of Asset Allocator later this year.

Mark Glowrey is Director of Investors Intelligence

Managing Risk

Jemma Jackson on the search for diversification

The recent stock market turbulence is likely to have shed a very revealing light on investors' portfolios over the last month. Those investors who have been sailing close to the wind with a high risk portfolio are perhaps now wishing they had taken a more balanced approach spreading their investments between the main assets – cash, equities, bonds and property.

Of course in the good times, when markets are rising, investors may have benefited from a high risk and concentrated strategy. After five years of rising markets, most people investing over this time frame are likely to be sitting on fairly handsome profits, regardless of how esoteric the investment portfolio might be. Indeed even an extremely bold investor choosing to invest all their portfolio in a Japanese fund, is likely to be sitting on profits over a five year time frame. The average Japan investment company, for example, is up 52 % over the last 5 years - despite tumbling 22 % in 2007.

Yet as the latter figure suggests, successful investment cannot just be about timing – it can also be about a sensible balanced portfolio. For example, the FTSE AIM index is down 23 % over the last 7 years of market ups and downs, whilst a more broadly spread index – the FTSE All-Share – is up 37 %.

Of course exposure to the specialist sectors can prove a welcome additional boost, and really add value, to an investor's portfolio, but it's all about finding a comfortable balance. Too many of us have been lulled into a false sense of security about our investment prowess in a rising market, but as we all know, markets can have their difficult times too – and sometimes this can be sustained for longer than we might like. Add to that the recent turbulence in Asia following the fears about the US economy, and it would seem that markets are not always as uncorrelated as we might think. Hence the importance of constructing a balanced portfolio.

In the unit trust sector, the rise of cautious balanced funds, which aim to mix bonds and cash with equities, illustrates this search for diversification within the equity asset class. In the investment company sector, the recent rise of the listed Hedge Funds sector is another example of the search for diversification from traditional asset classes.

Naturally, those unsure as to how they might construct a balanced portfolio should seek professional advice, but after allowing for generous cash reserves, age and risk profile, a good place to start on the equity part of the portfolio can be a broadly spread Global or UK collective investment vehicle such as a unit trust or closed ended investment company, with more spicy specialist sectors following later.

Another useful way of combating the market ups and downs can be regular investing. Regular investing helps smooth out stock market highs and lows, removing some of the stomach-churning highs and lows of market timing. I wrote about this in the September issue of Stocktake.

Of course the recent market turbulence can present buying opportunities. However those doing so from the comfort of a balanced portfolio may find it easier to bear whatever lies ahead for global stock markets.

Jemma Jackson is PR Manager, Association of Investment Companies (AIC)

**All performance figures are to 31 December 2007. Investment company performance figures are mid market share price with net income reinvested and a 3.5% deduction for charges, stamp duty and market spread. Source: AIC using Fundamental Data.*

Index performance has been computed from indices supplied under licence by FTSE International.

Gateway to investment themes

Access markets with Exchange Traded Funds says Daniel Draper

Exchange traded funds (ETFs) are one of the most interesting developments in investment management over the past decade. Since the launch of the first ETF 15 years ago, their number has increased up to 1,137 ETFs worldwide with nearly $773.2bn in assets under management and listings on 42 exchanges by the end of November 2007. ETFs are now the most traded stocks in the world. Furthermore, assets under management in ETFs increased by 36.7 % in the twelve months ending November 2007 [1].

ETFs have been available on the London Stock Exchange since 2000, but 2007 paved the way for a new era thanks to the abolition of stamp duty on non-resident ETFs which took effect on 1 March 2007. Boosted by its principle-led regulatory environment, London has the potential to become a leading financial centre for the trading of ETFs.

Lyxor welcomed the government's decision and was the first ETF issuer to capitalise on this by launching a number of LSE-listed ETFs in the UK in May 2007 with the Lyxor ETF FTSE All-Share, the Lyxor ETF FTSE 100 and the Lyxor ETF FTSE 250. Since then, Lyxor has followed up with several products, and other issuers have come to the UK market as well. Many more ETFs will soon be launched in the UK, giving investors access to most of the traditional markets, as well as exotic markets in ever more innovative ways.

ETFs and Asset Allocation

Much of the interest shown in ETFs has come from the fact that the vast majority of returns in any given investment portfolio (90 % or more) has resulted from asset allocation decision-making rather than the market timing expertise of individual fund managers [2].

ETFs simplify the asset allocation process by giving low-cost access to particular indices. They can be used to give effective exposure in a particular industrial sector, or country, with the ability to rotate this exposure as and when required.

ETFs can serve as the gateway to new investment themes - the wide array of available ETFs can come into play when investors want broad access to a new area of investment, or are not comfortable picking individual securities. For instance, investors who have an equity portfolio may be interested to diversify into bonds or commodities, but be unsure about how to do this. With ETFs (and their close cousins Exchange Traded Commodities), investors have an easy way to access the market of their choice. Increasing numbers of investors have taken advantage of this when it comes to gold – the safe asset "par excellence".

As the price of gold hits fresh all-time highs, Lyxor Asset Management has seen an 150 % increase in the volume of trading in its Lyxor Gold Bullion Securities Fund for the period 2nd January to 29th January this year, when compared to the same period in 2007.

The Lyxor Gold Bullion Securities (EPIC code: GBSS) has an investment objective to track the price of gold and is the largest ETC trading on the London Stock Exchange.

UK investors can trade the world with LSE-listed ETFs and they may just be what is missing from your asset allocation strategy.

Daniel Draper; Head of ETFs UK, Ireland and Nordic at Lyxor

1. Source: Morgan Stanley, November 2007.
2. See Wiliam F. Sharpe, Asset Allocation: Management Style and Performance Measurement, Journal of Portfolio Management, Winter 1992, p7-19.

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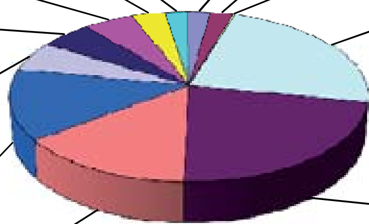
European ETF Assets by type of exposure,

as at end November 2007

Commodities	2.3%
US Sector Exposure	0.2%
Regional Exposure Eurozone	23.3%
Country Exposure Europe	22.3%
Fixed Income	14.3%
International Emerging Markets	13.4%
Regional Exposure Europe	5.6%
European Sector Exposure	5.5%
Style	5.1%
Country Exposure United States	3.4%
Eurozone Sector Exposure	2.3%



Advantages of ETFs.

Convenience and cost-efficiency

With the purchase of just one share, investors can access an entire index. ETFs aim to track their benchmark indices very closely so that at any time investors enjoy a true reflection of the performance of a chosen index. Tracking error is a key factor that should be considered carefully when choosing an ETF.

Transparency & Liquidity

ETFs are listed on the London Stock Exchange, with prices available in real-time, so investors can get in and out of the market any time of the day at a price very close to net asset value.

Flexibility

ETFs are eligible for ISAs and SIPPs.

LSE-listed Lyxor ETFs

as at February 2008

ASSET CLASS	EPIC CODE
Equity exposure – UK indices	
FTSE All-Share	LFAS
FTSE 100	L100
FTSE 250	L250
Equity exposure – Asian & Emerging countries	
Japan (TOPIX)	LTPX
China Enterprise (HSCEI)	LCHN
MSCI AC Pacific ex-Japan	LASP
India (S&P CNX NIFTY)	LNFT
Russia (DJ Rusindex Titans 10)	LRUS
Brazil (Ibovespa)	LBRZ
South Africa (FTSE JSE TOP 40)	LSAF
MSCI EM Latin America	LLAT
MSCI Emerging Markets	LEME

ASSET CLASS	EPIC CODE
Equity exposure – Sector	
Private Equity (PRIVEX index)	LPRV
Strategy exposure	
FTSE RAFI Europe	LREU
FTSE RAFI Eurozone	LRZZ
FTSE RAFI Japan	LRJP
FTSE RAFI US 1000	LRAM
Commodities	
CRB index	LCTY
CRB Non-Energy index	LCNE
Gold Bullion Securities	GBSS

Do It Yourself

Andrew Thewlis looks at why SIPPs are now a mainstream retirement planning option

As a result of the changes to the UK's pension taxation system in April 2006 (A-Day) the last two years have proven especially buoyant for sales of Self Invested Personal Pensions ('SIPPs'). There are now estimated to be in excess of 200,000 SIPPs in existence and the cost efficiency of online, execution-only variants has led to these now representing a significant proportion of the total.

Given this huge success story it is perhaps worth taking a step back, looking beneath all the hype and considering why the market is growing so strongly and just how SIPPs are now being used in the post A-Day environment. Equally importantly, what other drivers are likely to take effect in the near term?

Growth of the SIPP market

From the time when pensions "simplification" was first mooted in December 2002, SIPPs have enjoyed growing press coverage. Headline stories abounded about the ability to invest in holiday homes, yachts, fine wines, racehorses and stamp collections. This took SIPPs from their quiet backwater to the main finance sections of the daily papers, the effect of which was to dramatically raise public awareness of their existence and flexibility.

Despite Gordon Brown's now infamous u-turn in the Pre-Budget report of December 2005, when he announced significant tax charges on direct holdings by SIPPs in residential property and other "wasting" assets, the genie was out of the bottle and the public's interest grew rather than subsided. The much greater contribution flexibility introduced from April 2006 has also been utilised heavily by clients. In many instances this has seen the maximum tax relievable contribution increase from between 17.5% and 40% to 100% of relevant earnings. Consequently, figures for the first quarter of 2007 illustrate an ISA style surge in contributions and this is likely to be repeated on an annual basis in the future.

Whilst the traditional providers struggled to adapt to this new world a further significant growth driver was also at play. Since the publication of influential reviews of the savings and investment market by industry figures such as Paul Myners and Ron Sandler, regulation and legislation has focused attention increasingly onto investment issues. In the new simplified regime, with many of the technical barriers having been swept away, it is now widely appreciated that a pension is in many ways just another investment vehicle and should be managed as such. In this environment the low cost investment-led SIPP has been a significant beneficiary with the more sophisticated investor seeking to take advantage of the new propositions on offer from the specialist SIPP providers.

We have thus now arrived at the position where the SIPP is a mainline retirement solution rather than just a complex alternative for the very high net worth individual.

The rapid progress of SIPPs continues apace and the prospect of the Government's long awaited liberalisation of the rules around the investment of Protected Rights monies within SIPPs will only serve to boost the market further. Protected Rights are of course funds built up, most typically in old style personal pensions, through investment of contracting-out rebates from the State Second Pension (and its predecessor SERPS).

Protected Rights

The question of whether to permit SIPPs to hold protected rights is by no means a new one – it was considered as part of a consultation exercise on various contracting out changes made in 2005. At that time the Government considered the lack of a higher standard of regulation as the major reason for not permitting SIPPs to hold protected rights. The Government response to the consultation stated that the position would be reviewed once the new Financial Services Authority (FSA) regulatory arrangements for SIPPs were agreed or in place. This regulation became effective from 6th April 2007 but precious little in the way of Government announcements on this issue came over this period.

As a consequence, the ban on most forms of SIPPs being able to self-invest protected rights increasingly became an irritation to advisers, clients and providers alike. Some insurance company providers responded by promoting certain "quasi" SIPPs, for example, "Private Managed Funds", as an alternative vehicle. As an individual insurance contract, such products (or derivatives thereof) can accept protected rights and facilitate self-investment of sorts. However, their investment range can be restricted meaning they have not found favour in many quarters. Of more relevance was the fact that these providers typically only marketed these products via authorised financial advisers as opposed to directly to the public.

The 2007 Pensions Act signalled a change here. The relevant provisions seek to amend the Pensions Schemes Act 1993 to allow Protected Rights to be self-invested within the more

common trust based SIPP. The Government subsequently released draft regulations in December 2007 with a three month consultation period for interested parties. If these regulations become effective they will permit full self investment within trust based SIPPs from October 2008.

Certain restrictions on how benefits may be paid (and who they may be paid to) on death will remain as things stand but, despite these complications, this will undoubtedly provide a huge boost to the SIPP market with thousands of clients waiting for the new rules to become effective. Estimates have suggested that between £50bn and £100bn of Protected Rights monies are currently sat in traditional insurance contracts, so it is not difficult to see why!

There is however one word of warning for existing SIPP clients in this area. In order for the provider of most trust based SIPPs to offer this facility they will firstly need to be granted "Appropriate Scheme" status by HMRC. That means they must comply with a range of additional legislative requirements, including reporting requirements, in order that they can hold Protected Rights monies. Under current legislation it has not been technically possibly for most such schemes to amend their rules in this manner.

There is no doubt that the emergence of SIPPs has changed our pensions landscape for good. The cost efficiencies, investment flexibility and contribution flexibility afforded by "direct to the public" on-line propositions have been welcomed by those seeking to manage their own investment affairs. The prospect of being able to fully self invest their accumulated Protected Rights funds from October 2008 will no doubt be welcomed.

Andrew Thewlis is Business Development Manager, A J Bell Group. Sippdealxtra, a SIPP product offered by the A J Bell Group, is available through Selftrade.

Niche sub sectors see inflow surges

Surges in investor demand have been seen in sub sectors and niche investment areas such as China, India, and Emerging Market funds recently. In one case, the Neptune Russia and Greater Russia fund had to soft close its £220m portfolio due to inflow increases of 25-30% since the start of the year, whilst Barings are due to launch two further China funds to its range following over $7bn of inflows into its Hong Kong vehicle during 2007. Robin Geffen, Chief Executive and fund manager at Neptune has so far not revealed the extent to which he plans to soft close his Russia fund, merely stating that they did not want a rush of money into the fund hurting performance or liquidity, but it is widely expected to reach its cap level this year.

The surge in demand is on the back of bullishness over high growth areas such as India, China, Russia and other emerging markets where there are major drivers of growth, mainly in infrastructure. These regions remain positive economically due to upwardly revised forecasts despite the already high GDP growth expectations. Commodity prices continue at high levels as demand continues to grow and secular trends for domestic growth also remain intact. This can be seen in domestic consumption which is also a major driver of growth. As the Central Bank continues to cut rates and increases liquidity in the global markets, these niche investment regions are going to be the main recipients.

At Selftrade we have also seen these trends, with the Gartmore China Opportunities fund topping our most popular list with clients. China is seen as the world's largest exporter to the US, the world's second largest economy with twenty per cent of the world's population and the largest producer of steel. Indian and Russian funds have also been popular with our clients to no real surprise. After all Russia has experienced seven straight years of GDP growth, has expansive natural resource supplies in coal and gas and is the world's second largest oil exporter, whilst India can boast a market growth of over three hundred per cent in the last five years.

All in all, emerging markets are continuing to outperform their larger global counterparts but how long will the surge continue? Only time will tell. But whilst China and India are the best performing funds and markets are driven by liquidity, the trend looks set to continue… for now.

Chris Burrows is Product Executive at Selftrade

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Clean Tech sector set to win as the world cleans up

Neville Vyas explains why clean energy is a compelling investor story

Investors and fund management groups always seem to strive to find the next big investment opportunity. If a sector demonstrates large growth over a short period of time, it is not uncommon to see many funds crop up to take advantage of this.

The key is to identify whether or not this particular investment space represents a good long-term opportunity, not just a short-term gain. While over the last year the environmental technology sector has delivered a staggering growth of 64.7 %, the annualised compound growth over the last five years is a more sobering (but nevertheless healthy) 25.5 %, which we believe represents a steady growth story. What's more, much like the BRIC (Brazil, Russia, India and China) story, the underlying drivers are solid and, we believe, the best is yet to come.

According to Ernst & Young we are just at the beginning of growth in the sector. For the year of 2006 its research showed that $100 billion of investors' money went into the sector; by the year 2016 it has forecast this will rise to $750 billion, an increase of 650 %.

So what will prompt this rise of investment? Our core belief is that there will be three key drivers for the sector. Across the globe, governments, companies and individuals are acting together to clean up the world. In doing so, they are driving massive demand for new environmental technologies. A huge investment will be needed to tackle the environmental problem.

Firstly let's look at what the governments are doing. The issue of global climate change is now firmly established on the political map. Rising, volatile prices, blackouts and difficulty in supply have all illustrated the risks of being overly dependant on oil and gas. Indeed it has been estimated that if energy policies remain as they currently are, the European Union's reliance on imports will jump from half to almost two-thirds in 2030. Some 84 % of gas would have to be imported, as would 93 % of oil.

To respond to this the EU has set the goal of cutting emissions by 20 % before 2020. In Britain meanwhile, last year's Climate Bill announced a target 60 % emission reduction by the year 2050. These two pieces of regulation build upon 1997's Kyoto Protocol, which has now been signed by 169 countries. The Kyoto Protocol's emission reduction targets for industrialised countries expire in 2012.

Alongside the regulations being put in place is the large investment going into clean energy that is undertaken by governments across the globe. The Chinese government is likely to invest $200 billion in water infrastructure by 2028, and it has committed $180 billion to meet its own clean energy targets. In China's first plan to combat climate change, which was unveiled last year, was the commitment to increase energy efficiency by 20 % by 2010 and to double the use of renewables by 2020.

In addition to the work by the world's governments, businesses are now taking action to clean up the environment. Market appetite for renewable and clean tech initial public offerings was buoyant over the past 12 months, with $8 billion raised worldwide. According to a report from the Carbon Trust, clean energy investment now accounts for 10 % of all European venture capital investments. The report also shows that investment in clean energy reached a total of just under $2 billion between 2003 to 2006, putting clean energy on a par with European information technology, biotech and semiconductor venture capital investment levels.

Looking at the actions companies are taking to clean up the environment, BT will invest £250m in the development of wind farms to reduce carbon emissions. This scheme represents Britain's biggest corporate wind power project outside of the energy sector. The project will bring together third party funding and energy partners to safeguard future supplies of clean, green energy for BT as part of its strategy to reduce carbon emissions.

Meanwhile Marks & Spencer plans to invest £200m over the course of the next five years to become carbon neutral. Elsewhere Coca-Cola has already invested £60m to build the world's largest plastic bottle recycling plant and Wal-Mart plans to spend £500m a year to increase the fuel efficiency in its truck fleet.

The final factor which will drive investment in clean energy is the fact individual people are now also taking action. Sales of American hybrid cars rose 300 % between 2004 and 2006 and people's lifestyles are changing to protect the environment. In Britain some 8 % of adults have now switched to a green energy tariff, while 88 % recycle paper and 80 % recycle glass.

Areas within eco energy include wind turbines, solar cells, building insulation, fuel cells and bio fuels. Wind turbine business in North America and Asia is growing at 15 % and 10 % respectively, while the solar energy market is estimated to be growing between 30-50 %.

In terms of pollution control, the average global temperature has risen by 0.8 degrees since the start of the industrial revolution. According to Greenpeace, if these emissions are cut by 50 % by the year 2050 - industrial countries by as much as 80 % - this rise in global temperature can be kept below the two degrees mark

At present America is the largest source of CO_2 in the world, but it will soon be overtaken by China. With acid rain now affecting one third of China, the Chinese population is so unhappy that during 2006 there were 51,000 protests, almost 1,000 per week.

It is the alignment of these three powerful forces of change – government, business and people – to one cause, which makes the clean energy sector such a compelling investment opportunity. We feel the best way to access this opportunity is via three areas, eco energy (alternative energy), pollution control and clean water.

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Global asset views

Consensus views on world markets and sectors drawing expertise from fund management groups.

	UK	US	Europe	Emerging	China	Property	Gilts	Corp. Bond
Aberdeen	-2	-2	+1	+1	+1	-1	+1	-1
BlackRock Merrill Lynch	-1	0	+1	+1	+1	-1	0	+1
Gartmore	0	-2	+1	0	-1	-1	0	0
JP Morgan Asset Management	-1	+1	+1	-1		-2	+1	0
M&G	-1	-2	+1	-1		-1	+2	-2
Selftrade Research	0	0	+1	+1	+1	-1	0	-1
Schroders	-1	+1	0	+1		-1	0	0
Société Générale Asset Management	0	0	-1	-1	-1	-1	-1	+1
Scottish Widows Investment Partnership	+1	0	0	0	0	-1	0	0
Threadneedle	+1	-1	+1	0	+1	-1	-1	-1

KEY:

-2	-1	0	+1	+2
Negative	Underweight	Neutral	Overweight	Positive

Consensus

This snapshot of world sentiment from some of the UK's leading fund management groups shows a good degree of stability since the previous survey despite the volatility in global markets. There remains strength in emerging markets and China despite fears of global slowdown. This perhaps reflects the de-coupling of these markets with the United States. The consensus remains on the underweight side of neutral for the United States despite aggressive rate cutting, Bush's fiscal stimulus package and the positive sentiment generated from the prospect of a Presidential election. The recovery potential of the US makes this a market to watch while the balancing act UK policy makers are performing, avoiding the effects of US downturn in the West while benefiting from continued emerging growth in the East, reflect the continuing caution of the consensus views. Meanwhile Europe continues to sit on the positive side of neutral; a consistent position over three surveys. Elsewhere Gilts have edged into marginally overweight territory for the first time since the survey was first run in the middle of last year, while property continues to decline.

	NEGATIVE -2 / UNDERWEIGHT -1 / NEUTRAL 0 / OVERWEIGHT +1 / POSITIVE +2	CURRENT	PREVIOUS	
UK		- 0.4	+0.4	- 0.1
US		- 0.5	- 0.1	- 0.5
Europe		+0.6	+0.9	+0.8
Emerging		+0.1	+0.8	0
China		+0.2	+0.4	+0.2
Property		- 1.1	- 0.6	0
Gilts		- 0.2	- 0.7	- 0.8
Corp. Bond		- 0.3	- 0.8	- 1