28 FEBRUARY 2022

FOR PROFESSIONAL INVESTORS ONLY. NOT FOR DISTRIBUTION TO RETAIL CLIENTS

Premier Miton INVESTORS

First thoughts on Russia's invasion of Ukraine

Fund managers: Gervais Williams & Martin Turner

Fund managers Gervais Williams and Martin Turner share their initial investment thoughts on Russia's invasion of Ukraine.

With the Russian Federation announcing a military operation in Ukraine last week, this inevitably will initiate much greater volatility within asset markets. The big question is what are the key implications?

At this stage all judgements are being made on the basis of assumptions, so the range of outcomes are very open-ended. The Ukrainian war may remain very limited in scope, or it could unleash global divisiveness that breaks up the international order into two or more increasingly separate trading blocks. Even so, at this early stage there are some outcomes that appear relatively universal irrespective of what happens next.

Generally, we can expect individuals, companies and countries to become a lot more precautionary. Specifically, this will involve being more careful with the basics. Many will add to their stocks of foodstuffs and essentials, including cash. In market terms, we can expect the additional demand to drive up the cost of food, especially basic foods that won't degrade for an extended period. Alongside, we anticipate that there will be a similar trend in heating oil, petrol and diesel. As with foodstuffs, we anticipate that the extra demand could lead to quite marked price rises. Both of these factors will be reflected in the behaviour of companies and countries, with a greater reluctance to share surpluses with others. There will be similar trends amongst traded goods, including consumables, medical supplies, electrical goods and basic clothing.

All these extra inventories could precipitate an acute shortage of financial liquidity. Although central banks will inject additional liquidity without delay, anxiety about the increased counter-party risk will leave those that are highly indebted with a funding position that actually worsens. Unfortunately, numerous indebted private businesses could become insolvent quite quickly, increasing the financial squeeze due to the cost of bad debts.

Asset prices will be volatile, with consumables such as food, medicines and energy prices rising, and the valuation of corporates declining. Typically, businesses with cashflow negative models are likely to be amongst the weakest. In contrast, quoted companies generating surplus cash, or with surplus cash balances will have the potential to hold up much better, and those involved in the mining, farming, military or energy industries are likely to actually rise in share price in our view.

Overall, national borders will become more relevant. Cross border financial flows should continue, but for countries with the most debt, such as Turkey and Argentina, these will become more uncertain.

Generally, Martin and I have been relatively cautious regarding portfolio risk. In general, we have been cautious about corporate debt, and a preference for those with robust balance sheets. We have sought to diversify risk through numerous holdings that aren't closely correlated together. We have limited weightings in areas of discretionary spend such as consumer stocks, with more large weightings in those involved in the essentials such as energy, mining and the financials.

Furthermore, we have precautionary cash balances in place, for example, the Diverse Income Trust has a cash balance of around 3.9% and cash proceeds are expected from some takeovers. The trusts (The Diverse Income Trust and Miton UK MicroCap Trust) also have the partial cover of a FTSE 100 Index Put option with an exercise price of 6,200 extending to December 2022. Whilst the portfolios will not be insensitive to the movement of asset prices, we believe there is little adjustment needed given the initiation of special military operation in Ukraine.

Risks

The value of investments may fluctuate which will cause trust prices to fall as well as rise and investors may not get back the original amount invested.

The trusts mentioned may experience high volatility due to the composition of the portfolio or the portfolio management techniques used.

Put-options are a type of derivative and can be used for a number of reasons. For example, they can be used to protect the value of an underlying investment or group of investments against a fall in value. They can be thought of as an insurance policy. These can make a trust more volatile from time to time.

Forecasts are not reliable indicators of future returns.

IMPORTANT INFORMATION

For Investment Professionals only. No other persons should rely on any information contained in this document.

Whilst every effort has been made to ensure the accuracy of the information contained within this trust insight, we regret that we cannot accept responsibility for any omissions or errors. The information given and opinions expressed are subject to change and should not be interpreted as investment advice. Reference to any particular stock or investment does not constitute a recommendation to buy or sell the stock / investment.

All data is sourced to Premier Miton unless otherwise stated. Persons who do not have professional experience in matters relating to investments should not rely on the content of this fund insight.

For your protection, calls may be monitored and recorded for training and quality assurance purposes.

A free, English language copy of the trusts' full prospectus, the Key Investor Information Document and Supplementary Information Document are available on the Premier Miton website, or you can request copies by calling us on 01483 306090.

Financial Promotion issued by Premier Miton Investors. Premier Portfolio Managers Limited is registered in England no. 01235867. Premier Fund Managers Limited is registered in England no. 02274227. Both companies are authorised and regulated by the Financial Conduct Authority and are members of the 'Premier Miton Investors' marketing group and subsidiaries of Premier Miton Group plc (registered in England no. 06306664). Registered office: Eastgate Court, High Street, Guildford, Surrey GU1 3DE.