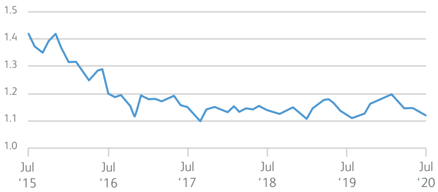
Metritá
WEALTH MANAGEMENT

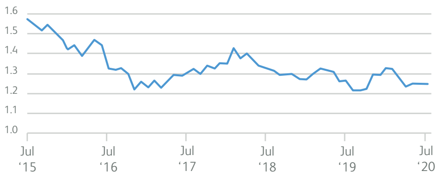
financial Newsletter

Edition 35 – 2020

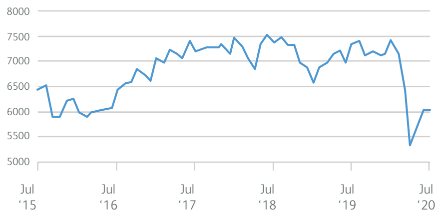
What is the British Pound worth vs. Euro?



What is the British Pound worth vs. Dollar?



FTSE 100 Chart



KEY FACTS & FIGURES – The UK Economy		
BoE Base rate	0.1%	August 2020
Unemployment	3.9%	Apr – Jun 2020
Inflation (CPI)	0.6%	June 2020

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Base rate

The Bank of England Base Rate remains unchanged at 0.1%.

Inflation

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 0.8% in June 2020, up from 0.7% in May 2020.
- The largest contribution to the CPIH 12-month inflation rate in June 2020 came from recreation and culture (0.32 percentage points).
- Rising prices for games and clothing resulted in the largest upward contributions to the change in the CPIH 12-month inflation rate between May and June 2020.
- The Consumer Prices Index (CPI) 12-month rate was 0.6% in June 2020, up from 0.5% in May.

Unemployment

- A large number of people are estimated to be temporarily away from work, including furloughed workers; approximately 7.5 million in June 2020 with over 3 million of these being away for three months or more. New analysis shows that the youngest workers, oldest workers and those in manual or elementary occupations were those most likely to be temporarily away from paid work during the coronavirus (COVID-19) pandemic. There were also around 300,000 people away from work because of the pandemic and receiving no pay in June 2020.
- April to June figures show weakening employment rates, with numbers of self-employed and part-time workers seeing reductions; despite these falls, unemployment was not rising, because of increases in people out of work but not currently looking for work; the reduction in total hours worked is a record both on the year and on the quarter, with the whole period covering a time since the introduction of coronavirus measures.
- The Claimant Count increased in July 2020, reaching 2.7 million; this includes both those working with low income or hours and those who are not working.
- Vacancies in the UK in May to July 2020 were at an estimated 370,000; this is 10% higher than the record low in April to June 2020.
- The three months to June 2020 saw strong falls in pay; total nominal pay fell by 1.2% on the year and regular nominal pay fell by 0.2% (the first negative pay growth in regular nominal earnings since records began in 2001).

Managing mortgage stress – we're here for you

Whether you're a first-time buyer, a second-stepper or further up the housing ladder, buying a home is always a big move and can feel a bit like a roller coaster ride at the best of times. And now there is the added complications and worries that the COVID-19 pandemic has caused on people's lives, finances and general wellbeing. With over 40% of buyers reporting the moving process has made them feel stressed and ill, here are some tips that can help you navigate the process as smoothly as possible.

Smooth sailing

Taking advice will save you time, money and stress. We are on your side, we know the industry and the most appropriate lenders, to be able to recommend the most suitable mortgage for you and we can offer useful advice on all aspects of the house buying process. More now than ever, the value of professional advice is immeasurable. As the mortgage market changes, it's our job to keep our finger on the pulse. We'll be able to help you get a decision in principle from a lender, which will give a seller the confidence that you are a serious purchaser.

Expert navigation

We can help you familiarise yourself with all the stages involved in getting a mortgage. We'll explain important things like how affordability checks work, what paperwork you'll need to provide to a lender in support of your application, and what costs and fees you should budget for. You will need to have saved a deposit - in most cases the bigger the deposit you can put down, the lower your interest rate is likely to be.

Check out your finances in advance

Start by taking a look at your income and outgoings; any lender considering your mortgage application will expect you to be on top of all your bills and comfortably able to afford your monthly mortgage payments. It makes sense to cut back on things like unused subscriptions and watch how much you spend on things like eating out. Lenders will want to see a healthy credit score - a higher score usually means you are a lower risk; the more points you score the better the chances that you'll be offered better interest rates. Being under time pressure can increase your stress levels, so it pays to have your finances in order before you start looking for a property and a mortgage.

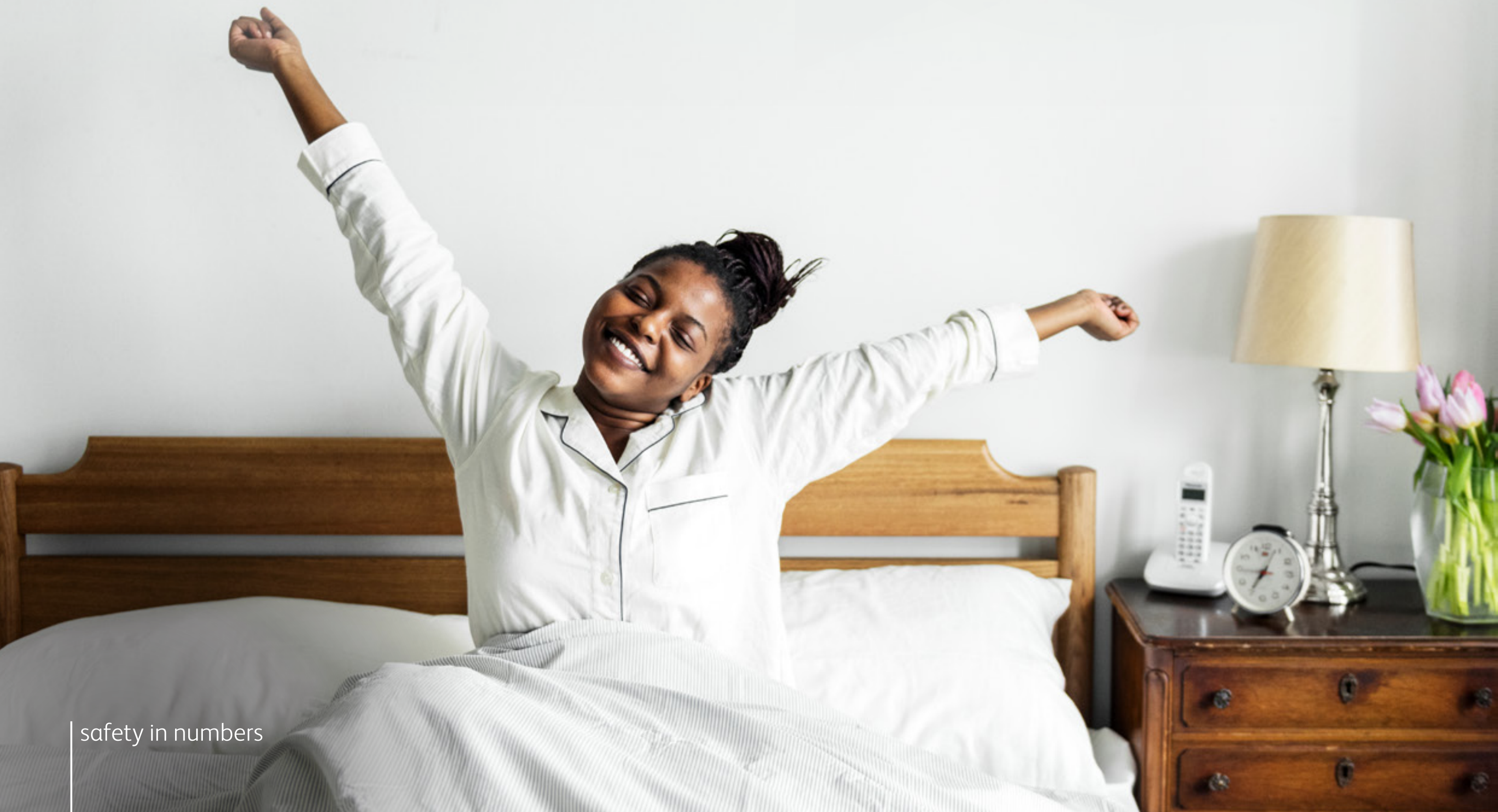
Work with a good estate agent

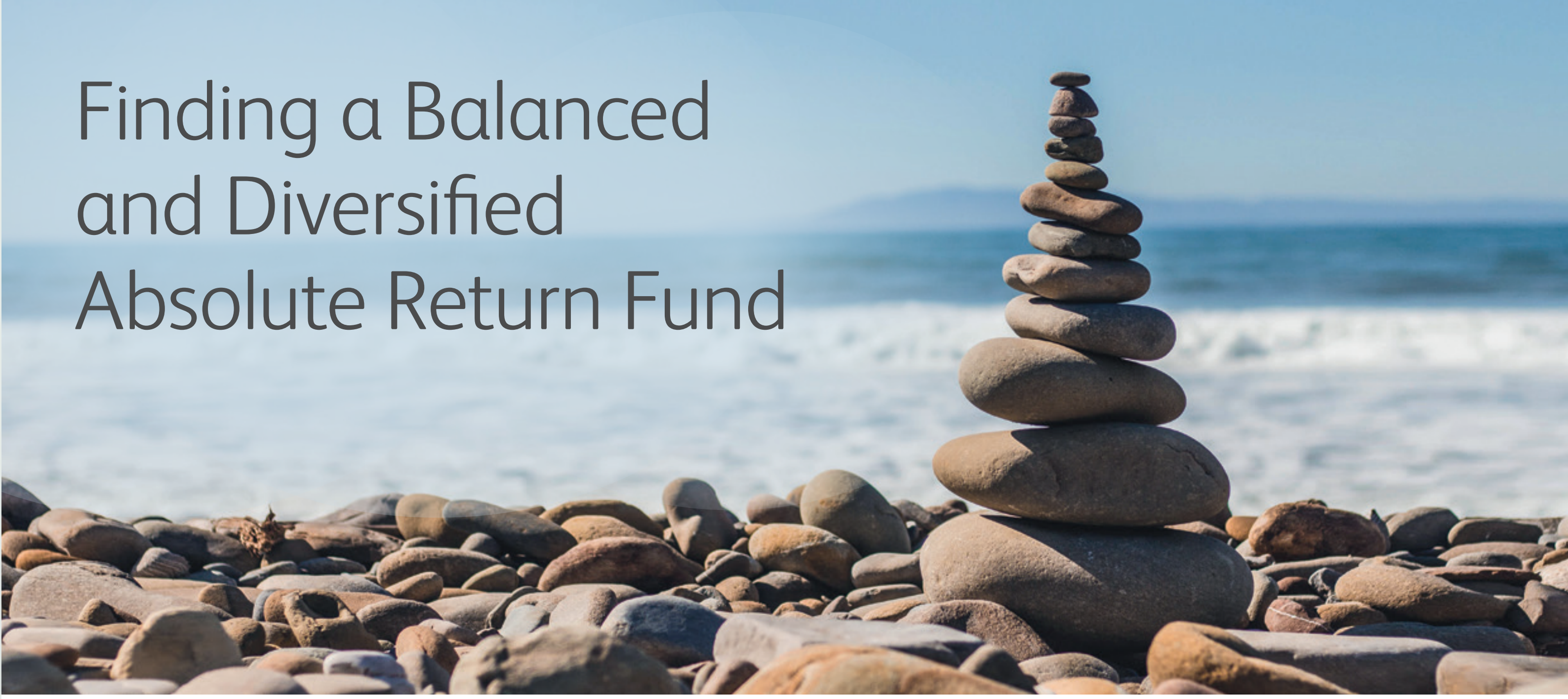
It's worth taking the time to get to know a reputable estate agent. Explain your circumstances to them so that they can pass on relevant information to sellers. First-time buyers with a mortgage offer in place are in a strong position as they can proceed more quickly than another buyer who has yet to sell their property.

Don't forget to get a survey done

Having a survey carried out on a property before you commit to buying it makes good sense. It can save you thousands of pounds in repair bills and a lot of stress in the future. There are various options available, and we will be able to offer help and advice on choosing the type that meets your needs.

Author: 2plan





Finding a Balanced and Diversified Absolute Return Fund

The Coronavirus crisis was a shock for many investors in long only equity or equity-heavy strategies in the first half of 2020, as the crash in March highlighted how quickly equity market volatility can spike up. But the prior ten years saw unusually low equity volatility, viewed from a longer-term perspective. Judging by a multi-decade lookback, which more experienced teams in the industry have lived through, equity market volatility may be only returning to historically typical levels.

This throws into sharp relief the differences between funds under the same strategy umbrella. Some Absolute Return strategies are now down by double digit percentages on the year, but for well diversified ones with careful risk controls, it has been a pretty typical year for performance and volatility: both have stayed steady and inside their single digit targets.

The 118 funds in the Investment Association Targeted Absolute Return sector share this common aspiration of targeting a preset level of positive returns, but the sector is a broad church. It includes some funds that only invest in equities and bonds, and can only express positive views on them - or else sit on cash. Given that equities and bonds have been rising mainly in tandem for over a decade since the Great Financial Crisis, this traditional approach had been riding on strong tailwinds, until March and April of this year.

The marriage of equities and bonds was also the traditional cornerstone for another fund category - "balanced" funds - but many investors are asking whether they still deserve the name in current economic and market conditions. Cash will no longer yield enough to cover management fees while shorter term UK government bonds now have negative yields. After a 40 year cycle of declining interest rates, bonds may not be able to give portfolios as much diversification benefit or "bang for their buck".

Adding currencies and commodities to the mix not only brings additional return drivers but arguably adds real balance to portfolios by potentially smoothing out returns. Many large pension funds have been investing across multiple asset classes for decades, and investors of all sizes can now access this diversified approach. For instance, Fulcrum's holdings in gold have also benefitted from its rise to record highs measured in many currencies this year. Commodities were the best performing asset class during the 1970s "stagflation" era.

Moreover, the more flexible funds in the Absolute Return sector can take positive or negative views on all four asset classes, or indeed build positions based on the performance difference between different equity markets, sectors, bonds or interest rates. Fulcrum manage the Omnis Diversfied Returns fund with a similar mandate to the Fulcrum Diversified Core Absolute Return fund and a key return driver for returns has been thematic equity ideas, mainly based on multi-year megatrends such as the shifts towards cloud computing or internet shopping. These create winners, such as ecommerce companies, and losers, such as shopping centre operators, some of which have gone bankrupt this year. Climate change and clean energy are other megatrends that have led to profitable positions in areas such as renewable energy generation. This strategy can profit from a positive position in the winners and a negative one on the losers.

The same principles apply to bonds, currencies and commodities, which can be used to generate forms of "income" from the differences between lower or higher yielding markets – or differences between yields at various maturities within the same market.

As different countries are now recovering at different speeds, there is a strong opportunity for active macro trades between different currency, bond or equity markets, but a long only approach may require a very optimistic outlook. Equity markets including the US, China and technology have made a strong recovery, but great uncertainties remain over how companies and consumers will respond to the unprecedented environment. Localised lockdowns and unemployment could continue to dent consumer confidence, government support may not continue forever, and credit ratings agencies are forecasting high defaults. Yet valuations for risky assets have returned to historically high levels, which sets the stage for potential volatility and disappointment in areas where the recovery falters.

A mainly relative value approach can generate returns largely independent of overall market moves, with little or no correlation to equities or bonds, while a sensibly diversified approach is well positioned to control volatility. A truly balanced range of strategies should be well placed to thrive under better or worse economic and market conditions

Author: Nabeel Abdoula,
Head of Discretionary Strategies,
Fulcrum Asset Management

Stocks which can grow irrespective of the wider economy

The impact of COVID-19 and the economic cost of the measures put in place to try and contain it have injected unprecedented levels of volatility into the UK equity market. As countries around the world entered lockdown, economic activity in many sectors ground to a halt. Investors reacted by selling shares and in the first quarter the UK equity market posted its biggest quarterly fall for more than three decades.

More recently, however, the UK equity market has recovered strongly from its lows in March on fresh stimulus measures (action by the government to stimulate the economy) and hopes that economies are on the mend as lockdowns ease. This in large part can be attributed to the expected impact of a dramatic easing of fiscal and monetary policies (central banks and government policies) in all the major economies. Investors certainly seem to have pinned their hopes on a swift economic rebound in the UK. This has led to lower quality cyclical stocks (those more sensitive to the economic cycle), which often do not meet our quality criteria, rallying hard.

In our view, however, markets have seemingly shrugged off the economic cost of the pandemic, which is likely to be significant. The UK is expected to face a severe recession and unemployment could more than double by next spring, according to the Bank of England, and we believe that it could be two to three years before the economy returns to previous levels of activity.

Our strategy

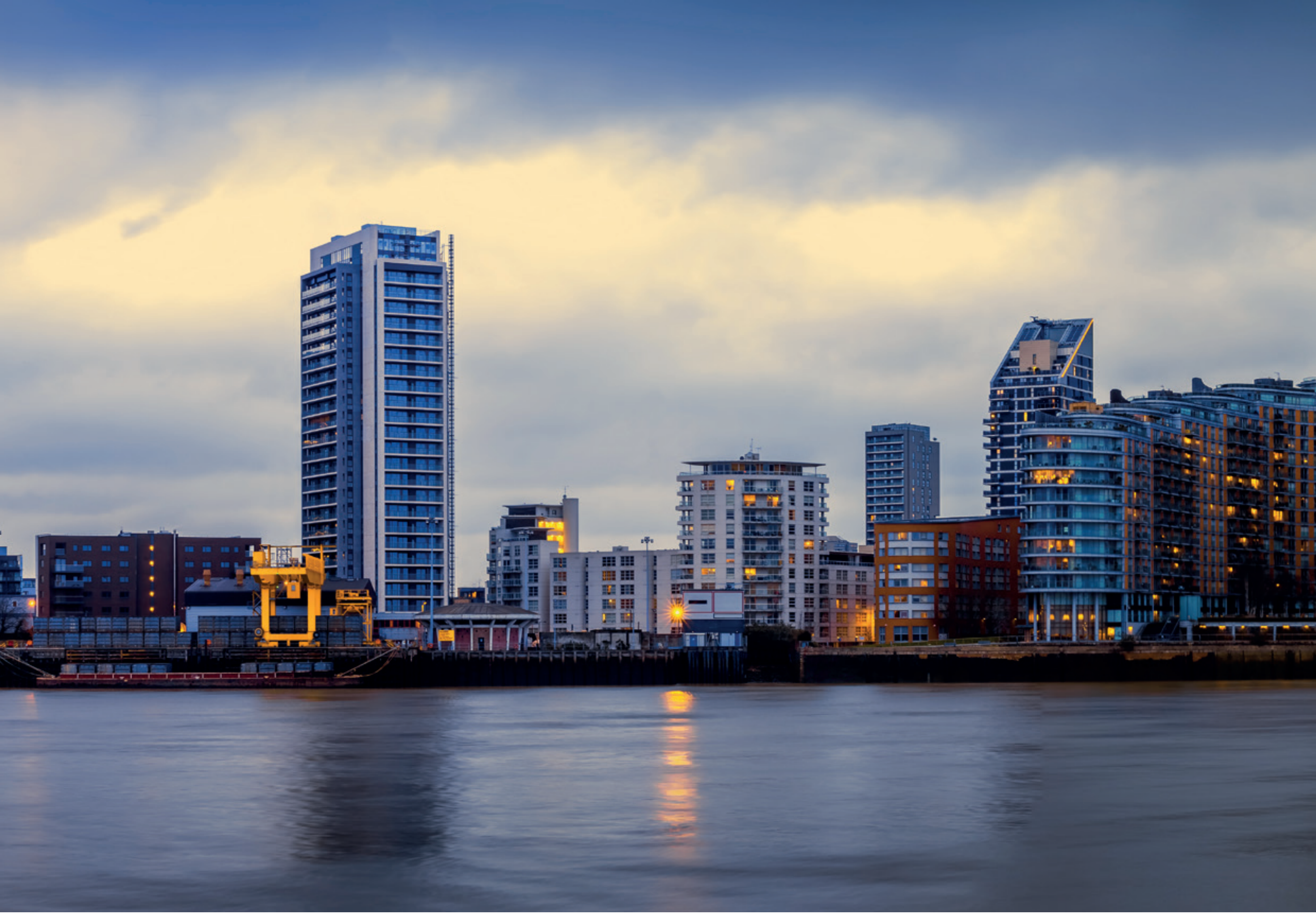
For the Invesco UK Smaller Companies Equity Fund (UK), our focus is on finding quality businesses with strong balance sheets, and which have the potential to be significantly larger in the medium term. Crucially, we prefer to invest in those which have the opportunity to grow irrespective of the health of the wider economy.

In recent months we have been somewhat perplexed at the bifurcation of the small cap market. Those companies that have performed extremely well have quite often been highly, if not overvalued businesses, or have often been lacking in quality, in our view. This has meant that our strategy of buying fundamentally good business at sensible valuations has been out of favour.

During the market sell off, we added a mixture of stocks trading at deep discounts (compared to what we perceive to be their intrinsic value) and some high-quality names which we had been following for some time. Amongst the heavily discounted names were new holdings such as Gym Group and Mitchells & Butlers. Gym Group is the second largest operator of low-cost gyms in the UK. We had always liked the model and had been waiting for the right entry point in April.

Mitchells & Butlers is the largest pub operator in the UK. The recent sell-off left the stock trading at an attractive valuation, in our view. We felt there was significant opportunity in this stock.

For stock pickers such as us, the small-cap end of the market is an exciting place to be. Significantly lower analyst coverage of smaller companies compared to the broader UK equity market offers the opportunity to find genuine mispricing, whilst a high proportion of founder-ownership encourages management to focus on long-term shareholder value creation.



We continue to manage the fund with the same uncompromising focus. We believe that the current unusual movements of the market will provide us with opportunities, but it has never been more important to stick to our principles and continue to invest for the long term.

More information

For more information on the Invesco UK Smaller Companies Equity Fund (UK), please visit *invesco.co.uk/uksmallers*

Investment risks

The value of investments and any income will fluctuate (this may partly be as a result of exchange rate fluctuations) and investors may not get back the full amount invested.

The fund may use derivatives (complex instruments) in an attempt to reduce the overall risk of its investments, reduce the costs of investing and/or generate additional capital or income, although this may not be achieved. The use of such complex instruments may result in greater fluctuations of the value of the fund. The Manager, however, will ensure that the use of derivatives within the fund does not materially alter the overall risk profile of the fund.

The fund invests in smaller companies which may result in a higher level of risk than a fund that invests in larger companies. Securities of smaller companies may be subject to abrupt price movements and may be less liquid, which may mean they are not easy to buy or sell.

As a result of COVID-19, markets have seen a noticeable increase in volatility as well as, in some cases, lower liquidity levels; this may continue and may increase these risks in the future.

Important information

This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell securities.

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.

For the most up to date information on our funds, please refer to the relevant fund and share class-specific Key Investor Information Documents, the Supplementary Information Document, the Annual or Interim Reports and the Prospectus, which are available on the Invesco website.

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A hierarchy of needs for retirement?

Legendary investor and fount of financial wisdom Warren Buffett once said: "Only when the tide goes out do you discover who's been swimming naked."

His point was that investors tend to be comfortable with risking money in the hope of a decent investment return when the economy is growing and financial markets rising. It is only in troubled times that some are revealed to have taken more risk than was wise.

On the one hand, retirees need a stream of regular income to pay the day-to-day bills that won't dry up if the economy takes a turn for the worse. On the other hand, investing offers the potential for growing their money over the course of a retirement likely to last two or three decades.

One useful concept to help answer the question is a 'retirement hierarchy of needs' which is often represented as a pyramid. This takes a theory proposed by psychologist Abraham Maslow in 1943 to explain human motivation and adapts it to financial planning for retirement.

Maslow thought that humans prioritised meeting their most basic needs – for food, water, warmth and safety – before moving onto achieve more complex needs such as friendships and relationships, feelings of accomplishment and prestige.

> "Only when the tide goes out do you discover who's been swimming naked."

A hierarchy of needs for retirement?

For those heading into retirement, the pyramid's first layer is paying off debt such as credit cards and mortgages. This makes financial sense when the interest payable on the debt is likely to be higher than could be achieved by investing.

Income to meet essential spending is the next layer. Retirees need to put food on the table, maintain a home, clothe themselves and pay utility bills. Some may see activities such as socialising, maintaining a car or travel to see family as largely essential too.

More financial security is offered by a 'just in case' fund, usually held in cash, to meet any unexpected expenses. This should be easily accessible and safe from financial shocks.

Once the essentials are taken care of, the remaining layers of the pyramid reflect discretionary spending. The fourth level of the pyramid is the income to meet spending on enjoying life, such as paying for hobbies, eating out, cinema and theatre trips, and holidays.

The top two layers of the pyramid are for gifts – such as helping out family with house deposits or school costs – and for life's luxuries or ticking aspirations of a 'bucket list' such as owning a sports car, dream holiday or meeting another lifetime ambition.

Essential spending is 'non-negotiable' and will last for as long as retirement lasts for a retiree and their partner. For most people this should ideally be covered by securing a guaranteed income for life, such as that provided by State Pension, final salary pensions or using a pension fund to buy an annuity.

Once the basics are secured, this gives complete flexibility around the other layers of spending. Once you know, with certainty, that you can always pay the bills, then you have complete freedom to do what you want with the rest whether that is to spend, invest or give it away.

Modern retirements can last two or three decades. That's plenty of time for economies to grow, but also to spring some unpleasant surprises – as we are reminded by events such as the Global Financial Crash of 2007-08 and the more recent Coronavirus pandemic.

Economic tides do go out. High spirits may excuse young people who are discovered to be swimming naked. Retirees ought to be wise enough not to take the risk.

Author: JUST

Looking to reduce your investment risk?

When people think about investing – it often conjures up visions of high stakes and either winning big or losing everything. That's sometimes because people think about investing in one company or one particular type of investment. If it does well, it's great …but if it doesn't perform well, then you can potentially lose a lot of your money.

The reality is different types of investment are likely to perform well at different times. The problem is knowing when is the "good time" for your type of investment?

That's why one simple and easy step to reducing investment risk is to invest in something that spreads your money across different types of investments. So, you don't have all your investments in one basket.

> One very important, yet simple step, you can take. Don't put all your eggs in one basket.

Helping reduce risk through an investment that spreads your money

One type of investment that spreads your money is called a "multi-asset investment". And Prudential can offer you a range of multi-asset investments.

Our multi-asset funds spread your money across a range of different types of investment. That might be a mixture of different types of shares, property, bonds and cash.

By spreading your money this way, it helps reduce the risk. For example, one year one type of investment may be performing well and another may be underperforming. If your investment is spread across both of these investments (or assets), over time the returns are more likely to be consistent than a fund which only invests in one type of investment.

As with any investment the value can go down as well as up and you may not get back the amount you put in.

An adviser can help you find the right multi-asset fund for you

Everyone is different in terms of the amount of risk they want to, and can take. So we have a range of multi-asset funds to suit different needs. Speaking to a financial adviser can really help. It is a financial advisers job to find the best solution for you and recommend the right place for you to invest. Perhaps more importantly they will only ever recommend something that suits your needs and works for you.

Passive funds

A passive fund is often a cheaper way to invest.

Some passive funds spread out the risk by investing in a number of different assets, but other passive funds only invest in one type of asset. A lot of passive funds are just managed by computers rather than people and usually track something, for example a financial index.

Smoothed funds

Want to invest across a broader range of investments and some added protection?

Smoothed funds are generally spread across a wide range of investments, offering potential for higher returns. The aim is to grow your money, while giving you a smoothed investment experience over the medium to long term (which is 5-10 years or more).

Some smoothed funds give you some protection from short-term peaks and troughs associated with the stock market. Because of this these funds can be more expensive than the passive and active funds.

Active funds

Looking for more potential for growth?

Active funds invest in a broader range of assets than passive funds so you have more potential for growth, as well as benefitting from spreading the risk.

These funds are actively managed, which means a fund manager uses their expertise, experience, and judgement to decide where, when and how much to invest.

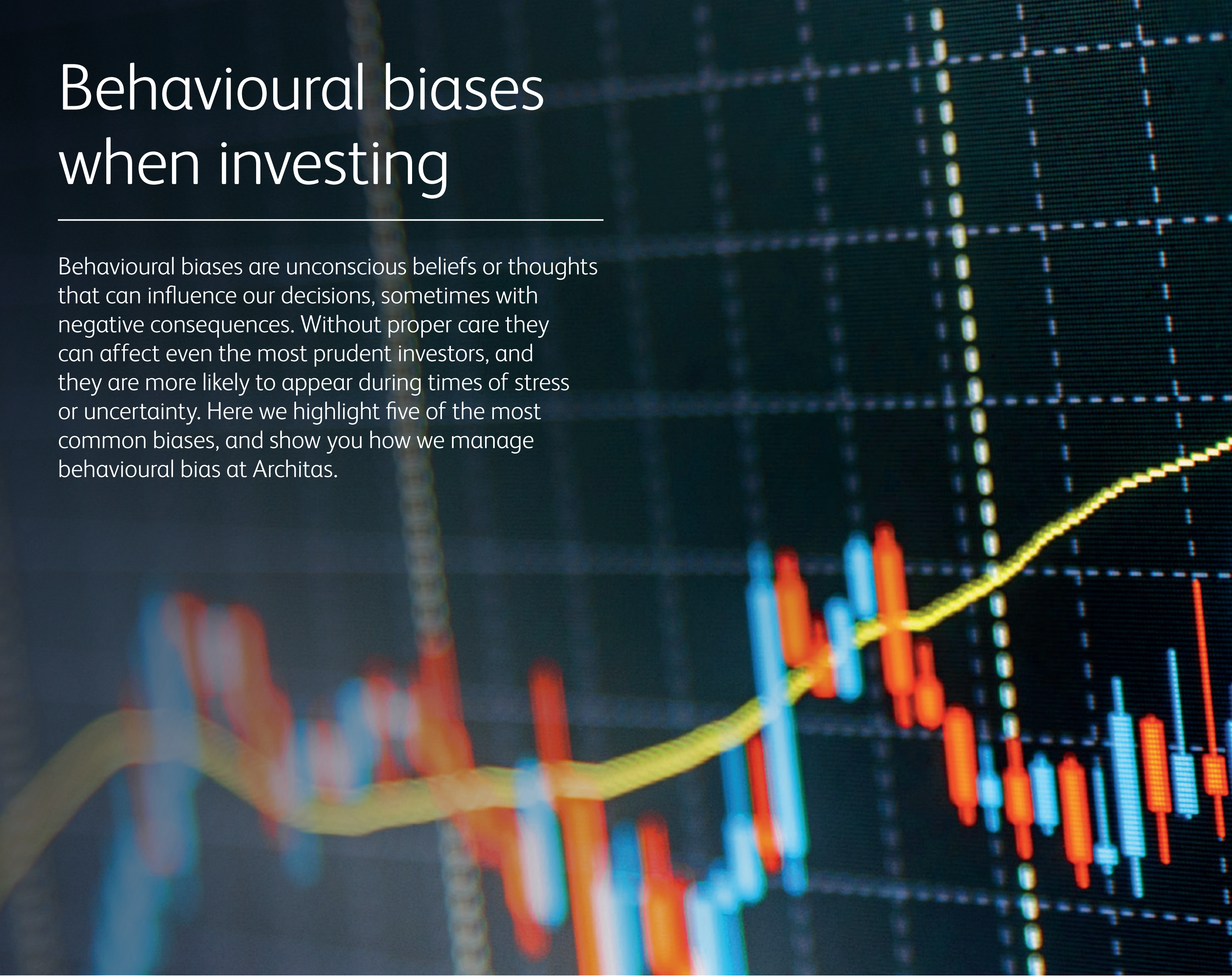
This active management means these are more expensive to invest in than passive funds.

For more information visit pru.co.uk

Author: Prudential

Behavioural biases when investing

Behavioural biases are unconscious beliefs or thoughts that can influence our decisions, sometimes with negative consequences. Without proper care they can affect even the most prudent investors, and they are more likely to appear during times of stress or uncertainty. Here we highlight five of the most common biases, and show you how we manage behavioural bias at Architas.



Loss aversion

Loss aversion is a tendency to avoid losses, even if it means missing out on gains. It stems from the idea that humans reportedly experience the pain of a loss twice as intensely as the pleasure of an equivalent gain. A great example is pulling all of your money out of the stock market after a big drop, locking in losses and potentially missing out on a subsequent recovery.

Bandwagon effect

The bandwagon effect involves following the crowd, rather than making your own judgments. In other words, you are 'jumping on the bandwagon'. It can be especially common during times of uncertainty or when people are faced with a difficult decision. The bandwagon effect might lead investors to impulse-buy a rising investment after it's received a lot of positive news coverage. Or perhaps to sell an investment after a friend or relative has sold theirs.

Confirmation bias

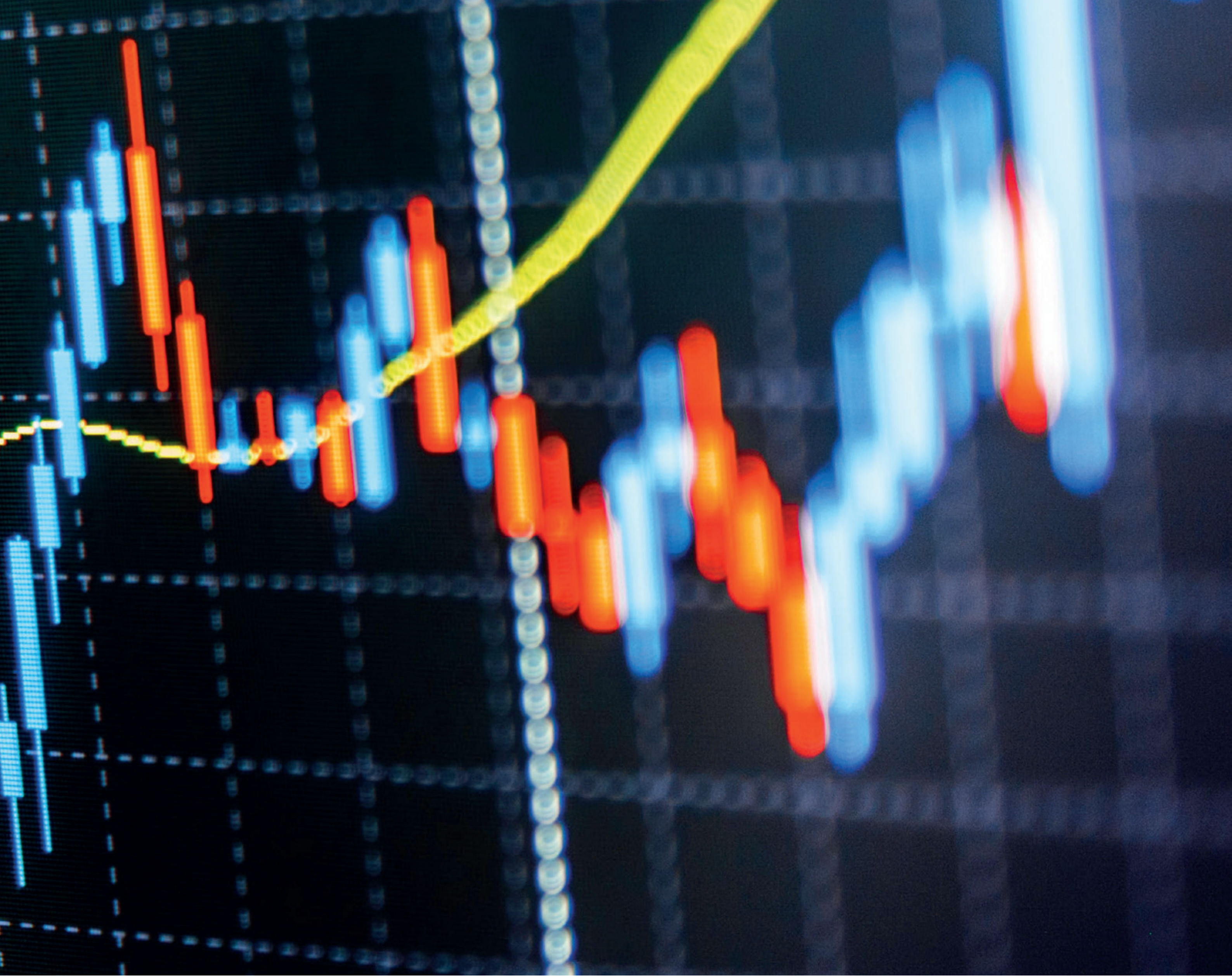
This involves focusing only on information that confirms your beliefs, and ignoring any new data that might challenge them. If you feel positive about an industry, you might decide to invest after a good run of stock market performance, while overlooking poor earnings growth or upcoming regulatory challenges.

Recency bias

Recency bias encourages short-term thinking. It causes people to place undue importance on recent events, usually while overlooking what happened further in the past. They may also take recent events as an indicator of what is yet to come. For investors, this could mean taking on too much investment risk during a rising market or selling investments after a period of volatility.

Endowment bias

This is the belief that what we own is more valuable than what we do not. Once an object – or investment – becomes our property, letting go of it can feel like a loss. Even if there is a better alternative available. This can cause investors to hold on to an investment even when it might be better to sell it.



What we do at Architas

At Architas we have a robust, consistent investment process that helps us to avoid falling prey to behavioural biases.

- We strive to make objective decisions based on evidence, and only after considering any counter-arguments
- We have a diverse team of analysts, each specialising in different areas. They conduct regular group discussions and are encouraged to challenge each other on their opinions
- We continually monitor the global economy, stock markets and our underlying investments. We aren't afraid to make changes if new information presents itself
- We have consistent processes for reviewing funds and sectors, so we can't focus solely on information that supports a particular view
- And we monitor the managers of the underlying funds held in our portfolios, to make sure they are doing the same

The value of investments can go down as well as up and you may not get back the amount you invested. AXA is a worldwide leader in financial protection and wealth management. In the UK, one of the AXA companies is Architas Multi Manager Limited (AMML), an investment company that provides access to other investment managers' services through a range of multi-manager solutions, including regulated collective investment schemes. AMML in the UK works with AXA Group internal fund managers, to find out more information about this please visit Architas.com/inhousemanagers. Architas Multi Manager Limited is a company limited by shares and authorised and regulated by the Financial Conduct Authority (Firm Reference Number 477328). The company is registered in England: No. 06458717. Registered Office: 5 Old Broad Street, London, EC2N 1AD.

Author: Sheldon MacDonald,
Deputy Chief Investment Officer at Architas

Life insurance – Mind the gap

With policies like home insurance or car insurance, we're all in the habit of reviewing our cover annually. With a life insurance policy potentially lasting for 20 or 30 years, it goes without saying that over that time, your lifestyle and therefore your cover requirements can change, sometimes substantially. Whenever you mark life's important milestones, it makes good financial sense to reassess your protection needs.

Overlooking the need to revisit your protection policies over time could mean that your family wouldn't have enough money to pay the mortgage or meet household bills if you were to die. A review is an opportunity, not only to assess your current cover needs, but also to consider newer plans that might be more appropriate to your circumstances and potentially more cost-effective.

Updating your cover as your life changes

Major life events can signal that your cover might need updating. If you've moved to a new house and taken on a bigger mortgage, you will need to review the sum assured (cover provided by the policy) to ensure that there won't be a shortfall in the event of a claim.

Starting a family can be an overwhelming experience and it's understandable that parents don't automatically think about their life insurance needs at this exciting time. However, at this stage family expenditure is likely to increase and it's often the time when parents should think about additional types of insurance cover.

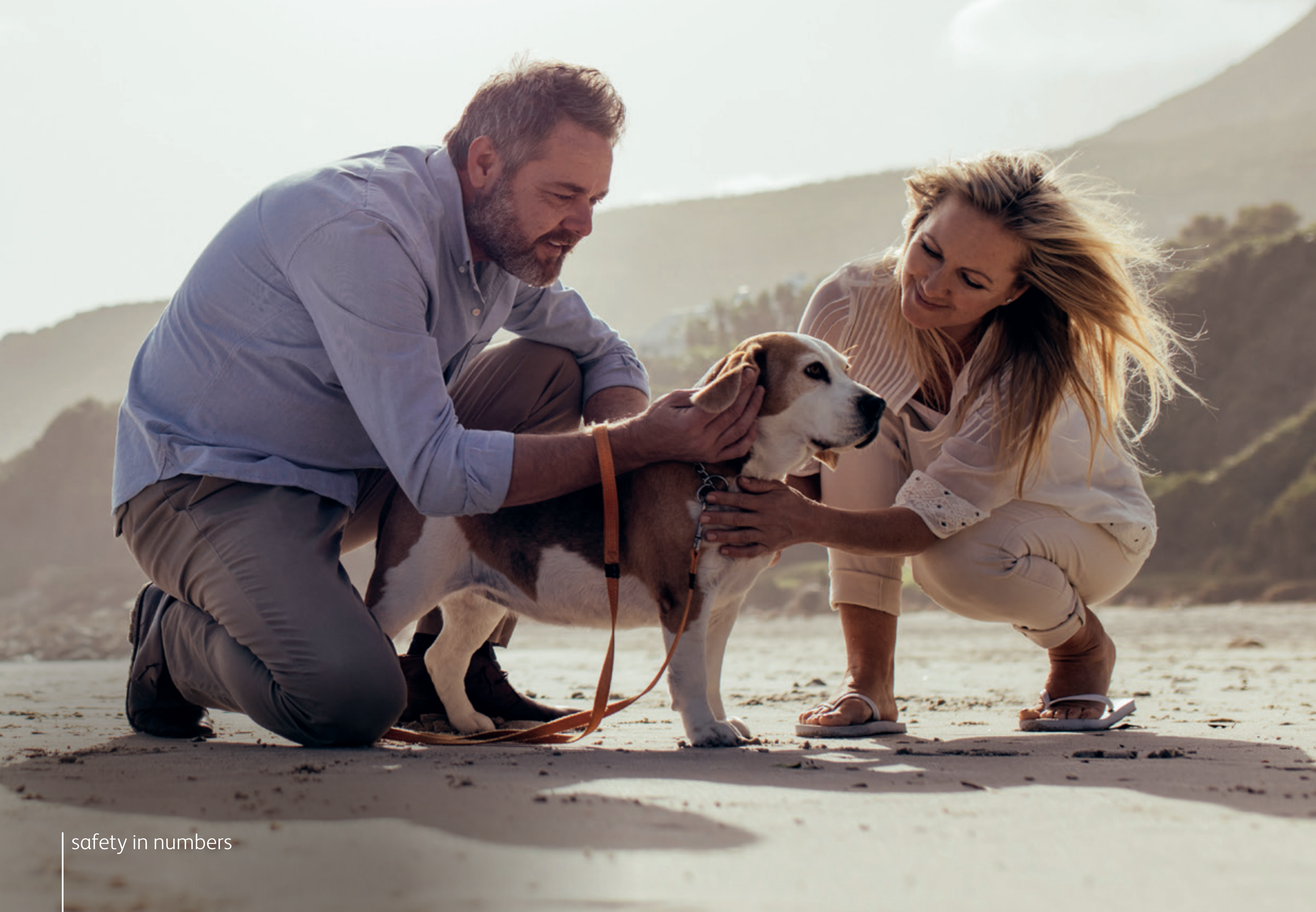
Protection policies can provide not only a lump sum on death or the diagnosis of a critical illness, but also an income for families impacted by an accident, sickness and unemployment. They can also help parents pass their wealth on to future generations and play a major role in Inheritance Tax planning too.

Keeping your needs covered

Insurance is one of the most important financial products anyone can take out and one of the best ways of ensuring your family is provided for financially if one of life's unexpected and unwelcome events should happen.

As with all insurance policies, conditions and exclusions will apply.

Author: 2plan



Rethinking your plans for retirement?

Now's the time to draw on the expertise of your adviser

For increasing numbers of people, their income in retirement depends on the value of a pension pot that has built up over the course of their working life. These pension savings are typically invested in assets like shares and bonds. As stock markets have fallen due to worries over the coronavirus pandemic, so has the income these pots may generate in retirement. For some people, this may have affected their plans for giving up work. If this applies to you, you aren't alone. A recent Fidelity survey shows almost three-quarters of investors who plan to retire in the next five years are rethinking their plans for retirement because of the impact of COVID-19.

While global markets have shown signs of recovery since their steep sell-off in February and March, reduced pension savings pots remain front of mind for those with one eye on giving up work. Of those due to retire within the next five years, the survey showed that more than half are worried that their savings will no longer provide them with the level of income they require in retirement. What's more, 54% said they will now have to defer downing tools in order to address their pension shortfall.

This kind of unwelcome reassessment can make us want to shield our savings by selling investments and keeping the money in our pensions as cash. But, as your adviser will no doubt explain, rash investment decisions now are even more unwelcome.

Stick to the long-term plan

Maintaining the long-term investment strategy put together by your adviser is now more important than ever. This will allow you to take part in the future recovery of the markets – selling investments now locks in those losses. As markets have shown us in the past few weeks, the recovery is likely to be very uneven. Individual businesses and industries can fare very differently. This gives the investment experts who manage the funds in your pension the chance to show their worth. They can use the current environment to buy into companies on their radar at cheaper prices.

Factoring in various scenarios now, before you retire, could show you how you can adapt before it happens.

The value of good advice

If you're aiming to retire within the next few years, you might have to contend with an uncertain path to recovery. Even if this does require a tweak to your long-term plans, your adviser can recommend the right course of action. Keeping pension contributions ticking over is important now too. The value here lies in the tax relief you'll continue to receive as well as the ability to buy the investments recommended for your portfolio at lower prices. Think carefully before you reduce or suspend your pension contributions and always consult your adviser before making any decisions – risk aversion right now could end up contributing to a shortfall in your eventual savings pot.

If your planned retirement date is just around the corner, lower markets may mean you'll need to adjust the amount of income you can prudently take from your pension once you do give up work. However, before redrawing your plans and altering your expectations, discuss your options with your adviser first. Factoring in various scenarios now, before you retire, could show you how you can adapt before it happens.

The current situation is understandably worrying for many reasons. However, in terms of your financial future, your adviser can give you all the help and support you need. They will look to maximise what you have saved for your autumn years and help keep your retirement hopes on track. They will be familiar with your goals and circumstances and are likely to have experienced market upsets before. In short, your adviser is ideally positioned to guide you through these uncertain times.

Important information

When making decisions about investing, we recommend that you always consult your adviser. As you will be aware, they work with you to understand your needs, offering comprehensive expert advice to help you achieve your long-term goals. We only give information about our products and services and do not provide investment advice. The value of investments can go down as well as up, so you may not get back the amount you invest. Tax treatment depends on individual circumstances and all tax rules may change in the future. Withdrawals from a pension product will not normally be possible until you reach age 55.

Author: Lesley Davidson, Associate Director
FundsNetwork Strategic Accounts

How social inequalities have been brought into focus by Covid-19 and what it means for investors

The Covid-19 crisis has thrust social imbalances into the spotlight. Factoring companies' social impacts into investment decisions, as well as actively engaging with companies on social factors – including those relating to inequality – is going to be more important than ever. In the context of sustainable investing, this is increasingly being described as the rise of the "S" of "ESG" (environmental, social and governance).

Some have branded Covid-19 the "great leveller" because anyone can get infected but perhaps the "great divider" may be a more appropriate characterisation. Existing inequalities have been particularly exacerbated in four areas:

Income

Low earners are more likely to have been employed in the sectors most affected by social distancing rules and lockdowns. For example, entertainment and recreation, and the accommodation and food services sectors are among the three lowest paid in the UK. And this was where more than 80% of businesses either closed or stopped trading during the Covid-19 crisis. Many employees in these sectors have lost their jobs or have been furloughed.

Health

People with high incomes have a relative "health advantage". Firstly, they are less likely to become infected as they are better able to work from home and more likely to live in less densely populated areas. Secondly, wealthier households have better chances of receiving fast treatment if infected. They are more likely to have private medical insurance.

Education

Households with higher incomes tend to have better access to technology and faster internet. Pupils in lower income households are therefore at a disadvantage if schools are closed. In the UK, children from the highest 20% (of income households) are spending one third more time on home learning than those from the bottom 20%.

Ethnicity

The mortality data has revealed that people from all ethnic minorities are significantly more likely to succumb to the virus. Among other factors, there is a higher probability that they live in densely-populated urban areas. Ethnic minorities are also more likely to work in sectors associated with the "essential workers" cohort, including care.

The role of asset managers in bridging the social divide

Tackling such a complex problem requires a multilateral approach. Public policy is the most important one but there is a significant role for the private sector as well and asset managers within it. Our role as asset managers is twofold: to actively engage with our investee companies and to integrate the impact companies have on their stakeholders into our investment decisions.

We have already stepped up our engagement activities in this space since Covid-19 has emerged. We have increased individual engagements with companies where we have long held concerns about labour practices. We have continued our work with the Workforce Disclosure Initiative (WDI) whose purpose is to ensure that listed companies produce comparable workforce reporting on an annual basis.

Looking at how companies are connected to the outside world, and how they impact on it, has been an area of longstanding focus for Schroders. We have developed a tool to quantify this and integrate it into our investment decisions called SustainEx.

The balance between "E", "S" and "G" factors in investing

Companies' sustainability practices are increasingly important to investment decisions, and this means a focus on environmental, social and governance issues. Our ability to integrate social impact into investment decision-making will be more important than ever.

Many of the discussions we are having in our active engagement with companies involve this "S" in "ESG". But the necessary focus on inequality and social issues more broadly will not reduce our engagement on the other aspects of ESG. The "E" and the "S" and the "G" are not "either/or".

To find out more about our approach to sustainable investing, visit www.schroders.com/sustainability

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

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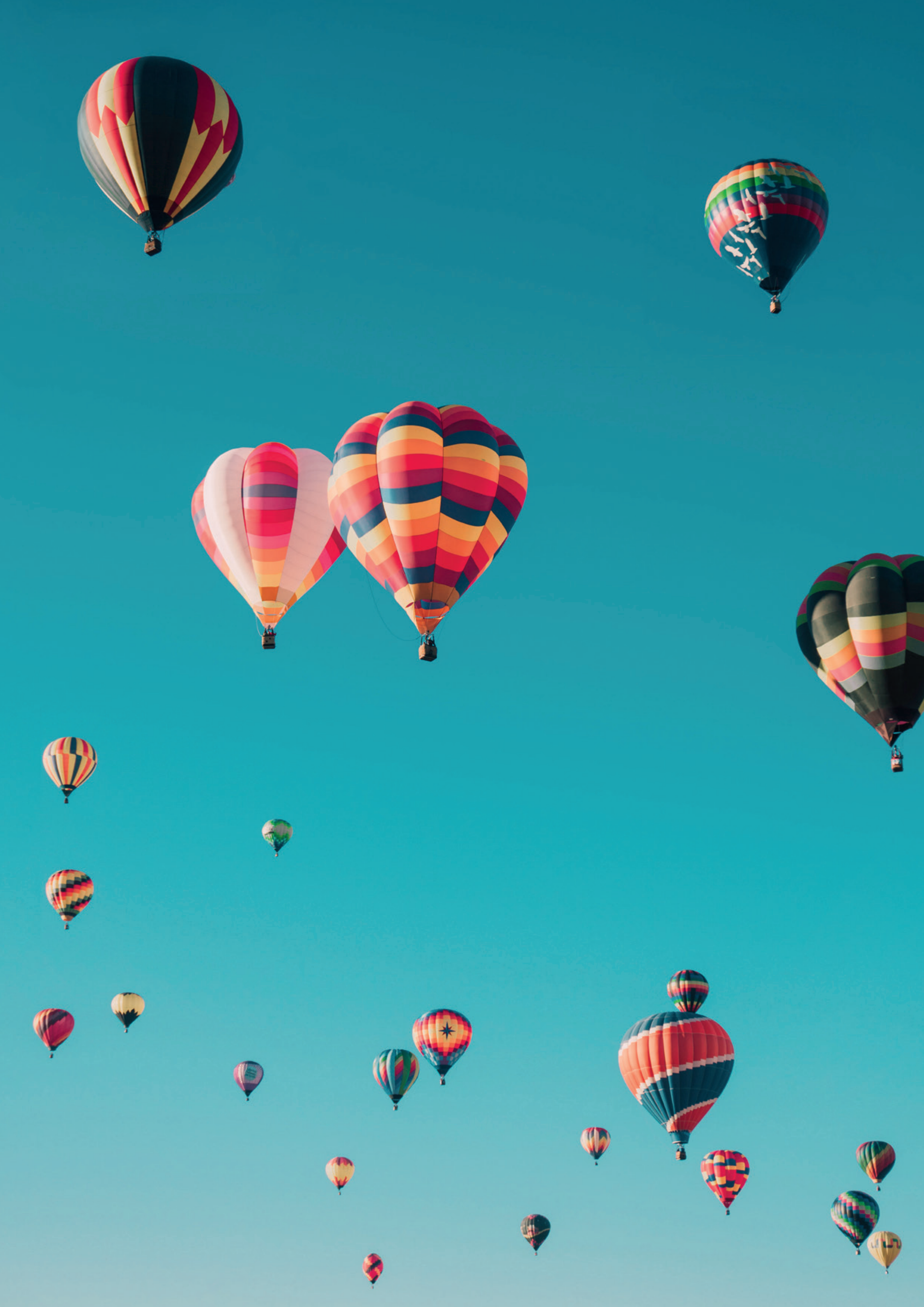


How do we hunt for income post-pandemic?

Covid-19 has already had a significant economic and social impact with extensive monetary and fiscal policies implemented to help mitigate the cost of the pandemic. This new world raises new challenges for income-seeking investors.

Forget what you know?

While some of the pre-pandemic challenges persist (such as ageing populations and low interest rates), these have become background music to a new theme of financial repression. This is likely to push investors up the risk spectrum.

Going back to fundamentals

The disruption from the pandemic is already showing a wide disparity in company performance. This is only likely to accelerate. For income investors we believe there needs to be a tilt to quality across all asset classes. What this means is that we must identify companies with balance sheet strength, good governance, transparent business strategies and strong, experienced management teams.

Balancing risk and reward in fixed income

With government bonds offering little in the way of reward, investors will need to re-evaluate their priorities in the coming months. Those with no appetite for risk must accept that the current environment offers only negligible rewards for sticking solely to reliable income sources.

There are still good reasons to hold government bonds as part of a well-diversified portfolio, but for investors looking to source income in a more selective risk-conscious manner, high quality corporate bonds are a good place to start. In a low yield, or low return, environment, the yield you pick up from investment grade corporate bonds (over government bonds) are attractive in Fidelity's view.

With interest rates anchored at low levels for the foreseeable future, there is likely to be a positive spill over effect in terms of demand for corporate bonds in the medium to long-term. It is also worth noting that global central banks will be buying high quality corporate bonds in unison as part of quantative easing measures (the monetary policy whereby a central bank buys government bonds of other financial assets in order to inject money into the economy to expand economic activity).

Staying nimble

When pursuing a required level of income, it is important to have flexibility as it enables investors to seek opportunities from multiple sources amid challenging conditions.

For example, from an equities perspective, while we acknowledge that some companies will struggle to pay dividends this year, we realise the recession is likely to drive greater dispersion among dividend payers.

As the global economy undergoes an uneven recovery, an active approach (a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark) allows the flexibility to navigate market challenges and identify opportunities - and act on them. A passive approach (or index-following or rules-based system) may lead to investors inadvertently depending on income-generating sectors like oil producers that have not generated income during this pandemic.

Diversification remains paramount

We believe that income portfolios will need to retain an all-round healthy diversification profile if they are to perform well in the months and years ahead, as correlation levels between asset classes can fluctuate.

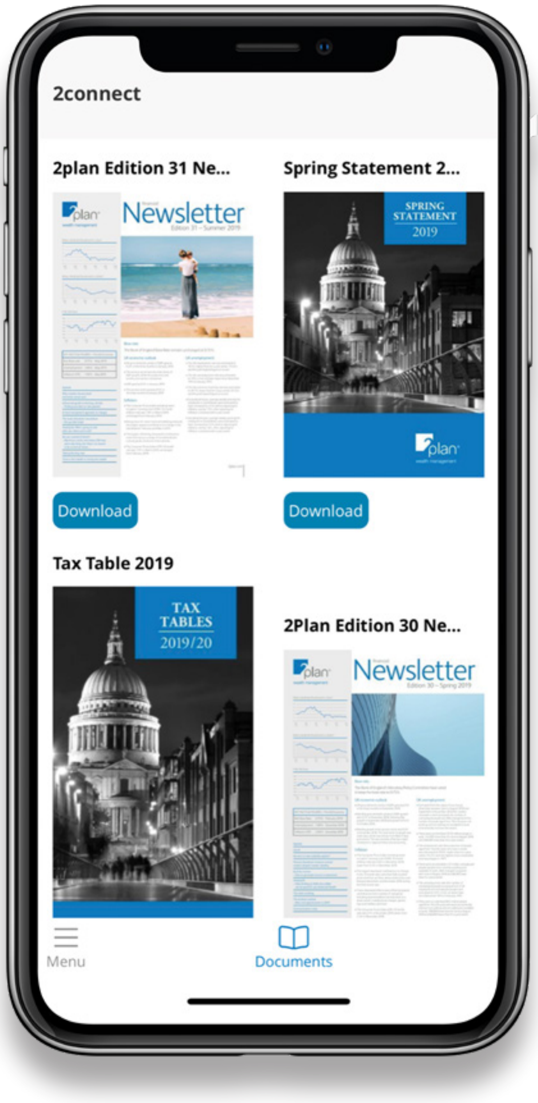
We believe there are six things to consider when checking your income portfolios:

1. How realistic are your investment risk tolerances in the current market?
2. What is your investment time horizon and how does this affect your priorities?
3. How exposed is your portfolio to inflation (the sustained increase in the general price level of goods and services in an economy over time) over the medium to long term?
4. How important is liquidity across asset classes?
5. Is the rigidity of your investment policy suitable in the current market climate?
6. To what extent is your portfolio suitability diversified?

Important information

The value of investments and the income from them can go down as well as up, so you may get back less than you invest. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Investors should note that the views expressed may no longer be current and may have already been acted upon. There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall.

Author: Fidelity International



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