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WINTER 2020 | ISSUE 05

GREEN INVESTING – NO LONGER A GREY AREA

A Study of ESG Bond investments

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Left field thoughts with the expectation that we will be right on at least one!

KINGSWOOD
PROTECT AND GROW YOUR WEALTH

INVESTMENT HIGHLIGHTS IN 2020

TECHNOLOGY FLOURISHES DURING THE COVID-19 PANDEMIC

Talk about a roller coaster ride of a year. For the first time in decades, almost every single person on this planet has had one thing on top of mind – Covid-19. Instead of dwelling on the negatives this year has brought - we get more than enough of this from the news - I want to focus in on one particular investment theme that has flourished during the pandemic.

Can you believe global technology equities were up almost 40% during the first 11 months of the year? We are currently in the deepest recession since World War II, yet the technology sector has behaved as if it were the internet bubble all over again. Before your thoughts start meandering back to the burst of that bubble in the 2000s, I must say that there are some differences this time. Notice how I have specifically refrained from using the most expensive words in the English language, *"This time it's different,"* – John Templeton.

Technological advances

What makes this time different? Firstly, back then the markets crashed because of technology. This time the markets crashed despite tech. Second, global interest rates were rising in 2000 whereas now we have rates that are likely to stay super low for years to come.

Our technological advancements have also come a long way since the 2000s. Otherwise working from home would have been even more challenging and we probably wouldn't have seen vaccine development/rollouts happening as fast as they have done.

So why have technology companies performed so well in this unique situation?

One reason is that interest rates have been slashed which means a high growth company's future earnings are worth a whole lot more. Even if Apple expects to sell exactly the same number of iPhones in the future after rates drop, the value of the firm will increase. Apple is a decent example because Covid hasn't materially changed the its long term sales prospects. Instead of pricing one share at 25 times earnings at the start of the year, the market is now willing to pay 37 times for its earnings. As a result, Apple shares increased by around 70% in first eleven months of 2020. Clearly, there are tons of variables affecting this share price but lower rates most certainly helped Apple become one of two companies to reach a US$2 trillion market capitalisation.

Stay at home stocks

Let's now consider some other tech names which have not only benefited from lower rates but also Covid. This pandemic has sharply accelerated the adoption of online technologies as everyone was forced to move online for almost everything. Online adoption was already taking place long before Covid - albeit it at a slower pace – and those companies that recognised the transition early on were huge beneficiaries, pre and post Covid.

We all know who those beneficiaries are: Netflix for online video streaming, Facebook/Instagram for social media, Zoom for personal & business virtual meetings, Peloton for virtual exercise. Then of course there is Microsoft via online cloud (Azure) and virtual meetings (Teams) etc. and Alphabet (Google) via its cloud based services, Youtube video streaming and home-based products like Nest. Last but not least, there is Amazon which does just about everything, including online shopping, video streaming and possibly also manages your personal or business data in the cloud (AWS).

All of their share prices shot through the roof this year. You might have thought the "Stay at home stocks" outperformed Apple, but Apple actually outperformed many of these big Covid beneficiaries. The reality is that without understanding all variables affecting a company, trying to narrow it down to one or two factors is near impossible. Companies are bigger and more complex than ever before and there are simply too many moving parts especially when it comes to the fast moving area of tech.

Tech stocks account for 19% of global equities today and cannot be ignored. Yes, a large portion of that 19% consists of a few mega cap companies, many of which I have mentioned already. However, there is a massive pool of smaller, innovative companies that have the potential to be the next Amazon, the next Microsoft, the first US$10trn company.

Building portfolios

I would love to find one of those companies in its infancy but for an individual it's like finding a needle in a haystack. Actually, John Bogle puts it perfectly: "Don't look for the needle in the haystack. Just buy the haystack!"

This is what we do when it comes to building our portfolios. Our aim is to find best in class specialist portfolio managers to invest in our favourite themes such as tech.

Two of the technology funds we use are prime examples - Polar Capital Global Technology and Smith & Williamson Artificial Intelligence. Both funds are up around 50% this year and have more than doubled over three years. Yes, there have been structural tailwinds but the point is they have outperformed the technology indices and have achieved this using their deep sector expertise.

In summary, technology should be a key long term investment theme in anyone's portfolio. Yet, as much as one wants to own a Netflix or Zoom to tell their friends about, it is probably not the right approach. As Warren Buffett famously said: "Risk comes from not knowing what you're doing." A far better investment approach is to take risk into account and diversify your tech allocation using specialised investment experts who do actually know what they are doing.

David Winckler
Associate Director, Investment Strategy

WELCOME

WELCOME TO THE latest issue of *Protect & Grow*. Inside we look at a number of different topics to help you accomplish what matters most to you, your family and business as we enter 2021.

In these uncertain times, it can help to focus on the things you can control. And working out what your money is doing for you now and where it might come from in the future can give you real peace of mind. As another year rapidly draws to a close, many of us may already be starting to think about our new year's resolutions. On page 04 we consider how you could improve your financial health.

Looking back at this year, whilst few expected a bumper year for markets, most suggested that we were entering a gentle slowdown with returns muted but with low volatility. The global pandemic clearly had a major impact on investment markets, and David Winckler reflects on this in his article. Having once again been reminded of how difficult it is to make predictions of how markets will perform, Paul Surguy looks ahead to 2021 with some less obvious ideas on what may happen.

On page 08 we look at the growth in green investments which has seen a huge increase over the last few years and according to Morningstar's Q2 Global Investment Fund Flows now represents just over a trillion dollars under management. The plethora of media coverage in this area now all suggests that the investor appetite is huge and will continue to grow. Turn to page 08 to find out how the Kingswood team are leading the way in ESG bond investment.

As the festive season approaches, have you thought about gifting your children or grandchildren something different this Christmas? Giving them a good start in life by making investments into their future can make all the difference in today's more complex world. Many parents and grandparents want to help younger members of the family financially. Read more on page 06.

Your life, your money, your plan

Whatever stage of life you're at, Kingwood can guide you through the opportunities and challenges you may face. The importance of sound financial planning can make a huge difference to the lives of our clients as we set out later in the issue. We want to ensure that we remain responsive to your needs and during the course of next year we will be asking for feedback on what you value about Kingswood and where we can improve.

We look forward to hearing your views and wish you a healthy and happy 2021.

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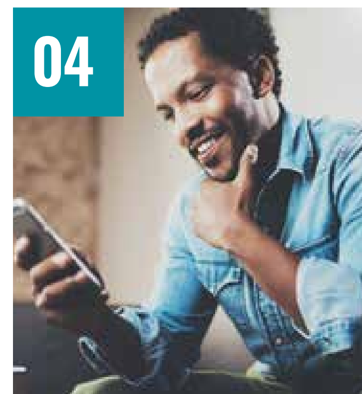

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FINANCIAL ACTION PLAN

10 STEPS TO HELP YOU BUILD A BETTER FINANCIAL FUTURE

In these uncertain times, it can help to focus on the things you can control. And working out what your money's doing for you now and where it might come from in the future can give you real peace of mind.

As another year rapidly draws to a close many of us may already be starting to think about what resolutions we can make to improve our financial health in 2021. And even though we may resolve to improve our finances, it's knowing where to begin that's key.

1. Show me the money

The first step to getting your finances on track is to know where your money is going. But that isn't always obvious. Tracking your expenses can keep your spending on a parallel track with your income and help you avoid overspending. This goes hand in hand with setting up a budget. You may have a good handle on your monthly bills, but what about your daily expenses? You may be surprised by how much money you spend on smaller items. Review all of your expenses for ways to cut back, and then decide what to do with the extra money. Set specific goals, such as building an emergency savings fund, paying off your credit card bills or increasing your retirement savings.

2. Reducing borrowing

Next make a list of all the borrowing you have – including mortgage, personal loans, store cards, credit cards and bank overdrafts. Calculate the amount you owe and remember that you should update this as the year progresses to track your progress. If you cannot reduce your overall borrowing, then you need to ensure you are paying as low an interest rate as possible. This may mean switching credit cards or mortgages, or consolidating various borrowings into one loan.

3. Tax really matters

There are plenty of tax allowances to make use of each financial year – remember this runs from 6 April to 5 April the following year – so it's worth being aware of which annual allowances you can benefit from. All tax rates quoted in this article are applicable to the current 2020/21 financial year.

One of the most popular ways to save tax is by fully utilising your individual annual Individual Savings Account (ISA) allowance, which is £20,000. You may save or invest your ISA allowance into one or more different ISAs, or you can put up to £4,000 into a Lifetime ISA (you must be aged 18 or over but under age 40 to open a Lifetime ISA). You won't pay income tax, dividend tax or capital gains tax on the proceeds of any investments you hold within an ISA.

In addition, investors have a £2,000 tax-free dividend allowance held outside of an ISA. Basic-rate taxpayers pay 7.5% on dividends. Higher-rate taxpayers pay 32.5% on dividends. However, if your dividend income is above this amount, investing in an ISA could give you the benefit of additional tax-efficient payments.

If you are a basic-rate taxpayer the Personal Savings Allowance (PSA) permits you to earn up to £1,000 interest on your savings without paying any income tax on it. If you are a higher-rate taxpayer you have a PSA of £500 before you pay tax, while additional-rate taxpayers who earn over £150,000 do not qualify for the PSA. ISAs may remain worthwhile for those additional-rate taxpayers who don't qualify, or who have a large amount of savings and have used up the PSA.

If you have investments held outside a pension

or ISA, these will usually be subject to capital gains tax when they are sold or given to someone other than your spouse. The gain is usually calculated as the sale proceeds less purchase cost from assets and is taxable at 10% (basic-rate taxpayers) or 20% (higher and additional-rate taxpayers) except for residential property, where the rates are 18% and 28%.

Everyone has an annual tax-free capital gains allowance, currently £12,300. Gains up to this amount can be realised tax-free. If an asset is held jointly with a spouse, both can use their annual exemption against the gain, effectively doubling the tax-free allowance amount.

However, remember that tax rules can change in the future and their effects depend on your particular circumstances, which can also alter over time.

4. Good investing habits

Investing money regularly, instead of as a one-off lump sum, can reduce the impact of a market downturn on your portfolio. If you are looking for a smoother ride during volatile markets, pound-cost averaging – where money is drip-fed into the market over time – may be an appropriate option. Steady, regular investments can provide you with some protection in case of sudden market corrections.

Given that we don't know what markets will do from day to day or month to month, this stops you from investing all of your money at a peak and maximising losses. Some of your money will be invested when markets are down, so when they recover you are rewarded. Over the longer term, investing monthly averages out the highs and lows.

5. Pension savings boost

It's important to think about how much money you might need in the future and whether you'll have enough to give you the lifestyle you want. Making the right choices now could make a big difference to how much money you have in the future and saving into a pension plan could help you achieve the lifestyle you would like.

Even if you feel that your savings are on track to live comfortably in retirement, you can still top up your pension plan to help give your savings a boost and increase your potential wealth in retirement.

One of the great things about saving into some pension types is the tax relief you can receive. This means that if you're a basic-rate tax payer, for every £100 saved into your pension the cost to you is only £80. This could effectively be even less if you're a higher or additional-rate tax payer.

Tax rules may be altered in the future, and their effect depends on your personal situation, which can also change. Bear in mind, too, that you can't ordinarily draw benefits from a pension arrangement until you are aged at least 55 (rising to 57 by 2028), so this is a long-term investment.

6. Focus your goals

Did you start 2020 with plans to save and invest more money and reduce borrowings, but lost your way? Refocusing your finances and recommitting to financial goals can seem challenging, especially during the coronavirus (COVID-19) pandemic, but it's not a lost cause.

Focus on making several small, short, achievable financial goals. By setting smaller goals and achieving them one at a time, you're more likely to stay motivated and reach them.

Remember, yesterday is done and gone. You cannot change what you did yesterday, whether you made good choices or bad ones. But you can change what happens today. Being clear on your financial goals is essential to making the most of your money. Making decisions with a clear endpoint in mind can make it easier to achieve financial security and independence and allow you to enjoy the life you want.

AS ANOTHER YEAR RAPIDLY DRAWS TO A CLOSE MANY OF US MAY ALREADY BE STARTING TO THINK ABOUT WHAT RESOLUTIONS WE CAN MAKE TO IMPROVE OUR FINANCIAL HEALTH IN 2021.

7. Stick to your plan

As governments around the world take further action to stem the spread of coronavirus, stock markets continue to react with increased volatility. During any period of volatility, thinking about your reasons for investing and what you ultimately plan to do with your money is important. But market volatility is unavoidable and is part of market behaviour. Markets move through stages of growth, slowing down and speeding up. Unfortunately, the timing of those cycles can be unpredictable.

Selling out in fear can be the worst thing to do. Large falls can often be followed by large rises, leading to the risk of losing on both sides – selling when prices are depressed and not buying in until they have moved higher. Avoid the daily monitoring of investments during falling markets as this can result in an over-emotional reaction and lead to making irrational decisions.

8. Smooth out returns

When it comes to investing, you need to take on some risk in order to generate a return. One of the best ways to control that risk is through something called 'diversification'. 'Don't put all your eggs in one basket' is a common expression. This means ensuring that you spread your capital amongst different investments so that you're not reliant upon a single investment for all of your returns.

Different types of investments perform in different ways over time. When some rise in value, others are not changing or decreasing. So diversification helps to smooth out your returns. The key benefit of diversification is that it helps to minimise risk of capital loss to your investment portfolio.

9. Discuss your concerns

When faced with certain choices and in the midst of volatile periods, some people may understandably fall prey to their stock market emotions and make decisions that are not in their best long-term financial interest. But it's natural to feel worried.

Even experienced investors steeped in the market's historical cycles may feel torn between emotions and knowledge. That's why having a professional financial adviser, who can advise you before making any decisions, is key. This will enable you to discuss your concerns to help keep those market emotions in check and work together to ensure your long-term investment strategy remains on track.

10. Reinvest dividends

Dividends are payments of some of the profits made by a company to its shareholders. They are not guaranteed, and are at the discretion of the company, but when they are paid, you have the option to reinvest them into more of that company's shares. Reinvesting dividends provides benefits that shouldn't be ignored.

In a current era of low interest rates, investors need to use every tool they can to make the most of their money. Reinvesting dividends can add significant wealth over normal investment returns and one of the most powerful tools available for boosting returns over time. Those seemingly small amounts reinvested can grow into much larger amounts when used to buy even more shares of stock that can pay further dividends in turn.

BRINGING YOUR FINANCIAL PLANS TO LIFE

Planning for a successful future means different things to different people. Whatever your plans, expert professional financial advice can help bring them to life. As the impact of coronavirus is felt across the UK, you may have concerns about how it could affect you and your money. Please contact Kingswood to find out more or discuss your future plans with us.

FESTIVE FINANCIAL GIFTS

DECIDING ON THE RIGHT INVESTMENTS FOR THE CHILDREN IN YOUR LIFE

As the festive season approaches, have you thought about gifting your children or grandchildren something different this Christmas? Giving them a good start in life by making investments into their future can make all the difference in today's more complex world.

Many parents and grandparents want to help younger members of the family financially – whether to help fund an education, a wedding or a deposit for a first home. Christmas is a time for giving so what better gift to make to your children or grandchildren than a gift that has the potential to grow into a really useful sum of money.

There are a number of different ways to get started with investing for children that could also help you benefit from tax incentives to reduce the amount of tax paid, both now and in the future. Don't forget that tax rules can change over time so it is important to obtain professional financial advice before making financial decisions.

Ownership of the investments

Investing some money – either as a one-off lump sum or on a regular basis – is an ideal way to give a child a head start in life. There are a number of options available when it comes to ownership of investments for a child. Children receive many of the same tax-efficient allowances as adults, so it's a good idea to consider specialist child savings accounts.

Some people prefer to keep investments for children in their name; that way, if a future need arises in which you require access to the funds, it is still available to you as it has not yet been transferred to the child.

If you retain personal ownership of the investment, it will be your tax rates that apply as opposed to the child's. If the investment remains in your estate upon death, more taxes could be payable, so be aware of this.

Bare trusts

You can hold investments for your child in a bare trust or designated account. Bare trusts allow you to hold an investment on behalf of a child until they are aged 18 years (in England and Wales) or 16 (in Scotland), when they'll gain full access to the assets.

Bare trusts are popular with grandparents who would like to invest for their grandchild, because the investments and/or cash are taxed on the child who is the beneficiary. This is only the case if you are not the parent of the child. If you are and if it produces more than £100 of income it will be treated as yours for tax purposes.

Grandparents can contribute as much as they like as there is no limit to how much can be invested each year into this type of account. This can be a beneficial way of reducing a potential Inheritance Tax bill if a grandparent would like to make gifts to a child.

Discretionary trusts

A discretionary trust can be a flexible way of providing for several children, grandchildren or other family members. For example, you might set up a trust to help pay for the education of your grandchildren. The trust deed could give the trustees discretion to decide what payments to make, depending on which children go to university, what financial resources their families have and so on.

A discretionary trust can have a number of potential beneficiaries. The trustees can decide how the income of the investment is distributed. This type of trust is useful to give gifts to several people, such as grandchildren. However, it's worth keeping in mind that the tax rules can become complex when using a discretionary trust and the investment and distribution decisions are taken by the trustees (of which you can be one).

Junior ISAs

If you want to ensure the money you give to your children remains tax-efficient, a Junior Individual Savings Account (JISA) is available for children born after 2 January 2011 or before 1 September 2002 who do not already hold a Child Trust Fund.

The proceeds are free from income tax and capital gains tax and are not subject to the parental tax rules. They have an annual savings limit of £9,000 for the current tax year which runs from 6 April to 5 April the following year.

A child can have both a Junior Stocks & Shares ISA and a Junior Cash ISA. From the age of 16, children can have control over how their JISA is managed, but cannot withdraw from it until the age of 18.

Child Junior SIPPs

It is never too early to start saving for retirement – even during childhood. While it may seem a little early to be thinking about retirement as the parent of a child, it's worthwhile. The sooner someone starts saving, the more they will gain from the effects of compounding. There are significant benefits to setting up a pension for a child. For every £80 you put in, the Government will top it up with another £20, which is effectively free money.

A Junior Self-Invested Personal Pension Plan (SIPP) is a personal pension for a child and works just like an adult one. Parents and grandparents can save up to £2,880 into a SIPP for a child each year. What's great about this gift is that the Government will top it up with 20% tax relief. So you can receive up to £720 extra, boosting the value of your present to £3,600. This can help a child to build a substantial pension pot if payments are made every year.

But while starting a pension for your child or grandchildren will benefit them in the long run, you need to consider that they won't be able to access their money until they are much older.

PLANNING TO GIVE THE CHILDREN IN YOUR LIFE A FINANCIAL GIFT THIS CHRISTMAS?

A gift of money to your children or grandchildren at Christmas can be a wise choice, especially if you take a long-term approach. Many families want to give their children or grandchildren a head start for their future finances. When it comes to investing for children, tax can make a big difference to returns over the longer term. We can help you decide on the right investments for the children in your life. Please contact Kingswood to discuss the options available.

TIME TO RETURN TO THE MICAWBER PRINCIPLE*

THERE ARE MANY CHALLENGES THAT LIE AHEAD

In a declaration that has linked inextricably and for all time the existential endgame to economic reality, Christopher Bullock wrote in The Cobbler of Preston (1716): "'Tis impossible to be sure of any thing but Death and Taxes". These words were adapted, more famously, by Benjamin Franklin, who could have added a third universal truth: statistics are always wrong. In most circumstances, that does not matter too much, because they provide a reasonable approximation. Statistics are, of course, indispensable to those responsible for gauging and reacting to prevailing conditions; they become problematic when they are inherently biased. I think this is the case with numbers that relate to trends in the real economy which, when first published, normally underestimate the true level of activity. I accept that, as a universal truth, this is not quite as snappy as 'death and taxes', but it is vitally important to our understanding of the way things are. That the first lockdown caused a huge drop in economic activity is indisputable. However, I doubt that it was as severe as currently recorded. And, having just emerged from the second lockdown, I suspect that the further damage done will eventually prove to have been relatively minor.

Multitude of cross currents

Developing a picture of what is happening in these turbulent times has been made all the harder by the multitude of cross currents that are being experienced. For sure, there are many segments of the economy that have found themselves in a state of suspended animation. Equally, there are some areas in which business levels have been extraordinarily buoyant. As ever, one of the issues for national statisticians is calculating what is going on in the fringes of the economy. Most economic data is collated via surveys. But to be able to have effective surveys, you have to have good vision of what you are trying to measure. My suspicion is that the darker fringes of the economy have been far more active than we currently recognise – that there are many people who have found themselves furloughed who have developed mini-businesses and supplementary income streams. Many of these will be part of what we refer to as the black economy. But as well as being black, there are various shades of grey created by new undercurrents in activity.

Substantial operations

Many of the embryonic businesses that have formed during lockdown will disappear. But some will go on to develop into more substantial operations. Keynes used the term animal spirits mainly in relation to behaviour in the financial economy. However, I think it can be applied much more widely. In the face of adversity, people will naturally look for new ways to make a living and generate extra income. Black economy to begin with maybe, but eventually these nascent enterprises will emerge into the light to become recognised parts of the real economy. Or that is what we would hope.

The black and grey of economics have always been a problem – not just in terms of the national accounts, but also for the tax authorities who find themselves missing out on potentially considerable income streams. I have a real concern that the world of furlough has in some ways legitimised the concept of remaining below the official radar, particularly in terms of tax. With its myriad of support measures, designed to isolate us from the worst of the impact of coronavirus on economic activity, the Treasury has created a disconnect between the real situation in the economy and what most people are experiencing. The extent of the disconnect is reflected in the massive government budget deficit. It does not seem to matter what government revenue streams might look like. Through the range of measures that actually reduces the short-term direct and indirect tax burden, while not allowing this to impact the simultaneously vast increases in spending, the signal is clear. Taxes don't matter, or so the implication appears to be.

At some stage, the Treasury will have to rectify this situation. The proponents of near-uncontrolled deficit spending defend it on the basis that short and long-term borrowing costs are exceptionally low, so financing the deficit is not particularly burdensome. Unfortunately, these apologists – the so-called modern monetary theorists – fail to complete the analysis. You have to ask yourself why, if governments are borrowing so heavily, interest rates have remained so low. The answer is not too hard to dig up – it is because central banks are creating massive demand for government debt through quantitative easing. In effect, the Treasury is selling government debt to the Bank of England and allocating the new cash that has been created to supporting incomes in the economy. Of course, it is not just in the UK this is happening; it is a policy course that has been adopted in most major countries. It is a neat trick – but it is a deception. Economic gravity cannot be defied indefinitely.

Significant economic challenges

There are many challenges that lie ahead, most obviously on the medical front. But there are equally significant economic challenges. Put at its most basic, the economic challenge is how to reconnect private sector income received with private sector income generated. This has to be done in an absolute sense but also within the national psyche. The longer the government relies on the Bank of England to give it cash – cash which it then hands out to insulate individuals and companies from economic reality – the harder it will be to return to the straight and narrow.

I am naturally optimistic. I think the animal spirits that are evident in the economic subculture will begin to come to the fore, encouraged even by the further challenges about to be presented by Brexit. But, as a prerequisite, there must be a willingness in government to reduce the artificial stimulants we have been enjoying and to refocus its policy on creating a vibrant private-sector economy that has wealth creation as the core objective.

Richard Jeffery
Investment Committee Chair

***Annual income twenty pounds, annual expenditure nineteen nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery. Wilkins Micawber in David Copperfield, Charles Dickens, 1850**

GREEN INVESTING – NO LONGER A GREY AREA

A STUDY OF ESG BOND INVESTMENTS

But green's the colour of spring
And green can be cool and friendly-like
And green can be big like an ocean
Or important like a mountain
Or tall like a tree

When green is all there is to be
It could make you wonder why
But why wonder, why wonder?
I'm green and I will do fine

No, not the words of some environmental activist but of Kermit the Frog released all the way back in 1970. This song also had the title of 'Its Not Easy Being Green'. However, many governments, companies and individuals are turning towards environment friendly polices as we have never seen before.

The growth in green investments has seen a huge increase over the last few years and according to Morninstar's Q2 Global Investment Fund Flows there is now just over a trillion dollars under management. In bond markets direct issuance increased to $237 billion from $146 billion in 2018.

This is mainly through corporate issuance but governments are catching up quickly.

Investor appetite is huge and will be growing

Recently we have seen Germany and Sweden issue green bonds and the UK authorities are studying this. The EU is making green and social bonds a priority of its pandemic recovery fund. Meanwhile, there is a lot of media coverage in this area now all suggesting that the investor appetite is huge and will be growing.

The environment friendly asset class, if we can call it such, covers a wide range of green investing making it a very grey area. This is one of the biggest challenges faced by the environment, social and governance (ESG) fund sector as investors have different interpretations of what constitutes green and there is little transparency.

Companies can issue green debt whilst not necessarily being able to stand an ESG rating. Who classifies a company's environmental actions and then who accounts for the success and failure of these policies?

Companies that have strong ESG scores are becoming so popular

Then there is offsetting where even the worst polluting company can pay away some of their damaging actions by investing into green projects. Regulators are chasing to catch up and put definitions in place but at the moment the market is far outpacing these efforts.

Although this socially responsible area is currently ill-defined it is easy to see why investing into companies that have strong ESG scores are becoming so popular. Those companies with higher ESG scores are defining best practice which in turn sets a level for others so that they can strive to achieve.

Greater financial risk due to bad environmental and governance practises

It protects employee health and wellbeing as well as ensuring that management are allowing

decent corporate structures to be set in place. The current pandemic has unwittingly highlighted the impact our everyday actions has on the world around us as, for example, we saw how pollution cleared during lockdown.

These changes in investor awareness mean ESG is now a core investment and all the signs indicate it will not only remain so but will continue to build strongly and become foremost in mainstream portfolios. ESG criteria can also help investors avoid companies that pose a greater financial risk due to bad environmental and governance practises which may lead to higher regulation costs.

Wide range of investment grade and government backed offerings

In the past there was little chance to structure a diverse portfolio because there were few ESG investment opportunities. Now, however, there is a lot more depth to the market including a wide range of investment grade and government backed offerings.

So how does a company obtain an ESG rating? What is measured and how are results targeted and is there any conformity or proportionality between the providers? There are many elements that ESG rating agencies look at to combine and then to provide a score. This can range from anti-competitive practises to water stress and a lot in between.

> **RECENTLY WE HAVE SEEN GERMANY AND SWEDEN ISSUE GREEN BONDS AND THE UK AUTHORITIES ARE STUDYING THIS.**

Exposure to the most environment friendly companies

Here at Kingswood, for our ESG Bond Fund, we look at taking constituents from one index which weights firstly on ESG considerations and gives extra weighting to issuers with improving ESG scores. This gives a set of standards and conformity to our process and as the weightings within the index are adjusted on a monthly basis we feel confident that we have exposure to the most environment friendly companies.

The index will typically look at about 1,000 data points across the three elements that go into an ESG rating, these include how employees are cared for within an organisation through to how diverse the shareholder list is, as well taking into account the effects that management policies would have on the environment.

Paying dividends in full and on time and repaying capital at maturity

When looking at and comparing green bond offerings it is important to remember that the normal considerations as in any 'normal' bond fund, of course, still apply. The most important being, is a particular company going to be able service its debt, by paying its dividends in full and on time, and much more importantly be able to repay the capital at maturity.

Other considerations include how diverse a portfolio is and which sectors they would be investing into. What is the average weighted rating, and how liquid are the investments? Again at Kingswood, the index we utilise only selects investment grade bonds, those with a rating of BBB and higher, and are therefore seen to have the best ability to honour their obligations. We rule out any bonds that do not have at least £300m in issuance ensuring very high levels of liquidity.

Damaging effects that climate change has on the world

It is important to consider, especially given the current and ongoing ultra-low interest rate environment, the maturity band that you are investing into. Is the risk and reward equation worthwhile? Is the additional risk undertaken by investing into long duration bonds worth the additional return that it generates? There comes a tipping point for each investor where the reward is just not worth the risk.

So what is in it for us? Well the obvious, it has to be right that investing in environmentally friendly companies is a more responsible use of funds especially as we see more of the damaging effects that climate change has on the world.

Delivering higher returns than conventional counterparts

ESG highlights the companies that manage with good governance including how they handle staff, customers and inequality. Also it is not likely that a management more focused on social responsibility will lead to increased longer term business performance?

This view is supported by work that suggests following an ESG investment policy actually benefits returns. Morningstar, after examining long term performance data, have calculated that 6 out of 10 funds have delivered higher returns than their conventional counterparts. Further they suggest that 73% of the ESG Indices they follow have outperformed non-ESG equivalents since inception. The future's bright, the future's green!

Nigel Marsh
Investment Manager

GET STARTED WITH KINGSWOOD SUSTAINABLE INVESTMENTS

Looking to align your investments to your values with funds that support sustainable, well-governed organisations? To discuss your investment options – please contact Kingswood.

ARE YOU KEEPING TOO MUCH IN CASH?

SAVERS HOLDING ONTO EXTRA CASH DURING THE COVID-19 PANDEMIC

Some savers are putting their hard-earned money at risk by holding too much on deposit. Savers holding onto extra cash during the coronavirus (COVID-19) pandemic need to consider their long-term investment options, as new data shows the savings ratio for some people has increased during the pandemic.

Figures published by the Office for National Statistics (ONS) show that the savings ratio as a total, which measures the amount of surplus cash households have, has increased during this period. As a result, some households have been able to increase their cash deposits during the pandemic due to a combination of lower discretionary spending during lockdown and households consciously putting more into cash reserves.

Exposed to the risk of inflation

But cash is the investment type most exposed to the risk of inflation. Over the longer term it tends to underperform 'real assets' like stocks and shares. Inflation is a very powerful destructive force and understanding inflation is an important factor when it comes to financial success. Over time, inflation can reduce the value of your savings, because prices typically go up in the future.

According to the ONS, in Quarter 2 (Apr to June) household spending (adjusted for inflation) growth was negative 23.6% compared with Quarter 1 (Jan to Mar)[1]. The largest negative contribution to growth was from restaurants and hotels, which fell by negative 89.4% compared with Quarter 1.

Households holding onto more cash

The largest positive contribution to growth was from food and non-alcoholic beverages, which increased by positive 3.5% compared with Quarter 1. These ONS figures are also consistent with the Bank of England's estimates that the deposits in household bank accounts grew £17bn a month from March to June, more than triple the rate seen in the previous six months.

But as some households are able to hold onto more cash, many have received underwhelming rates of return on their cash savings. National Savings & Investments (NS&I) recently reduced rates on its savings products, while other cash accounts offer relatively modest returns.

Emergency cash

A cash savings buffer is key as it provides protection in the event of a loss of income. This means you have something to break your fall and avoid short-term borrowing to cover day-to-day costs. It is normally recommended that households keep enough cash on hand to cover between 3 to 6 months of essential spending. This money should be held in an easily accessible account, although this typically means accepting little or no interest.

Cash savings

Once you have enough to cover a financial emergency, it is important to start to make some of that money work harder. Locking money up in a deposit account can help savers to achieve a modest return, although rates on cash remain very low.

Stocks & shares

Over longer periods of time, historically the stock market has performed well. There have been and will continue to be plenty of bumps and bruises along the way, but the overall trend has been upwards

Investing can deliver better long-term returns, but markets go up and down over time and past performance is not guaranteed, so it is important when investing to leave the money untouched for several years. One of the most efficient ways to invest is through a Stocks & Shares Individual Savings Account (ISA). This offers tax-efficient growth and every adult can invest up to £20,000 during every tax year, which runs from 6 April to 5 April the following year.

If you have built up a lump sum, this could be invested into an ISA account in one go; however, depending on your particular situation, it may be appropriate to gradually invest in funds or stocks over a period of several months. This process, known as 'pound cost averaging', helps to ensure you smooth your investments and don't invest all your savings at a peak in the market.

Lifetime ISA (LISA)

Another form of ISA account, the LISA, offers a savings boost from the Government. This is only allocated to those who use the money to purchase a first home or do not access it until they turn age 60. So it is predominantly aimed at first-time buyers, or people who have maximised their pension contribution allowance. If you withdraw it for any other reason, then a penalty applies.

Pensions

Saving into a pension fund attracts pension tax relief, rewarding savers with a 20% or 40% top-up for basic and higher-rate taxpayers respectively. Strict penalties apply on withdrawals before age 55, but for those who want to commit money towards their future this is a very tax-efficient way to invest for the long term.

Those people in employment who are eligible to be auto-enrolled into a pension should already have regular contributions to their retirement fund being made through their salary. If they have extra disposable income they may want to consider paying more into their pension.

Some workplace schemes may not be able to facilitate this, in which case a personal pension provider can receive contributions. Normally 20% tax relief will be applied and higher-rate taxpayers may need to recover additional tax relief via their tax return.

[1] https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/datasets/consumertrendschained volumemeasureseasonallyadjusted

SAVING FOR THE FUTURE

We all have many different goals in life. These typically fall into short, medium or l ong-term targets. Depending on the nature of your goals, you may need to consider different ways to save and invest. With so many fund options available, we can ensure that you choose the right solutions to meet your needs and secure your future. Contact Kingswood for more information.

WHY SEEK PROFESSIONAL FINANCIAL ADVICE?

TACKLING PROBLEMS, CREATING A PLAN, DEALING WITH CHALLENGES

Whether you're starting out or well into your wealth creation journey, professional financial advice help you to define your goals and the path to getting there. It gives you a map and ongoing support to help you take control of your future.

Everyone has different goals in life. But whatever your goals, receiving advice can help bring you closer to achieving them. When it comes to managing your money, trying to build wealth, securing your future and drawing up an effective plan for fulfilling your financial objectives, professional financial advice is essential.

Reassurance, expertise and confidence

Now more than ever, households need the reassurance, expertise and confidence that professional financial advice provides during these difficult times. The effects of the coronavirus (COVID-19) are likely to have long-lasting effects on our finances for years to come.

There is a proven direct correlation between a person's financial and mental wellbeing. New research[1] has identified how professional financial advice helps to improve the emotional wellbeing of clients by making them feel more confident and financially resilient when compared to those who have not received advice – especially in times of crisis.

Commonly recognised emotional benefits

Around 17 million people in the UK have received financial advice. For advised clients, the most commonly recognised emotional benefits of their adviser's services is having access to expertise, which makes them feel more confident in their financial plans, feeling more in control of their finances and gaining peace of mind.

The research also shows that advised clients feel positive about the service they received – with the key areas of satisfaction being the quality of advice and expertise (82%), communication style (81%) and trustworthiness (81%).

Feeling more confident about the future

The research highlights that people who receive professional financial advice feel more confident about the future and more financially resilient. Around three in five (63%) who received advice said they felt financially secure and stable compared to just half (48%) who had not received advice. Four in ten (41%) who had not received advice felt anxious about their household finances compared to just a third (32%) of those who were advised.

Advisers also helped people to boost their knowledge and gain a better understanding of their finances – particularly when it comes to protection and retirement planning. Advised clients feel up to three times more confident about understanding products and financial matters, compared with people who don't have an adviser.

A greater understanding of financial products

Understanding of financial products was much greater amongst those who were advised compared to the non-advised. A quarter of non-advised individuals said they would not know where to start when asked about life insurance (23%) or protecting against serious illness (24%).

In comparison, just 7% of those who were advised gave this response when asked about life insurance and 8% would not know where to start when asked about protecting against serious illness.

Being more prepared for life's shocks

The research also looked at how the coronavirus (COVID-19) crisis made non-advised clients feel about their finances. A third (35%) of people felt anxious about their financial situation and 65% have come to appreciate the value in being more prepared for life's shocks.

An experienced adviser offers professional, tailored advice based on your individual circumstances and future aspirations. By understanding the mistakes that unadvised investors make, we are able to demonstrate the value that an adviser brings.

Source data:

[1] Royal London engaged with a UK nationally representative sample of 4,007 people.
The research found 26% of UK population have received financial advice. Based on the latest population figures from the ONS, this equates to around 17 million (17,367,169) people. https://adviser.royallondon.com/globalassets/docs/adviser/misc/brp8pd0008-feeling-the-benefit-of-financial-advice-adviser-report.pdf

THE VALUE OF PROFESSIONAL FINANCIAL ADVICE

At a time when many people will be worried about their financial future, as the economic impact of COVID-19 continues to be felt, receiving professional financial advice is vital. This research illustrates how advice can offer real help to people in the successful achievement of their goals. If you would like to discuss your particular situation, please contact Kingswood.

WHAT WILL 2021 BRING?

LEFT FIELD THOUGHTS WITH THE EXPECTATION THAT WE WILL BE RIGHT ON AT LEAST ONE!

Making predictions for markets over short time frames is a fool's game, yet every year we all feel obliged to put our thoughts forward. Looking back at 2020, whilst few expected a bumper year for markets, most suggested that we were entering a gentle slowdown with returns muted but with low volatility.

Of course, no one could have predicted a pandemic, and if they had, not many sane individuals would have believed them. Perhaps just as surprising would have been the market reaction – with swathes of the world in lockdown, global equities have returned to their pre pandemic levels.

Sticking to the bland predictions

Nostradamus was as prolific as any market commentator with his predictions, and a quick glance at one of his thoughts for 2021 is rather terrifying: a zombie apocalypse caused by a virus.

Whilst we will not go as far as Nostradamus, rather than sticking to the bland predictions, we have chosen to suggest some left field thoughts with the expectation that we will be right on at least one!

So, aside from the clear fact that green is the new black, and that the compliance department will be larger than it was in 2020, we humbly "predict":

1. FTSE 100 hits 8000. With more vaccines than cases, social distancing becomes a distant memory and all that pent-up demand is released.

2. Oil hits $100. As above, after a year of staring at the same four walls, travel demand explodes.

3. Boris Johnson is still Prime Minister. Despite the best efforts of coronavirus (Covid-19), Brexit and his own party, Boris survives another year.

4. Brexit is a complete success. Our fishing rights become the envy of the world; day traders swap their puts and calls for boats and nets.

5. Donald Trump announces his campaign for President in 2024, declaring voting will not be required as he has already won.

Significant swings in markets

Cleary these predictions are a little tongue in cheek. From our perspective, it is clear that next year will continue to see significant swings in markets, once again, driven by factors outside of the market's control.

Although anyone who has been to the office since March would tell you that the streets feel eerily like the aftermath of a zombie movie – perhaps Nostradamus wasn't so far off the mark?

Paul Surguy
Head of Investment Management

CONTINUING TO SHAKE THE MAGIC MONEY TREE

Having said this and being wary of straying into the world of predictions, we do expect 2021 to be positive for risk assets as central banks continue to shake the magic money tree. Whatever wealth means to you – now and in the future – we can help you achieve your goals for it in every area of your life. To discuss how Kingwood can help you, please contact us.

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