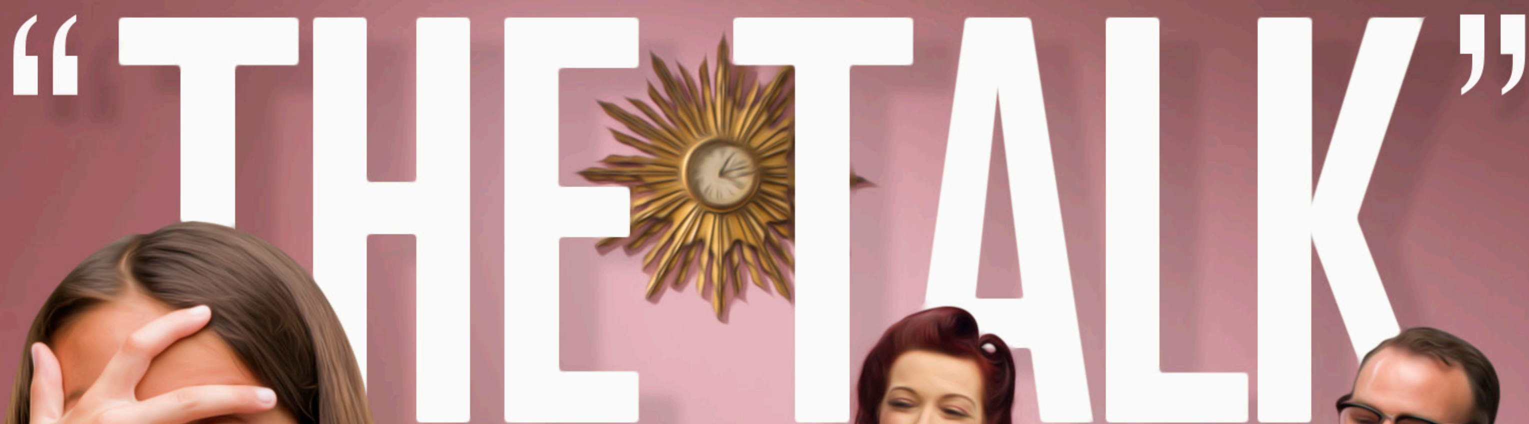
Issue 47 / January 2019

FE Trustnet

magazine



How to teach your children about investing

SELFIE DEFENCE
Protecting your portfolio against youth trends

BREXIT WOUNDS
How our departure could hit your pension

RINGING THE CHANGES
The best investment strategy for every decade

Fund, Pension, Trust / Sector Profile / Stockpicker / What I Bought Last

ISSUE 47

CREDITS

FE TRUSTNET MAGAZINE (FORMERLY INVESTAZINE) IS PUBLISHED BY THE TEAM BEHIND FE TRUSTNET IN SOHO, LONDON

WEBSITE: **www.trustnet.com**
EMAIL: **editorial@financialex-press.net**

CONTACTS:

Anthony Luzio
Editor
T: **0207 534 7652**

Javier Otero
Art direction & design
W: **www.feedingcrows.co.uk**

Editorial
Gary Jackson
Editor (FE Trustnet)
T: **0207 534 7680**
Rob Langston
News editor
T: **0207 534 7696**

Sales
Richard Fletcher
Head of publishing sales
T: **0207 534 7662**
Richard Casemore
Account manager
T: **0207 534 7669**
Constance Candler
Account manager
T: **0207 534 7668**

Photos supplied by iStock
Cover illustration: **Javier Otero**

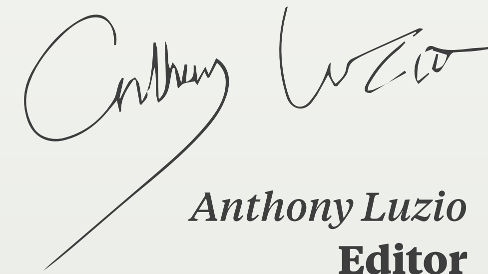
Editor's letter

Just like with "the birds and the bees", talking to your children about investment and finance may not be the easiest conversation you ever have, but leaving them to their own devices can have unintended consequences that stay with them for years. Cherry Reynard finds out how to approach the subject in this month's cover story.

Learning shouldn't be a one-way street for experienced investors, however, and as Daniel Lanyon discovers, they can't afford to ignore how changing consumption patterns among the young are disrupting established businesses. Meanwhile, I find out what has been the best investment strategy in every decade.

In our regular columns, Adam Lewis asks if Europe's recent underperformance has made it cheap, John Blowers worries about the impact of Brexit on his pension and LGIM's Gavin Launder names three stocks using digitalisation and automation to add value. Finally, Brewin Dolphin's Rob Burgeman reveals which fund he is using to gain exposure to one of the defining trends of the 21st century.

Enjoy reading,



Anthony Luzio
Editor

Contents

12

"The talk"
Cherry Reynard finds out how to teach your children about investing – without turning them off the subject for life
P. 4-11

A question of culture
Baillie Gifford US Growth Trust's Gary Robinson tells Colin Donald why a strong company culture is often a competitive advantage
P. 12-15

Selfie defence
Daniel Lanyon finds out how to protect your portfolio against changing consumption patterns driven by the young
P. 16-19

Ringing the changes
Anthony Luzio looks at the most effective investment strategy in each of the past five decades
P. 20-27

Fund, pension, trust
Janus Henderson Multi-Asset Absolute Return, Lindsell Train IT and Royal London UK Equity Income find themselves under the spotlight this month
P. 28-33

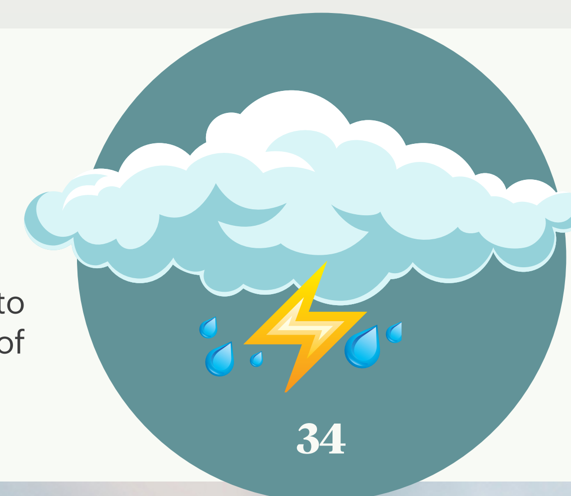
Every cloud...
The factors that have contributed to Europe's recent underperformance could soon begin to work in its favour, writes Adam Lewis
P. 34-39

Data hub
Crunching the biggest trends down into figures
P. 40-41

Brexit wounds
With just 10 years to retirement age, John Blowers can't help worrying about the impact of Brexit on his pension
P. 42-47

The automation game
L&G Growth Trust's Gavin Launder names three stocks using digitalisation to add value
P. 48-49

What I bought last
Brewin Dolphin's Rob Burgeman says Schroder Global Cities Real Estate Securities offers exposure to one of the defining trends of the 21st century
P. 50-51


34

48

20

Cherry Reynard finds out how to teach your children about investing – without turning them off the subject for life

"The talk"

There seems little question that a good grasp of money is more useful as a life skill than understanding, say, the Jacobite rebellions. That may not be true for a wannabe student of 18th century history, but it's not a stretch to say it is accurate for pretty much everyone else. Yet the two take equal priority on the national curriculum.

Financial education in schools remains inadequate. In September 2014, it was made a component of the "citizenship" part of the national curriculum, designed "to enable students to manage their money on a day-to-day basis, and plan for future financial needs". This was introduced in the face of overwhelming evidence that young people were poor at handling money, didn't always understand the consequences of debt and were generally bad at saving for the future.

DO'S & DON'TS FOR YOUR CHILDREN

- **Do** teach them about saving and debt first
- **Don't** focus too much on making money; it's about education
- **Do** invest in products that interest them
- **Do** encourage them to work towards a goal
- **Don't** let their mistakes be too costly (no one under 18 needs to be shorting or spread-betting)
- **Do** make sure they get the basics: regular savings and diversification

Until November of last year, there wasn't even a financial education textbook to help teachers and pupils get to grips with the subject

Yet the education charity Young Money estimates more than half of schools are not delivering this education, partly because teachers lack confidence. Until November of last year, there wasn't even a financial education textbook to help pupils get to grips with the subject. This was remedied by the launch of Your Money Matters, funded by Money Saving Expert's Martin Lewis.

The problems associated with this lack of education are obvious. Young Money, which is financed by a number of the major investment groups, states that people who don't save enough for retirement cost the government £6.2bn in income subsidies.

"Financial education, especially in the time of pension auto-enrolment, could cut this cost by £1.8bn a year," it adds.

There are less obvious, but equally insidious, consequences of this problem. A poor understanding of investment is evident from the swathes of long-term savings left in cash. Almost three-quarters of all ISA subscriptions in the 2017 to 2018 tax year were left in the cash version, and the figure has been far higher in previous years. Because most cash ISA accounts don't beat inflation, this pot of capital is diminishing all the time, gradually reducing already anaemic long-term savings.

> "Financial education, especially in the time of pension auto-enrolment, could cut this cost by £1.8bn a year"

Do me a favour

With this in mind, teaching your children about investing does them a real favour. Many people are afraid of the volatility associated with financial markets, but getting them used to this from an early age can help them conquer this fear. There's no point teaching them about the joys of compound interest before they can add up, but Maike Currie at Fidelity points to research suggesting that children start recognising the value of money and its basic purposes by the age of seven: "The earlier you can teach them about money, the better. Of course, each child is unique and will develop at their own pace.

SCOTTISH MORTGAGE INVESTMENT TRUST

SCOTTISH MORTGAGE ENTERED THE FTSE 100 INDEX IN MARCH 2017.

WANTED. DREAMERS, VISIONARIES AND REVOLUTIONARIES.

Visionary entrepreneurs offer opportunities for great wealth creation. The **Scottish Mortgage Investment Trust** actively seeks them out.

Our portfolio consists of around 80 of what we believe are the most exciting companies in the world today. Our vision is long term and we invest with no limits on geographical or sector exposure.

Our track record as long-term, supportive shareholders makes us attractive to a new breed of capital-light businesses. And our committed approach means we can enjoy a better quality of dialogue with management teams at transformational organisations. Over the last five years the **Scottish Mortgage Investment Trust** has delivered a total return of 206.2% compared to 110.2% for the sector*. And Scottish Mortgage is low-cost with an ongoing charges figure of just 0.37%†.

Standardised past performance to 30 September*

	2014	2015	2016	2017	2018
Scottish Mortgage	27.6%	4.2%	37.0%	30.4%	29.0%
AIC Global Sector Average	11.2%	7.1%	24.4%	22.7%	15.1%

Past performance is not a guide to future returns.

Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

For a farsighted approach call **0800 917 2112**
or visit us at **www.scottishmortgageit.com**

A Key Information Document is available by contacting us.

Long-term investment partners

*Source: Morningstar, share price, total return as at 30.09.18. †Ongoing charges as at 31.03.18. Your call may be recorded for training or monitoring purposes.Scottish Mortgage Investment Trust PLC is available through the Baillie Gifford Investment Trust Share Plan and the Investment Trust ISA, which are managed by Baillie Gifford Savings Management Limited (BGSM). BGSM is an affiliate of Baillie Gifford & Co Limited, which is the manager and secretary of Scottish Mortgage Investment Trust PLC.

BUILDING A PORTFOLIO WITH MY 10 YEAR OLD

My daughter is quite keen on the concept of growing her wealth, although I'm suspicious of her motives. It is almost certainly to either buy her own bodyweight in sweets or pay a hitman to bump off her little sister. She likes the idea of owning part of a company that makes cool stuff that she would like to buy, such as Apple. She's also quite keen on television, so Netflix and Comcast (owner of Sky) are part of her initial portfolio.

Sweets were more difficult because Haribo is a private company, so we eventually settled on Mondelez International, owner of Cadbury. While she believes that four companies are definitely enough for diversification, I made her pick another one. Disney, maker of Star Wars and The Incredibles, gets the nod. An equally-weighted portfolio of these stocks would have made around 9.7 per cent over the past year – not bad in a tough market.

• • •

But as a general rule of thumb, as soon as your child understands that a visit to the supermarket entails going there to buy something with money, they are ready to learn about it."

Darius McDermott, managing director of Chelsea Financial Services, says some children are natural savers while others are natural spenders and parents need to work with each personality type: "Start simply by encouraging them to save up pocket money to buy something substantial rather than just spending it immediately on sweets or something small – this way they get to recognise that it takes time and patience, but there is a reward at the end."

If they are saving towards something big, you can offer to match their contributions, which helps them learn that money is something that can be used to create more wealth, rather than just spent immediately.

• • •

Janus Henderson exists to help you achieve your long-term financial goals.

INVESTING IN YOUR FUTURE

Investment Trusts, managed by Janus Henderson

The company was formed in 2017 from the merger of Janus Capital Group and Henderson Global Investors, but our history dates back to 1934, and investment trusts are our oldest business.

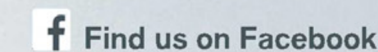
Today we manage 13 investment trusts across many asset classes, geographical regions and markets, all designed with the aim of helping you to meet your financial goals for the future.

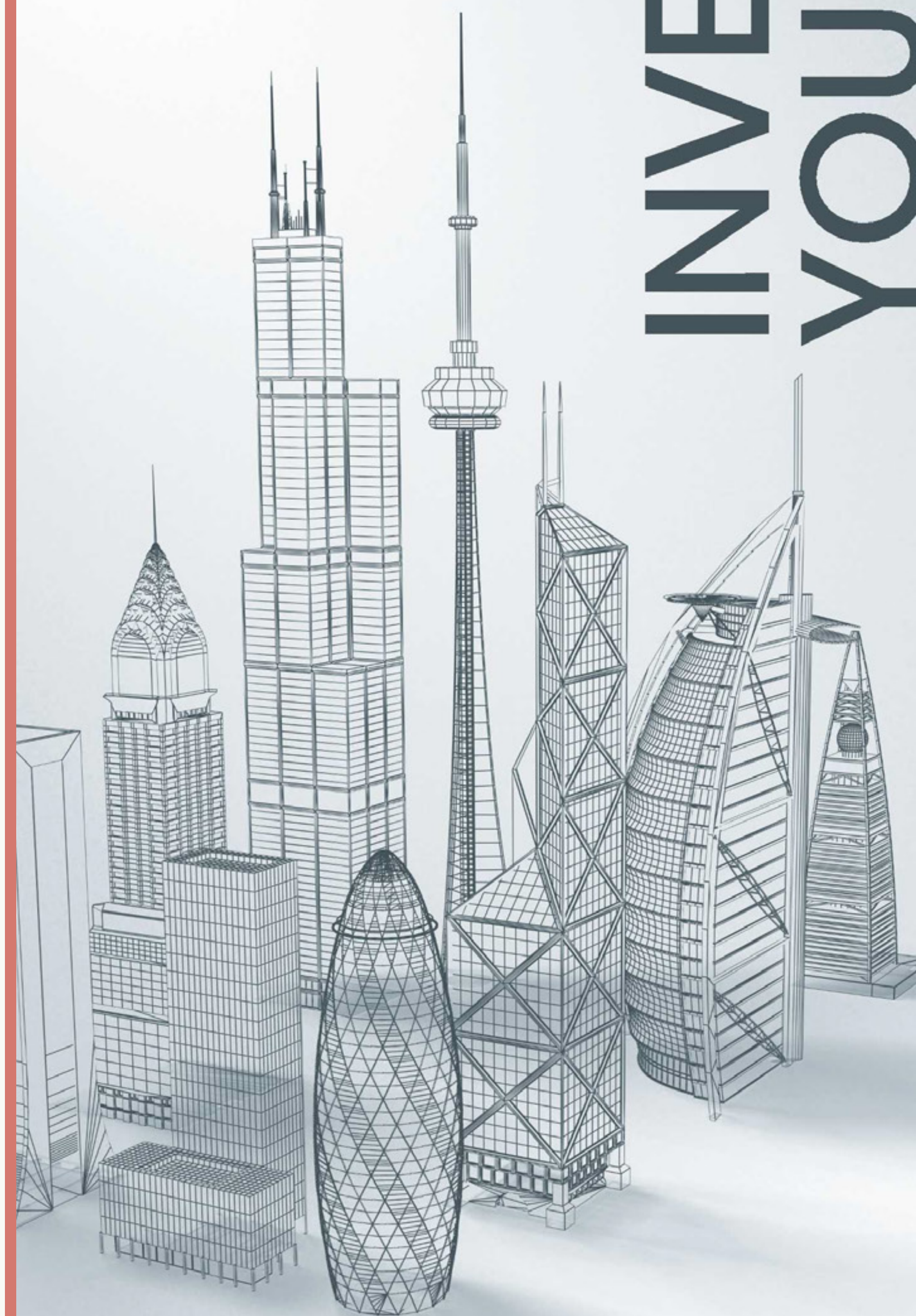
Your capital is at risk.

To see our range of investment trusts visit www.hendersoninvestmenttrusts.com call us on

0800 832 832

or email us at support@janushenderson.com





Janus Henderson
—KNOWLEDGE. SHARED—

Issued in the UK by Janus Henderson Investors. Janus Henderson Investors is the name under which Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Investment Management Limited (reg. no. 1795354), AlphaGen Capital Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no. 2606646), Gartmore Investment Limited (reg. no. 1508030), (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE) are authorised and regulated by the Financial Conduct Authority to provide investment products and services. Telephone calls may be recorded and monitored. © 2017, Janus Henderson Investors. The name Janus Henderson Investors includes HGI Group Limited, Henderson Global Investors (Brand Management) Sarl and Janus International Holding LLC. H030353/0717

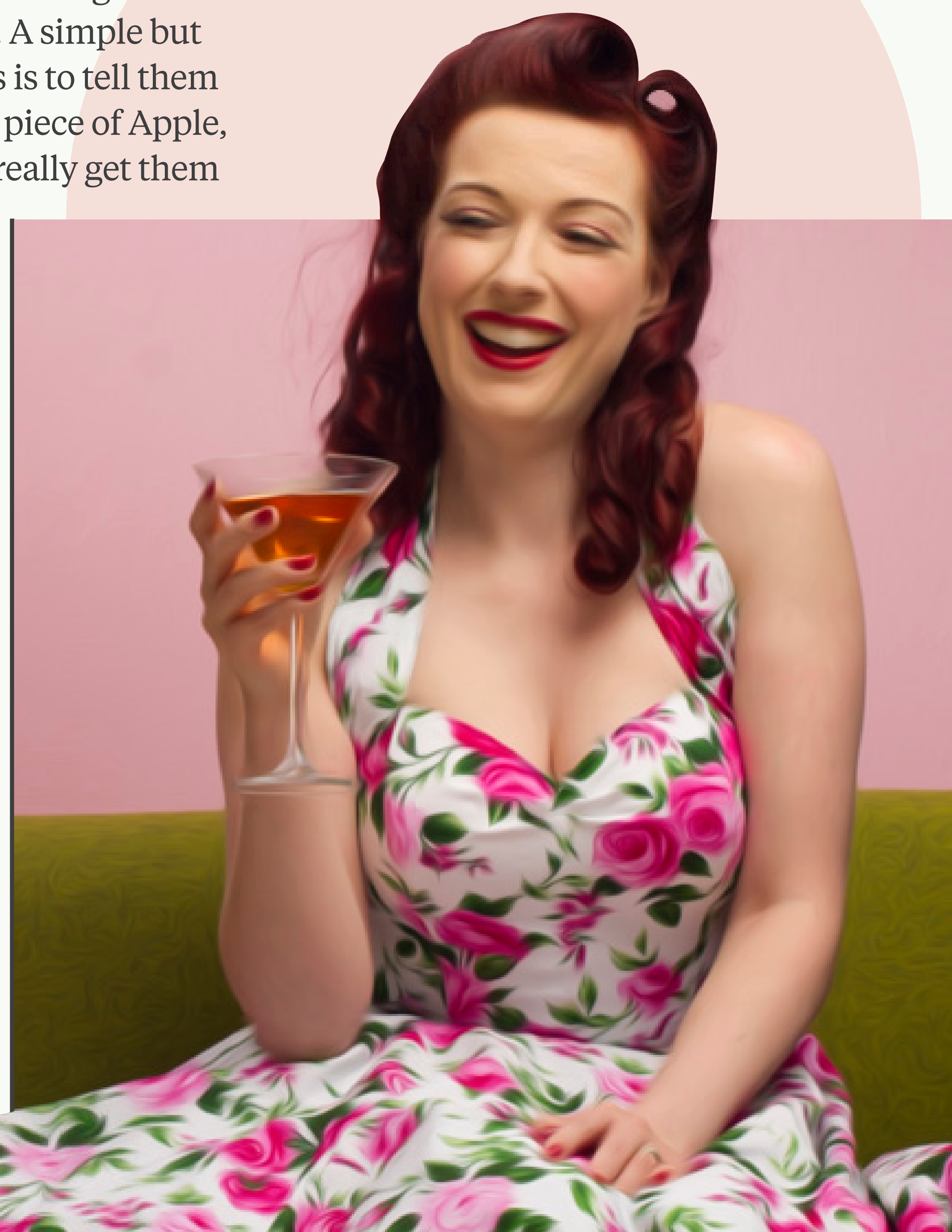
• • •

Fun & games

Once they have grasped these basic financial concepts, introducing them to stock markets becomes easier. Previous generations were encouraged into investing by the privatisation of public utilities, but there is no natural catalyst for post-millennials. McDermott says: "The bigger challenge is getting them to understand the difference between saving and investing without sending them to sleep. A simple but effective way to do this is to tell them they could own a little piece of Apple, Nike or Coca Cola. To really get them interested, you could 'gamify' the education process by running a family stockpicking challenge."

The US has online resources designed for young investors such as The Stock Market Game, where players compete for rewards. UK trading apps offer simulated portfolios, but these aren't appropriate for under-16s who are just starting out. Parents may have to do some hand-holding for their children by setting up a portfolio and helping them with stockpicking and other basics.

Here, McDermott suggests picking a fund that invests in something they can relate to: "AXA Framlington Global Technology is a great example as it has holdings in companies such as Apple and Netflix. Rathbone Global Opportunities invests in Amazon and Activision Blizzard – the maker of games such as Call of Duty and Candy Crush. Even bond funds hold things like Aston Martin bonds!"



"It's all about making them understand that anyone can invest, markets go up and down and you have to be patient"

Alternatively, you can pick some of their favourite activities and invest in single stocks. That might be toy-maker Character, which owns the rights to Doctor Who; Disney, which makes Frozen and Star Wars; or Bloomsbury Publishing, which owns the Harry Potter franchise. It is not necessarily about making the best investment decision, but about getting them interested.

"It's all about making them understand that anyone can invest, markets go up and down and you have to be patient," adds McDermott.

Admittedly, that's not children's strong suit. The question of whether losses should be underwritten is one only a parent can decide. It is worth encouraging children to apply the usual rules of saving regularly and diversification.

Healthy competition

There's nothing like real-life competition to get children interested, as anyone with siblings can attest. As a result, The Share Centre runs an annual Shares4Schools competition, which sees teams of sixth-formers given £2,000 of real money to invest. It begins in October, calculates profits in May, and the school that makes the most money wins.

It is worth ensuring any investments are made in tax-efficient structures. JISAs are one option, with parents allowed to invest £4,260 per child in these tax wrappers each year. Currie says you should get your children involved with their stocks and shares JISA, "whether that's showing them how their money has grown or getting them to help pick the investments".

"While they won't assume control of their JISA until they turn 18, getting them involved at an early age should help them understand how investing and compounding work."

Some are understandably reluctant to give children access to that amount of money at 18 and may want to use part of their own ISA allowance instead.

James Norton, senior investment planner at Vanguard, suggests emphasising the importance of targets: "Probably the most critical factor for adults when investing is to have a clear goal – make it achievable or it will be demotivating. It's no different for children. Understand what they want money for and help them plan to save or invest for that goal. This will also help with discipline, another key for success. If they stop saving, the goal will be missed – simple! It's a great way to teach children the value of money. •

Gary Robinson, manager of the Baillie Gifford US Growth Trust, tells Colin Donald why a strong company culture is often a source of competitive advantage

A question of culture

The value of your investment and any income from it can go down as well as up and as a result your capital may be at risk.

What quality allows a company not just to survive the destruction of its bread and butter business model but to disrupt itself to become the market leader? According to Gary Robinson the answer is to be found in a company's culture. This separates exceptional growth companies from average ones.

For Robinson, cultural strength explains why Netflix, which started out as a DVD mail subscription service, is now the world's largest content streaming provider. Conversely, cultural weakness explains why Kodak filed for bankruptcy in 2012 having fumbled for a decade to deal with the rise of digital photography.

"The critical cultural determinant in Netflix's case was the founder, Reed Hastings," explains Robinson. "He had the moral authority necessary to allocate capital away from the larger, cash-generative DVD-hire business and towards what at the time was a much smaller business, online streaming.

"In order to do that you have to battle a lot of vested interests internally, because the weight of the organisation is still in the old business, along with the human and physical capital. It is vanishingly rare for chief executives to pull off something like that, and it's entirely due to a founder-created culture."

Netflix is currently a top five holding in the Baillie Gifford US Growth Trust. Robinson regards spotting such rarities and backing them over five-to-ten years as one of the core strengths of Baillie Gifford's low turnover style.

The quest for "true outliers" is largely down to understanding an "intangible" cultural quality in companies

As Robinson describes it, the quest for "true outliers" is largely down to understanding an "intangible" cultural quality in companies. Components include readiness to innovate and to engage employees at all levels of the company with a shared mission.

"At the risk of oversimplifying, companies with distinctive cultures are generally those that are in it for the long term," says Robinson. "Most companies in America aren't run that way. They are run by corporate management teams incentivised for the short and medium term. They would rather buy back stock, boost their earnings-per-share, beat their bonus targets and collect their pay cheques than invest in projects with long-term timeframes and uncertain outcomes.

"We are looking for companies that behave in a different way, companies that think long term, that are willing to embrace risk, and willing to invest for the future. We then hold on to them for long periods of time to capture the potential upside inherent in their business models."

Candidate companies for inclusion in his portfolios are, he says, screened for the distinctiveness of their cultural attributes. The checklist of

• • •

• • •

questions starts with: "What is the point of this company and what are its long-term ambitions? And secondly, does the company possess a significant culture and is this a source of competitive advantage?"

Robinson expresses surprise that so few investors seem to care about culture, a reflection, he suggests, of the market's bias to shorter timeframes. He recalls one chief executive, Katrina Lake of Stitch Fix, telling him that he was the only person who raised the issue when she met investors before the company's Nasdaq listing.

It is no coincidence that founder-led businesses such as Netflix, Amazon, Stitch Fix and Grubhub typically comprise around 70 per cent of the Baillie Gifford US Growth Trust's holdings, while our research suggests they only account for around 25 per cent of the total US stock market.

"Founders embrace risk, and as with Reed Hastings at Netflix, Katrina Lake at Stitch Fix or Jeff Bezos at Amazon, are willing to

"Ambition, vision, determination, risk-seeking... the outputs of a strong culture are difficult to measure precisely"

invest in the future at the expense of short-term profits," Robinson adds. "They are able to navigate changing circumstances and unlock new growth opportunities that aren't always apparent at the time of our initial investment."

Robinson notes that many managers seem ignorant of what corporate culture even means, confusing it with gimmicks or PR spin. "It's not perks or crazy offices with slides from one floor to the next," he says. "It's about the shared values of the company and how it behaves. It's about what the founders and the management teams say they want to do and how that relates to what they actually do over time.

"Ambition, vision, determination, risk-seeking... the outputs of a strong culture are difficult to measure precisely. But just because something is hard to measure doesn't mean that you shouldn't try. In fact, we would argue the opposite. When something is hard it presents an opportunity for us to add significant value by analysing it and spending time on it."

Robinson emphasises that a firm's culture cannot be determined from presentations at broker-sponsored conferences, any more than it can from a balance sheet or a set of results.

It takes shoe leather and air miles to distinguish good cultures from good spin. In the past, Robinson has spent months in the US, burrowing into culturally compelling company stories in hot spots such as the Boston or San Francisco healthcare clusters.

In addition, Baillie Gifford's retained network of US researchers are well briefed on what cultural attributes to look for in up-and-coming unlisted companies.

"The easier information is to find, the less valuable that information is," Robinson says.

Over the decades, Baillie Gifford's quest for outperformance has sharpened its antennae for growth-oriented corporate cultures capable of defying Wall Street noise for long-term reward. The characteristics that the Baillie Gifford US Growth Trust shares with culturally compatible companies is a willingness to look very different from its peers, to challenge itself, to embrace uncertainty and to ride out cyclical volatility.

It is, as Robinson phrases it, "really simple, but difficult to do". This explains why companies with the right culture – and the investors who understand them best – tend to stand out from the crowd. •

IMPORTANT INFORMATION

Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates. The trust's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

For more details on the Baillie Gifford US Growth Trust, including the Key Information Document, please see our website at www.bailliegifford.com
This article does not constitute, and is not subject to the protections afforded to, independent research. Baillie Gifford and its staff may have dealt in the investments concerned. The views expressed are those of Gary Robinson, are not statements of fact, and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. If you are unsure whether an investment is right for you, please contact an authorised intermediary for advice. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The trust is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.

Older people may have all the money, but they can't ignore how changing consumption patterns among the young are transforming established investment trends, writes **Daniel Lanyon**

Selfie defence

One of the biggest tragedies when it comes to the subject of millennial finance is that Bitcoin was the first investment – if you can call it that – that many young people ever made. But don't write this generation off completely, as they may know a thing or two about where to find tomorrow's returns – changing consumer needs are disrupting markets and the younger generation are driving the transformation.

Here's an example. If you held an equally weighted portfolio of the best and worst performing FTSE 100 stocks last year – Ocado and British American Tobacco (BATS) – you would have made a 25 per cent return. Not bad for one of the worst years for investors since 2008. Under the bonnet of your strategy, however, a more volatile situation was brewing. During 2018, online supermarket Ocado doubled in value, BATS halved and in both instances changing consumer behaviour and digital disruption were strong drivers behind the share-price moves. Millennials, those born somewhere between the early 1980s and mid 1990s, like online shopping and are increasingly eschewing tobacco in favour of vaping as well as feeding a host of other emerging consumer patterns.

Smoking alternative Juul, a big-tobacco disrupting start-up founded in 2017, has been valued at $38bn, showing how rapid consumer changes led by early millennial adopters are no joke for blue-chip income stalwarts.

$38bn

– valuation of vaping company JUUL, founded in 2017

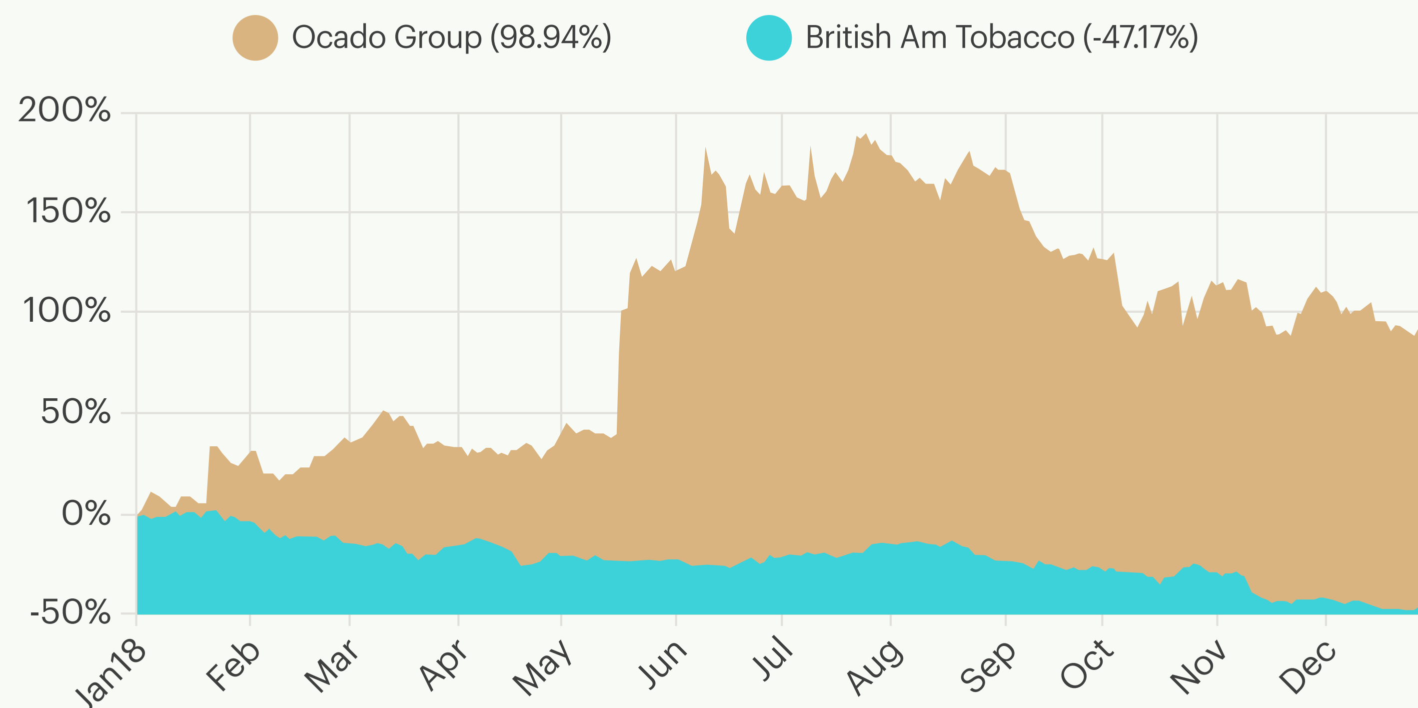
Changing consumer needs are disrupting markets and the younger generation are driving the transformation

A report from Kepler Cheuvreux found shifting behaviours among millennials pose a significant challenge, with this age group expected to account for half the global workforce by 2020 and three-quarters by 2025. Research from the Pew Research Center found millennials passed Generation X as the largest population in the US workforce in 2015.

But what does this mean for your investment strategy? Should you back the companies benefiting from these shifts regardless of valuations, avoiding those stuck in the past whose share prices appear to be in a death spiral?

Merian UK Alpha's Richard Buxton says while emerging millennial behaviours are important, with tobacco a pertinent example, this doesn't necessarily make value stocks more vulnerable. He notes that in the tech bubble of 1999 to 2000, there was a "facile distinction between 'old/new economy' stocks", adding: "Ironically there was no perceived disruption to tobacco at the time – it was just dull, with no tech angle."

"Next generation products are the new disruptive force here – and



Source: FE Analytics

• • •

appeal to millennials. No one can be certain which new products may win or lose, nor the regulatory approach to these products going forward."

Buxton says this doesn't mean you should avoid value in favour of the Next Big Thing, although he is steering clear of BATS for now.

Mark Barnett disagrees, with BATS the second largest position in his Invesco Perpetual High Income fund. He believes it is "attractively valued" in a market "driven by short-termism and an emphasis on new disruptive business models".

Jason Hollands, managing director of Tilney, says another consideration is the role accommodative

> "No one can be certain which new products may win or lose, nor the regulatory approach to these products going forward"

monetary policy has had in growth's outperformance of value over the past decade: "We are in a different world now, having moved from peak stimulus to quantitative tightening in little more than a year and a half."

In this environment, he says, investors tend to recalibrate around solid, cash-generative businesses and are less inclined to back future growth projections.

Schroders' Simon Adler co-manages about £4bn across numerous value-oriented portfolios, but warns many industries are facing structural disruption owing to generational changes, notably tobacco and retail.

"It's a value trap. We are happy to invest where we see structural change but we want to be compensated for that risk," he says. "It's hard to know when the structural threat is priced into markets. People always think there are more threats when things go badly and change their mind but two areas where you are compensated for the risk are banks and mining."

Stephen Bailey and Jamie Clark, co-managers of the Liontrust Macro Equity Income fund, invest thematically but with a value focus. They say blue chip miners represent one way to invest in electric vehicles, another disruptive trend, without making a bet on a single company.

"It's disruptive-proof. Without these guys, there is no carbon-free future."

Investec's Alastair Mundy, meanwhile, adds disruption is now market-wide: "We have to worry about structural decline but it is not just value stocks, it is all stocks. It's just as relevant to quality as to value. At least we're buying stocks cheap."

This brings to mind Oscar Wilde's quote that "the young know the price of everything and the value of nothing". Today, young and old investors need to know both. ●

DO'S

- **Be open minded** about changing consumer patterns and company growth stories. Amazon started out selling books!
- **Listen to young consumers** about what they like and don't like. Legend has it analysts first realised HMV was in trouble at a meeting with the company when an intern asked "what's a CD?"
- **Watch out for falling knives:** stocks that have fallen hard but have more pain to come
- **Acquaint yourself with the Gartner hype cycle** – the initial surge and subsequent crash associated with a new trend or technology can pale into insignificance compared with the long-term value created

DON'TS

- **Avoid following the crowd.** Think "contrarian"
- **Don't concentrate an investment idea into a single holding.** Spread the risk across a fund
- **Refrain from rushing in to new positions.** Themes can take a while to play out, so it may be better to drip-feed into a holding
- **Don't ignore valuations** without being prepared to suffer the consequences. A disruptive start-up burning through cash is more likely to go bust than become the Next Big Thing

Anthony Luzio looks back at the dominant investment themes in every decade since the 1970s

Ringing the changes

Most articles looking at investment performance – including those published by FE Trustnet – tend to focus on the past 10 years at most, failing to take into account the wildly different conditions in markets before then. As a result, and with the help of a couple of veteran investors, we look back at the dominant investment themes in every decade since the 1970s – and the strategies that would have served you best in each one.

1970s

The 1970s was a period of turmoil for investors, both in the UK and across the globe. The collapse of the Bretton Woods system – under which currencies were pegged to the price of gold – with the associated Nixon Shock and US dollar devaluation under the Smithsonian Agreement led to the 1973 to 1974 stock market crash.

"It was further compounded by the outbreak of the 1973 oil crisis in October of that year," says Tracy Zhao, investment research analyst at The Share Centre.

"As most other nations set their currencies free of a golden anchor in response to Nixon's move, the price of gold surged to nearly $500 per ounce by the end of the 1970s, after consistently trading in the $35 per ounce range under the Bretton Woods system. This made gold the best investment in this decade."

Zhao added that the UK was the worst affected by the crash on the backdrop of the dramatic rise in oil prices and the miners' strike.

Gervais Williams, manager of the Diverse Income Trust, adds: "Some companies went bust. Some still survived and then the market recovered substantially, but investment returns related to inflation weren't that good because inflation was such a dominant part of the return. The companies that outperformed were the ones that were resilient, the ones that continued to generate cash when a lot of corporates were really short of cash to invest. It was a really difficult decade."

However, for John Ricciardi, chief executive officer of Kestrel Investment Partners, the key theme for the 1970s was the survival of capitalism itself. "Remember, Europe was divided in two, with the Soviet empire versus NATO and the decision was whether capitalism, back then in the form of Keynesianism, was going to be the correct economic system as opposed to collectivism."

• • •

Janus Henderson exists to help you achieve your long-term financial goals.

INVESTING IN YOUR FUTURE

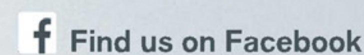
Investment Trusts, managed by Janus Henderson

The company was formed in 2017 from the merger of Janus Capital Group and Henderson Global Investors, but our history dates back to 1934, and investment trusts are our oldest business.

Today we manage 13 investment trusts across many asset classes, geographical regions and markets, all designed with the aim of helping you to meet your financial goals for the future.

Your capital is at risk.

To see our range of investment trusts visit
www.hendersoninvestmenttrusts.com
call us on
0800 832 832
or email us at
support@janushenderson.com


Find us on Facebook

@HGiTrusts

Janus Henderson
—KNOWLEDGE. SHARED—

Issued in the UK by Janus Henderson Investors. Janus Henderson Investors is the name under which Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Investment Management Limited (reg. no. 1795354), AlphaGen Capital Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no. 2606646), Gartmore Investment Limited (reg. no. 1508030), (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE) are authorised and regulated by the Financial Conduct Authority to provide investment products and services. Telephone calls may be recorded and monitored. © 2017, Janus Henderson Investors. The name Janus Henderson Investors includes HGI Group Limited, Henderson Global Investors (Brand Management) Sarl and Janus International Holding LLC. H030353/0717

1980s

James Henderson, co-portfolio manager of Lowland Investment Company, says the election of Margaret Thatcher in 1979 led to a revolution for UK investors. The privatisation of state-run organisations gave the public a taste for stock market investing, while the Big Bang saw the deregulation of London's financial markets.

"It was beneficial, reducing commission charges and bringing a lot of new capital to the City," he says.

Henderson adds the arrival of Thatcher also ended union power, which along with "some tough monetary policies" pushed the country into recession.

"But the effect of that recession was to beat inflation," he says.

Williams recalls the pound shot up early on in the decade, "which trashed our manufacturing businesses because they were struggling to compete overseas".

"There was political distress, but there was a restructuring and towards the second half of that period the UK recovered strongly," he adds.

Growing optimism in the UK reflected what was happening in the rest of the world. Zhao said that as Reaganomics began to work in late 1982, "the stock market took off like a sky rocket", before adding: "As the appetite for risk grew, the market became creative with exotic yet untested instruments. Wall Street suffered a great crash in 1987."

Another important policy was the abolition of exchange controls, allowing investors to take money out of the UK and gain exposure to the boom in Japan – the Topix made more than 1,500 per cent in the 1980s.

1990s

The 1990s started with what Henderson describes as "a very nasty recession". On Black Wednesday in 1992, the UK raised interest rates from 10 to 12 per cent, then 15 per cent, in a bid to remain in the European Exchange Rate Mechanism (ERM) before finally crashing out.

However, Williams says this eventually turned out to be "a wonderful thing", adding: "We had the devaluation and suddenly interest rates were cut. The rest of the decade was sensational. Asset prices started to perform much better."

Henderson says leaving the ERM benefited businesses that suffered from high interest rates, including retail, infrastructure and "what was left of" engineering. Rathbones' chief investment officer Julian Chillingworth notes banks also went through a purple patch, aided by new technology and takeover speculation, with RBS bidding for NatWest and HSBC taking over Midland.

In terms of regions, the failure of the Soviet Union led to interest in eastern Europe and the reunified Germany, although Ricciardi says the real story was taking place much further east.

"Globalisation led to an acceleration of productivity, helping to keep inflation under control," he adds. "This led to the growth of the Asian Tigers – China, Taiwan, Hong Kong and Thailand. They grew so fast they started to make up a major chunk of global growth."

"But they were borrowing in dollars to finance their current account deficit, leveraging against future exports. Then the deficits got too big for global capital markets and it all blew up."

Data from FE Analytics shows the IA Asia Pacific ex Japan sector lost more than 50 per cent between the start of 1997 and August 1998.

By that point, however, all the hot money had begun to flow into another surging market – tech, with the dotcom bubble peaking in the UK at the end of December 1999.

2000s

The period 2000 to 2010 was a disastrous decade for UK investors, with two market crashes – caused by the bursting of the dotcom bubble and the financial crisis – meaning the FTSE All Share made just 17.71 per cent over the 10-year period, failing to match the modest rates of inflation.

"That is in total return, which is amazing when you look at it," says Williams.

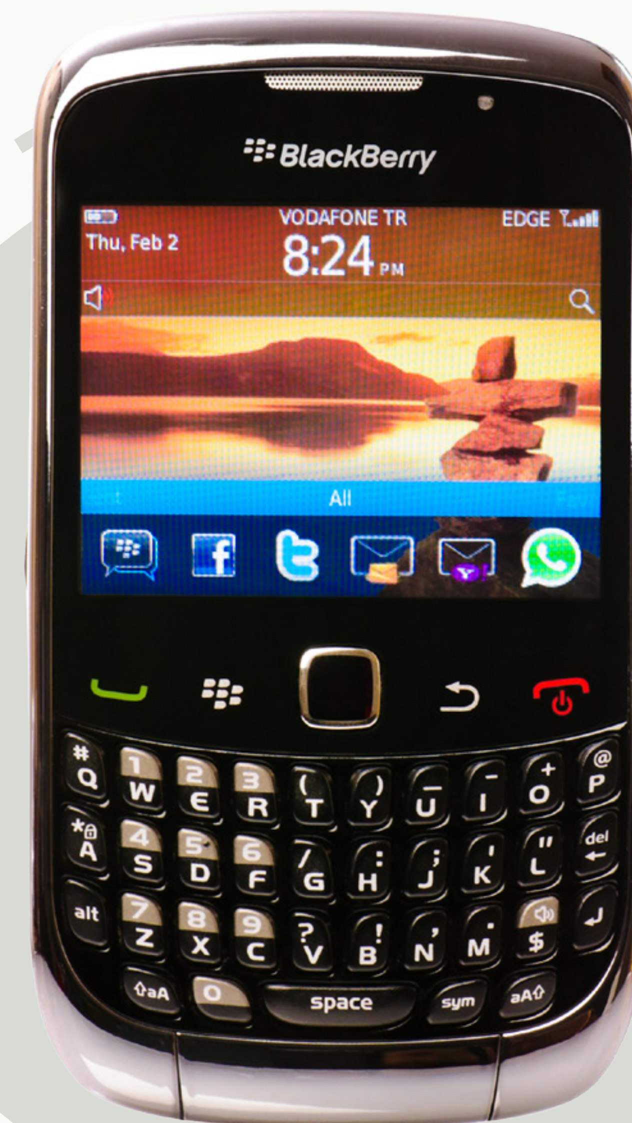
Ricciardi adds that just like the dotcom bubble, the financial crisis had its roots in the late 1990s.

"All the usual suspects were involved and they decided they didn't need the 1931 bank limits on what commercial banks could do," he explains. "There was a convergence in 2008 when we had the housing boom and bust, when banking leverage was 30 to 40 times and they accounted for 22 per cent of world capital."

These two crises meant the big winners of the 1990s – technology, telecoms and banking stocks – collapsed, while the defensive qualities of tobacco made it the best performer, with the FTSE 350 Tobacco index up 742.82 per cent.

Emerging markets stood out from a regional point of view thanks to China's emergence as a global super power and Asia's recovery from its own financial crisis of the late 1990s, while Japan's decline continued.

Fixed income proved an attractive asset class, as did cash until central banks slashed interest rates in response to the financial crisis.



SCOTTISH MORTGAGE INVESTMENT TRUST

SCOTTISH MORTGAGE ENTERED THE FTSE 100 INDEX IN MARCH 2017.

WANTED. DREAMERS, VISIONARIES AND REVOLUTIONARIES.

Visionary entrepreneurs offer opportunities for great wealth creation. The **Scottish Mortgage Investment Trust** actively seeks them out.

Our portfolio consists of around 80 of what we believe are the most exciting companies in the world today. Our vision is long term and we invest with no limits on geographical or sector exposure.

Our track record as long-term, supportive shareholders makes us attractive to a new breed of capital-light businesses. And our committed approach means we can enjoy a better quality of dialogue with management teams at transformational organisations. Over the last five years the **Scottish Mortgage Investment Trust** has delivered a total return of 206.2% compared to 110.2% for the sector*. And Scottish Mortgage is low-cost with an ongoing charges figure of just 0.37%†.

Standardised past performance to 30 September*

	2014	2015	2016	2017	2018
Scottish Mortgage	27.6%	4.2%	37.0%	30.4%	29.0%
AIC Global Sector Average	11.2%	7.1%	24.4%	22.7%	15.1%

Past performance is not a guide to future returns.

Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

For a farsighted approach call **0800 917 2112**
or visit us at **www.scottishmortgageit.com**

A Key Information Document is available by contacting us.

Long-term investment partners

*Source: Morningstar, share price, total return as at 30.09.18. †Ongoing charges as at 31.03.18. Your call may be recorded for training or monitoring purposes.Scottish Mortgage Investment Trust PLC is available through the Baillie Gifford Investment Trust Share Plan and the Investment Trust ISA, which are managed by Baillie Gifford Savings Management Limited (BGSM). BGSM is an affiliate of Baillie Gifford & Co Limited, which is the manager and secretary of Scottish Mortgage Investment Trust PLC.

This brings us on to the current decade. While you probably don't need to hear again what has driven markets over the past eight or so years, you may be more interested in what the experts have to say about the next decade.

From a regional point of view, Chillingworth says that if you believe in capitalism and long-term global growth, "you've got to believe that the US will continue to do well".

"China is more difficult because it depends on how the relationship with the rest of the world goes," he adds.

"But I still think that developing economies are going to play an important part in your portfolio."

When asked which decade the next 10 years will most closely resemble, Williams went for the 1970s, pointing to the amount of debt in the system.

"We are skewing to companies with stronger balance sheets, that pay good dividends and can grow them nicely, because soon that is going to be a big driver," he says. "If we do get a recession in the UK, what do we do about it? Cut interest rates? Even if it is a mild recession, we might find we are stuck with it for some time."

However, the manager says it is not all bad as a lot of quoted stocks generated good returns in the crash year of 1974: "A lot of companies went bust and quoted companies were able to take advantage of this by acquiring assets and moving into the sectors they vacated," explains Williams.

"If they had access to capital, they could fund expansion and invest in their business in a way you didn't get so much in the private sector, and that's in fact what we anticipate may happen in the next 10 years or so."

Absolute return has underperformed in the rally of the past decade, but James de Bunsen says it could come to the fore in 2019

Janus Henderson Multi-Asset Absolute Return

Absolute return funds have developed a somewhat mixed reputation due to their claim of being able to deliver in all market conditions – a claim that has been found wanting during the market rally of the past decade.

Yet Janus Henderson's James de Bunsen said absolute return may come to the fore in 2019 as the investment backdrop becomes more challenging.

De Bunsen, who runs the £130.4m Janus Henderson Multi-Asset Absolute Return fund along with Peter Webster, added that investors may need to lower their expectations for this year as the uniform positive data of the post-global financial crisis period begins to reverse.

"When people are thoroughly relaxed because the economy is growing in a synchronised way across the globe and equities are marching higher, they don't really think about downside risk," he said. "But I think everybody has to now."

As such, De Bunsen said traditional portfolio construction is unlikely to save investors in the event of a sell-off. However, noting that some strategies have let investors down, he said it may be a good idea to consider diversifying absolute return exposure.

"People understand that if you buy equities, you need to diversify your portfolio, but in absolute return funds – which have a high dispersion of returns between them – people buy one or two and end up disappointed if one or both don't do well."

"A lot of the category killers which have raised all the assets have quite punchy targets, cash plus 5 per cent, that type of thing," he said. "That's what equities have done over the long term, so it's quite a big ask to get those kinds of returns [from absolute return]."

The manager said that instead he tries to allow investors to "sleep easy at night" by generating a positive return while minimising drawdown.

He has recently taken equity exposure down to around 10 per cent, "about as low as it ever has been", and adding to uncorrelated strategies and alternative funds, where he believes decent returns can still be made.

The fund still has significant fixed income exposure, at 23 per cent of the portfolio, although it also holds alternative assets, such as short-duration government bonds, emerging market debt and a royalty-backed credit strategy.

Other returns have come from its long/short equity strategies, which are more market neutral given the managers' focus on capital protection.

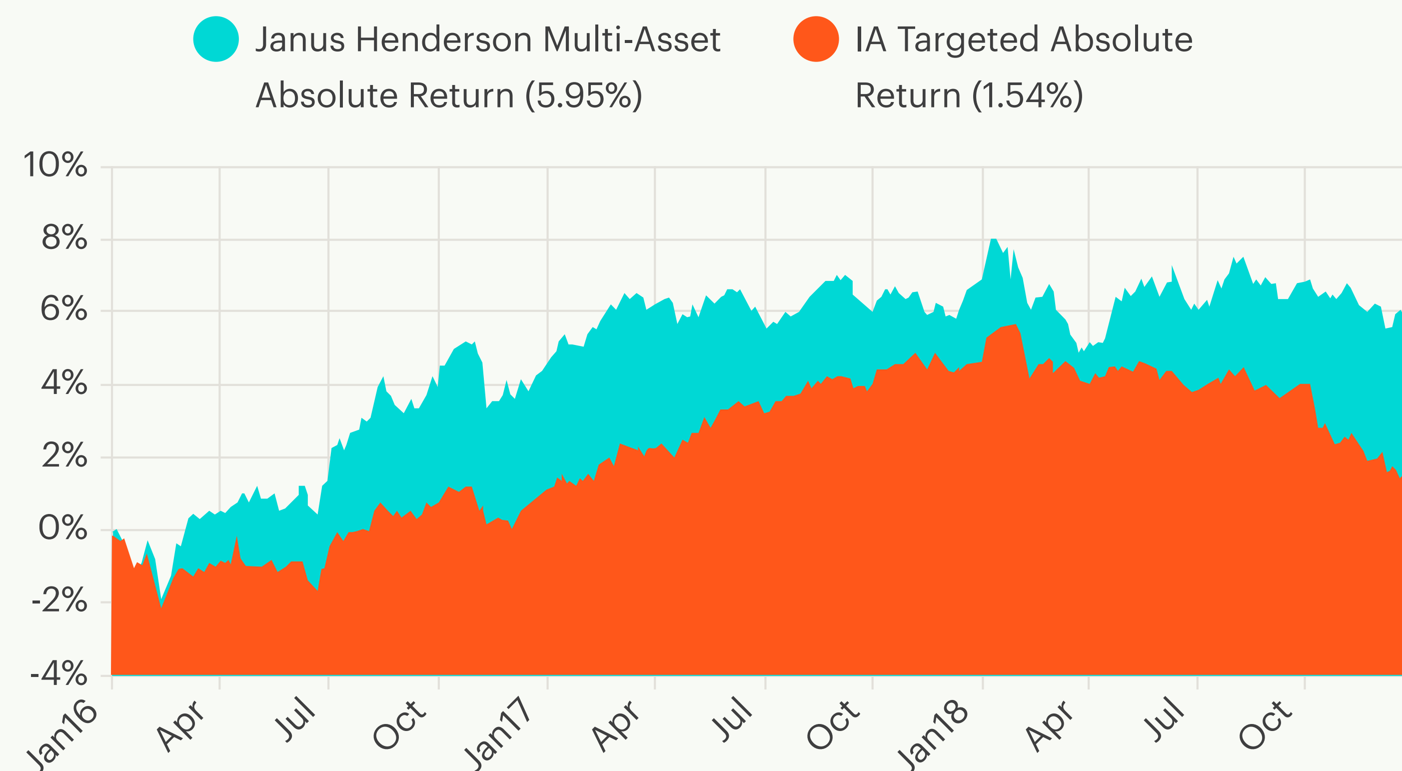
Janus Henderson Multi-Asset Absolute Return has made 5.95 per cent over the past three years compared with 1.54 per cent from the IA Targeted Absolute Return sector. ●

FACT BOX

MANAGERS: **James de Bunsen & Peter Webster** / LAUNCHED: **01/09/2004** / FUND SIZE: **£130.4m** / OCF: **0.96%**

FE CROWN RATING

PERFORMANCE OF FUND VS SECTOR OVER 3YRS



Source: FE Analytics

Martin Cholwill's fund has beaten its IA UK Equity Income sector average in nine of the past 10 calendar years

Royal London UK Equity Income

One thing that people who rely on income from their investments value above all else is consistency, and funds don't get much more consistent than Royal London UK Equity Income – it has beaten its IA UK Equity Income sector in nine of the past 10 calendar years, more than any of its peers.

Aside from consistency of returns, it has also managed to deliver consistent income growth. Open-ended funds cannot squirrel money away in the same way as their closed-ended counterparts, but analysts at FE Invest said that aside from 2016, the fund's dividend payment has tended to increase in every year since 2012.

Royal London UK Equity Income is currently yielding 4.53 per cent; someone who invested £10,000 in this fund at the start of 2009 would have received £6,953.13 in income alone since then.

Manager Martin Cholwill aims to identify good companies with strong business models and sound finances that are able to deliver sustainable dividend growth. He focuses on those firms with attractive cashflow characteristics as he said it is more difficult to manipulate these figures than other types of earnings data.

The analysts at Square Mile Investment Consulting & Research described Cholwill as a patient investor who is prepared to wait for short-term share price weakness before establishing positions.

"He is also conscious of the fact that the bulk of the income generated by UK-listed companies comes from a reasonably small number of mega-cap, blue-chip companies," they added.

"As such, he is eager to avoid concentrating on those names and looks to build a diversified but conviction-led portfolio across a sensible range of businesses."

In his outlook for this year, Cholwill said there are many possible outcomes for Brexit, so he has not tried to position the fund for any one of these in particular.

"Markets hate uncertainty and we could well see further bouts of volatility, driven by Brexit worries and fears over trade wars," he added. "The fund is underpinned by cautious economic growth assumptions and its focus on strong market positions, cashflow-backed dividends and robust balance sheets should provide resilience in a whole range of possible economic outcomes."

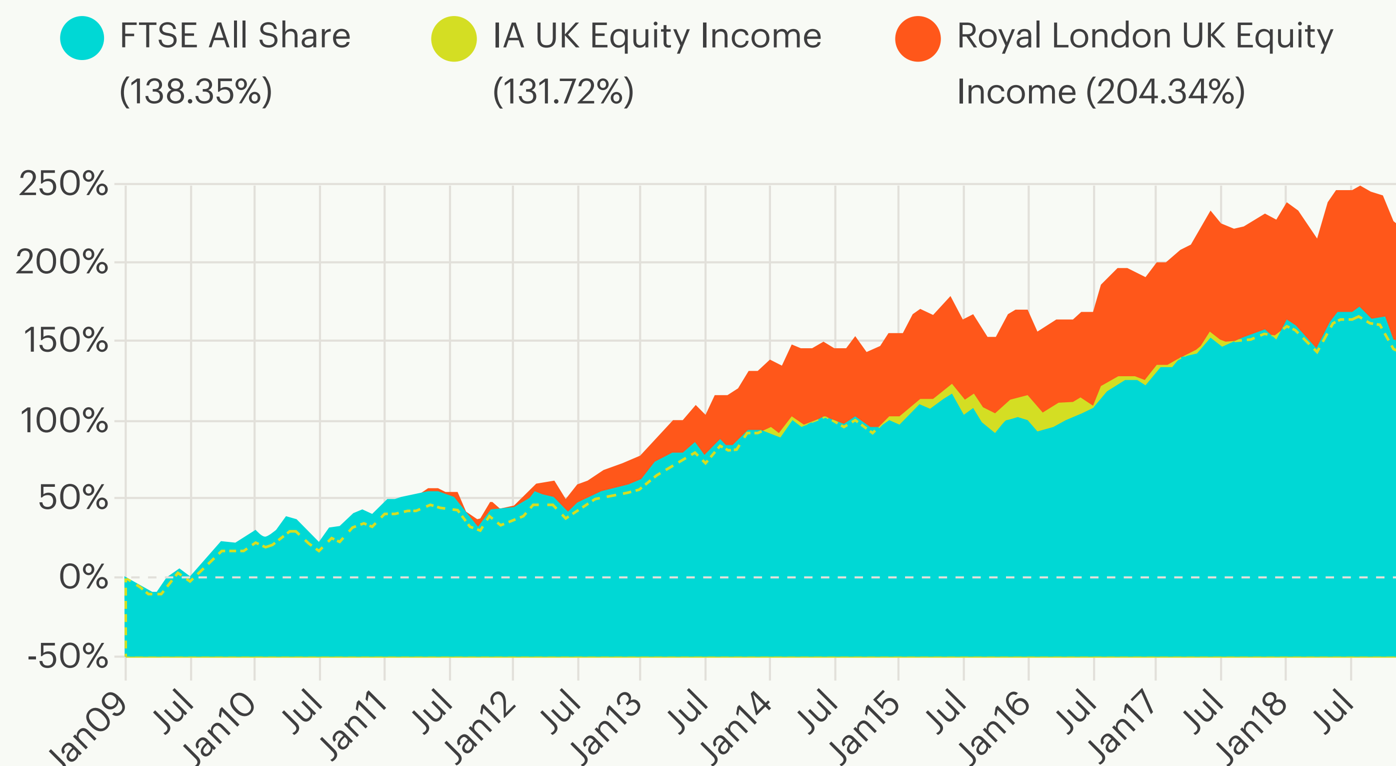
Data from FE Analytics shows Royal London UK Equity Income has made 204.34 per cent over the past 10 years, compared with 138.35 per cent from its FTSE All Share benchmark and 131.72 per cent from its sector. ●

FACT BOX

MANAGER: **Martin Cholwill** / LAUNCHED: **11/04/1984** / FUND SIZE: **£1.8bn** / OCF: **0.67%**

FE CROWN RATING

PERFORMANCE OF FUND VS SECTOR AND INDEX OVER 10YRS



Source: FE Analytics

This trust has returned more than 900 per cent over the past decade – but its chairman warns new investors against buying in now

Lindsell Train IT

In a year when returns were hard to come by, the top-performing trust in the Association of Investment Companies universe – Lindsell Train IT – stood out in 2018 with its 46.6 per cent total return.

This result is no flash in the pan and merely cements its place at the top of the sector rankings. FE Analytics data shows the £245m trust has made the highest total return in its IT Global peer group over three, five and 10 years; over the past decade it is up 903.87 per cent compared with 221.93 per cent from the average trust.

However, it is worth bearing in mind that the bulk of this gain has been from share price appreciation. Over the past 10 years, the NAV has risen by 416.11 per cent, with the remainder of that total return coming from a surging premium – this figure now stands at 45 per cent, which has led Lindsell Train IT chairman Julian Cazalet to warn new investors against buying the trust.

Yet the difference between the outstanding share price return from last year and a more modest NAV gain of 13 per cent suggests this warning appears to have fallen on deaf ears.

One reason for the trust's popularity is the impressive track record of managers Michael Lindsell and Nick Train, who run a number of other equally successful open- and close-ended funds.

Lindsell Train IT has 47 per cent of its portfolio in Lindsell Train Limited, the unlisted asset management house founded by the two managers, giving investors an opportunity to gain exposure to this well-respected boutique.

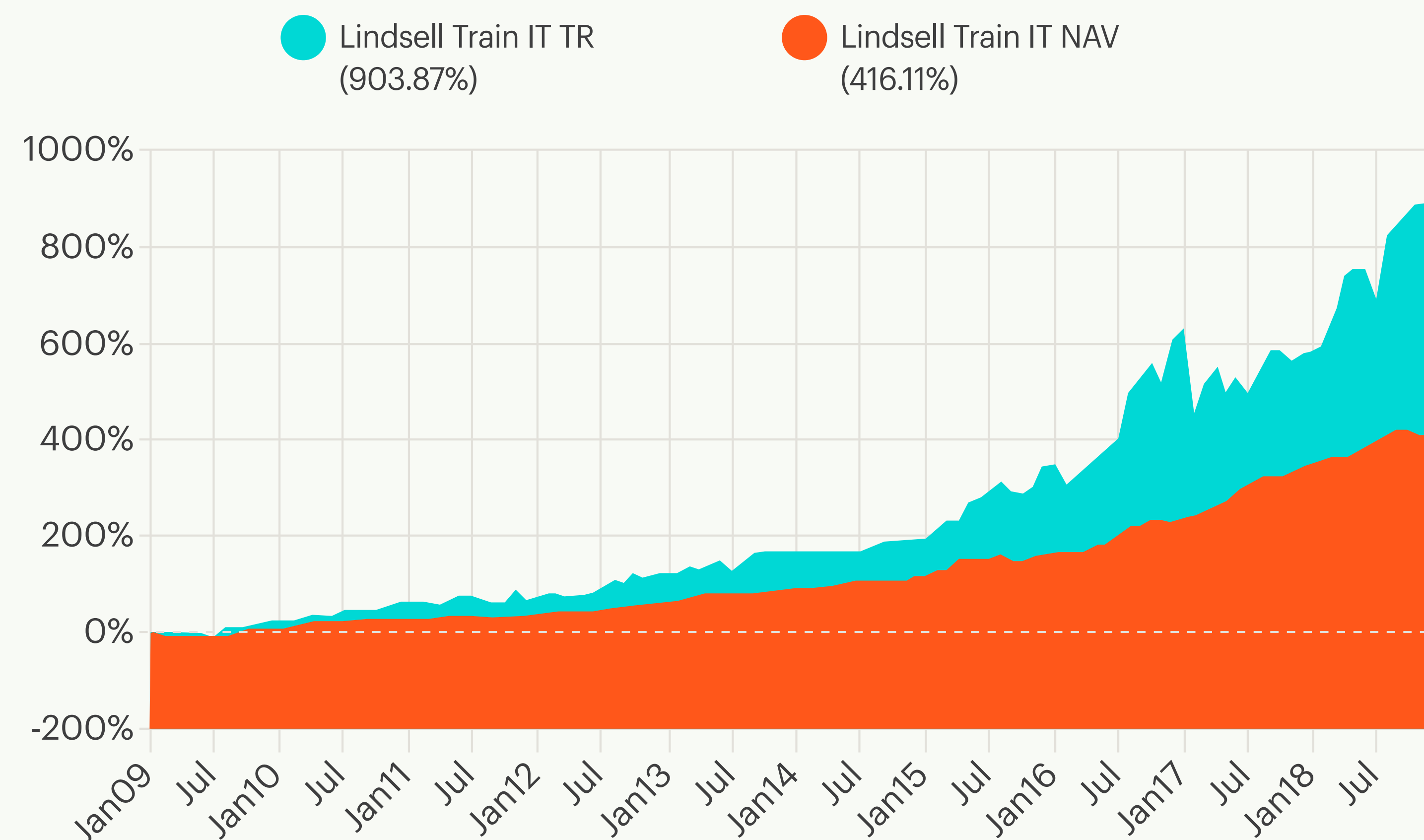
The rest of the portfolio is held in the cash-generative business franchises found in the other Lindsell Train funds, typically in areas such as financial services, consumer goods and media. Top holdings include Diageo, London Stock Exchange and Nintendo.

Michael Lindsell recently summed up the core hypothesis behind Lindsell Train's investment approach and how it has led to outperformance: "Durable business franchises can sustain higher than average valuations. This is not generally acknowledged by other investors or the market, which allows us to build our portfolios around the best businesses at what we believe to be often significantly undervalued prices. Exploiting this anomaly then gives us the opportunity to earn excess returns over time."●

FACT BOX

MANAGERS: **Michael Lindsell & Nick Train** / LAUNCHED: **01/01/2001** / DISCOUNT/PREMIUM: **+44.8%** / OCF: **0.85% (rising to 2.90% with performance fee)**

FE CROWN RATING



Source: FE Analytics

The factors that have contributed to Europe's underperformance over the past few years could soon begin to work in its favour, writes **Adam Lewis**

Every cloud...

Last year was a bad one for European equities. While all major developed stock markets struggled performance wise, the 11.07 per cent loss from the Euro STOXX Index meant it finished bottom of the pile.

Active managers fared even worse, with the IA Europe ex UK sector down 12.16 per cent, and IA European Smaller Companies fared worse still, with losses of 15.46 per cent capping a fairly miserable year for investors in the continent.

Worth the hassle?

Beset with sluggish economic growth and continued political uncertainty, this has raised the question of whether investing in Europe is worth the hassle – and is it an area of the market where active managers can add value?

Despite the fact the global economic picture for 2019 looks set to become more challenging, Rory Bateman, head of UK and European equities at Schroders, maintains Europe should enjoy above-trend growth in the year ahead. This, he argues, is because of how far Europe's economic recovery lags behind the rest of the world, as well as its continuing domestic consumer expansion.

Beset with sluggish economic growth and continued political uncertainty, this has raised the question of whether investing in Europe is worth the hassle

"Investors can access European equities at a five-year valuation low following the market decline experienced during 2018," he adds. "We often discuss the valuation differential between the US and Europe and at this particular moment the European price-to-earnings discount appears extreme."

"While European companies have not benefited from the share-buyback bonanza experienced in the US, the dividend yield on European equities is 3.7 per cent and overall corporate balance sheets are in rude health."

For Ben Yearsley, director at Shore Financial Planning, investors should never write off any region and he believes Europe is an interesting area at present. However, while he concedes markets are cheap, he adds that there

are concerns about what will happen now the European Central Bank has finally ended quantitative easing.

A messy outcome

"There are many issues to consider when looking at European equities," he says. "Italy is one of the major ones, however France also has a rising deficit and an unpopular president."

"Brexit is also a serious problem affecting European markets, with the UK not the only country which could be hit hard by a messy outcome. Ireland would really suffer as well, as would Belgium and the Netherlands as they export the most to the UK as a percentage of their GDP."

When it comes to GDP, with third-quarter growth registering at just 0.2 per cent and an annual rate of 1.6 per cent, the European economy is definitely slowing.

Add to this the end of QE, political problems in one of its largest economies and Brexit, and Yearsley admits the picture for Europe does appear gloomy.

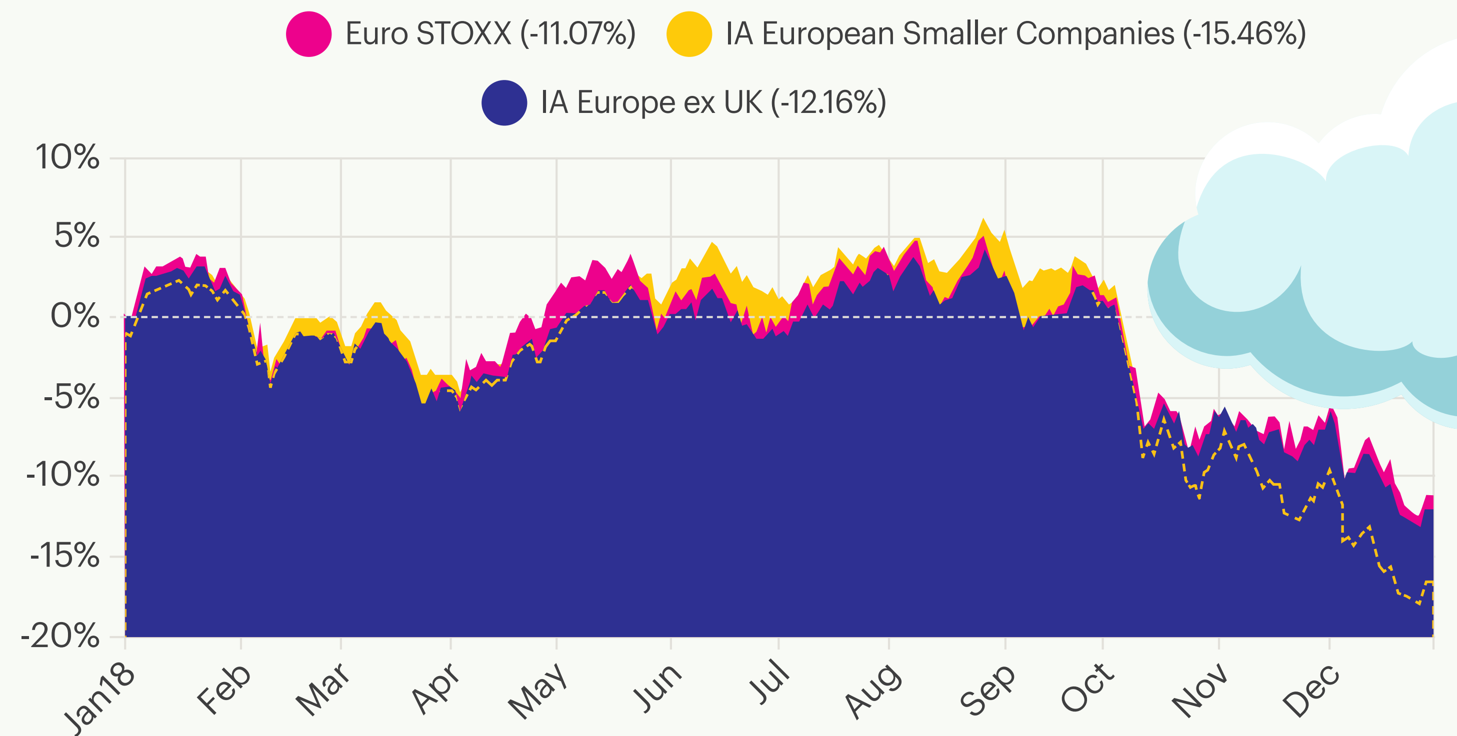
However, with the DAX index trading on just over 11-times earnings, according to Bloomberg, and the Euro STOXX on 13 times, Yearsley says this pessimism is priced into valuations, especially compared with a P/E ratio of 16 times for the FTSE All Share and 17 for the S&P 500.

"You always need to divorce economic performance from corporate results and Europe is home to many world-leading companies which are leaders in their field and less dependent on the vagaries of politics and Brexit," he says.

"While it is true that the entrepreneurial spirit doesn't seem to be as evident in Europe as it is in the US, this doesn't mean there aren't good companies. It is simply that certain sectors are probably under-represented compared with the US, with technology being the obvious one."

> **"While it is true that the entrepreneurial spirit doesn't seem to be as evident in Europe as it is in the US, this doesn't mean there aren't good companies"**

PERFORMANCE OF INDEX VS SECTORS IN 2018



Source: FE Analytics

Back down to earth

It is true investors all over the globe have seen the growth trajectory of the so-called FAANG (Facebook, Amazon, Apple, Netflix and Alphabet's Google) stocks in recent years. Not only have tech stocks propelled US market growth, the performance of Baidu, Alibaba and Tencent (BAT) has pushed Asian markets to dizzying new heights.

However, Chris Metcalfe, investment director at IBOSS, notes these kinds of companies are largely missing from European indices, as are the oil and mining stocks that dominate the FTSE in the UK.

"This may give Europe an advantage in an equity market pullback," Metcalfe notes. "It is often the stocks that take markets to new heights which eventually bring them back down to earth. This looked especially possible for the FAANG and BAT stocks, of which the valuations were priced to

perfection, and we saw something of a sell-off at the end of the year."

"We feel Europe can offer not only diversification but increased defensive characteristics, as some of the tech names have poor risk/return traits for investors entering the markets at these levels. All over the globe, sectoral dispersion of returns has been increasing."

Value added

Another debate when it comes to investing in Europe is whether to opt for a growth or value strategy. Metcalfe says: "If you look at the top-performing funds within the IA Europe ex UK sector, the more growth orientated funds have outperformed their value peers over a lengthy period, although value managers will be at pains to tell you this is not the case over the 'very' long term."

Looking forward, the headwinds which faced Europe in 2018, such as Brexit and the US-Chinese trade war, could fade

While it is important to be aware of European growth and value as a concept, Metcalfe says it is more important to understand the biases of the underlying European manager and how flexible they are likely to be if there is a change in drivers behind the outperformance of growth.

"The last three discrete years have given us an opportunity to do that and those funds that have outperformed in all three years could be the most flexible," Metcalfe says. "Baillie Gifford European and LF Miton European Opportunities are those we currently favour, offering the best of both worlds."

PERFORMANCE OF FUNDS VS SECTOR AND INDEX

Name	1yr (%)	3yr (%)	5yr (%)	10yr (%)
Jupiter European	-0.34	33.89	74.31	293.16
Baillie Gifford European	-12.36	33.79	46.62	207.96
LF Miton European Opportunities	-4.22	50.32	N/A	N/A
IA Europe ex UK	-12.16	19.94	29.83	113.39
Euro STOXX	-11.07	27.55	31.8	95.08

Source: FE Analytics

Looking forward

Looking forward, Adrian Lowcock, head of personal investing at Willis Owen, notes the headwinds that faced Europe in 2018, such as Brexit and the US-Chinese trade war – which has had an impact on European exporters – could fade.

Additionally, he says that the current global growth slowdown could stabilise, providing a further boost to the region.

"Europe is also a very broad market with many companies operating across different countries," Lowcock says. "This makes it hard to analyse and research, which in turn means there are opportunities that are likely to have gone unrecognised by the wider market."

"While the US is more business-focused, you are paying a significant premium for it compared with Europe. Investors should consider the region but accept that the political situation is part of the landscape."●

The top-performer: Jupiter European

Top of the IA Europe ex UK sector last year was Alexander Darwall's £5.3bn Jupiter European fund. While it finished the year down 0.34 per cent, it comfortably beat the sector average fall of 12.16 per cent. "Despite the fund's name, the focus is not on Europe, it is about the businesses within it," says Paul Standerwick, an IFA at MLP Wealth Management. "More than 50 per cent of the revenues of those companies it holds come from outside of Europe, meaning they are not reliant on the fortunes of their underlying local economies."

The all-rounder: LF Miton European Opportunities

Chris Metcalfe says IBOSS has held Carlos Moreno and Thomas Brown's LF Miton European Opportunities fund since January 2017, when it was just £70m in size. Assets have grown to £375m since then and despite falling 4.22 per cent last year, the fund still had among the highest alpha and Sharpe ratios in the sector. Metcalfe says he was an early adopter of the fund – it only launched at the end of 2015 – due to Moreno's strong track record in managerial roles at JO Hambro and Thames River.

The steady eddy: Baillie Gifford European

For consistency of performance, Metcalfe argues few funds can beat Baillie Gifford European, which has top quartile alpha, Sharpe and information ratios over five years. The portfolio has a mid-cap quality bias with annual turnover close to 20 per cent, which he points out is less than its peer group. "Like all Baillie Gifford funds, it has a bottom-up process and remains competitively priced, with an OCF of 0.59 per cent," Metcalfe adds. Stephen Paice has headed up the £453m fund since April 2011.

Crunching the biggest trends down into figures

Through the ages:

How changing demographics could affect your investments

43%

of millennials expect to leave their jobs within two years

Millennials should make up

50%

of the global workforce by **2020,** and

75%

by **2025**

Just **11%** of millennials in the US expect to make their next purchase in a physical shop

50%

of global employers found it hard to fill positions in **2018,** up from **31%** in **2008.** This rises to **67%** for large companies

From **1994** to **2014,** the number of 17 to 20 year olds in the UK with a driving licence fell **40%**

Home ownership in the UK for middle income adults has fallen from **65%** in 1996 to **27%** today

1.7

– birth rate in the UK. It fell below the replacement rate in 1993

27%

of Japan's population is aged **65 or over** compared with

6%

in India

UK public spending, excluding interest payments, is expected to increase from 33.6% to

37.8%

of GDP by 2064/65, due mainly to the ageing population

In 1991, **15.8%** of the UK population were aged 65 years or over. This will rise to

26%

by 2066

Source: LGIM, World Bank, IMF, Taiwan National Statistics, Focus Taiwan, CIA World Factbook, IFS, UPS, Department for Transport, ONS

Fund managers may appear unconcerned about Brexit, but with just 10 years to retirement age, AltRetire's **John Blowers** can't help worrying about the impact on his pension

Brexit wounds

I must admit this is not a year I'm looking forward to. Although there has been a pause in Brexit rhetoric over Christmas, the country will no doubt be embroiled in more political discord over the next few months that could take the UK into a "no-deal" scenario and major economic uncertainty.

I'm no Project Fear subscriber, but I do listen to some of our brightest economists and business people and what they have to say about a no-deal scenario is not encouraging.

The single thing that concerns me the most is my pension fund. It's funny, because in most of the conversations I have had with friends and colleagues on both sides – remainers and leavers

> **"In the most pessimistic scenario, we could find our pension values falling by 40 per cent and not recovering to today's levels until 2029"**

• • •

– no one mentions their pensions.

Like me, many of my friends are of a certain age – mid-50s – and 10 years of economic uncertainty ahead of us will bring us to the retirement zone.

The next 10 years of growth in my pension are make or break. I failed to make meaningful contributions earlier in my working life, plus I made a stupid unquoted investment using my SIPP in my early 40s, effectively losing me half of my pension.

Now I'm piling as much as I can into my SIPP, but time is no longer on my side. Recently, the balance of my pension hasn't gone anywhere apart from down, even though I'm putting in four-figure sums every month. I'm not sure how long I will be able to maintain contributions at this level if we enter a full-blown recession.

Global fund-manager sentiment towards the UK has never been lower and while the FTSE 100 has lost 1,000 points since last summer, nobody knows how much further it could fall in the event of no deal.

If you take a look at the two most recent crashes, of 2000 and 2008, the markets took three or four years to recover. Economists are discussing timeframes of a decade-plus for the UK to get back on its feet if a no-deal Brexit occurs, so in the most pessimistic scenario, we could find our pension values falling by 40 per cent and not recovering to today's levels until 2029.

That'll put the mockers on a decent retirement.

However, we're not here to get miserable (or worse still, cash in all our investments). We're here to find out how to hedge against the potential downsides of one of the biggest challenges this country has faced.

Sick of it

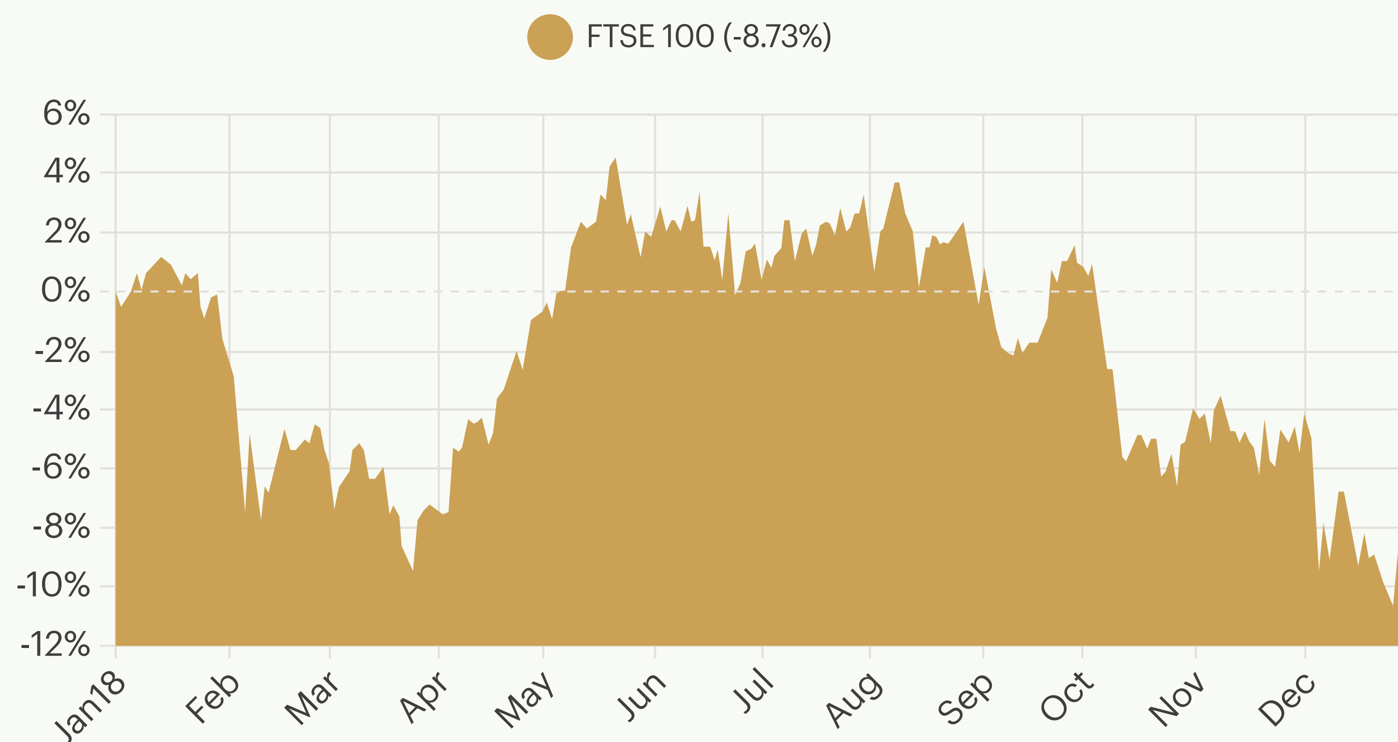
I know you're sick of the subject, but I wanted to look at Brexit from a retirement perspective. The lack of confidence in UK companies led to net fund withdrawals of £6.8bn from the UK equity sector between April 2017 and September 2018.

On a positive note, we may not leave the EU without a deal and the Brits are ingenious enough to find ways to grow their businesses – and the economy as a whole – in the toughest of conditions.

UK fund managers believe FTSE companies are cheap at the moment, so there is hope the index will bounce back once there is more certainty on what path the UK is heading down.

• • •

PERFORMANCE OF INDEX IN 2018



Source: FE Analytics

What can you do?

Make a plan. If you don't already have one, it's a good idea to create a spreadsheet of your assets and try to describe and cost your target retirement lifestyle. In my plan, I have a series of scenarios that consider the following:

- My retirement date options (I have plans for retiring at 58, 62, 65 and 67)
- How much have I saved in my pension?
- What state pension will I get (and when)?
- How much will I continue to put in until retirement?
- Where I want to live (the UK, France, Spain or Italy – if I am allowed!)
- A roughly costed-out lifestyle: bills, clothes, holidays, food, maintenance, car and so on
- How long will my retirement last? I've decided I'm dying at 90 – actuarially accurate, but probably optimistic
- Three growth scenarios for my pension portfolio: 3, 5 and 8 per cent
- Other assets net of costs: houses – less any outstanding mortgage and property downsize – car, other savings
- Any outstanding liabilities: loans, debts, mortgages, children
- Potential windfalls such as inheritance and so on
- Partner's pension

• • •

Most importantly, perhaps, is that with the FTSE getting the majority of profits from overseas, a domestic recession could be far from catastrophic for UK investors – quite the opposite, in fact, if the index follows a similar route to the one it took in the aftermath of 2016's referendum result, when the falling pound pushed up the value of foreign earnings.

Basket case

However, while the FTSE is diversified by geography, it is less diversified by sectors, with a heavy weighting to oil & gas and tobacco, but little in the way of tech exposure. Some of the money that has left the UK has found its way into sectors such as the US and Far East and, while global markets are not doing particularly well at present, it's a lesson in asset allocation and not having all your eggs in one basket.

Make sure you are diversified rather than bailing out of the UK, as there is likely to be a spring-back when the dust settles.

Brexit also affects Europe as we are one of the continent's biggest customers. I'm always astonished just how much German metal there is on our roads and it could be extremely damaging to its economy if we lose our appetite for its cars. The same principle applies to many European countries and industries. They simply don't want to lose us Brits as customers.

"There are also fears that we may never reach a true end point on Brexit, with politicians continuing to kick the can down the road to avoid risking the wrath of one half of the electorate"

The never-ending story

There are also fears that we may never reach a true end point on Brexit, with politicians continuing to kick the can down the road to avoid risking the wrath of one half of the electorate, denying the market the certainty it so desperately craves. With so little clarity achieved in more than two years since the referendum result was announced, who can bet against a never-ending Brexit story?

Many analysts say markets are already pricing in the negative impact of Brexit and these will rebound along with the FTSE once we have left the EU. I'm not so sure, especially with the myriad of other threats they are currently facing – whether that is rising interest rates in the US, the slowdown in China, heightened political risk, global debt-to-GDP surpassing pre-financial crisis levels… do you want me to go on?

Taking back control

There are a few things we can do for our pension funds as we approach 29 March, but it's hard to argue against some of the standard advice of holding tight and diversifying your risk by sector and geography.

I preach vehemently against trying to time the market and while you may be tempted to go into cash, this is probably a bad idea.

Once you've acknowledged this, you can mess around with a number of "what ifs?", such as can I sell up and retire earlier, can I live more frugally, or do I work longer and stay in my house?

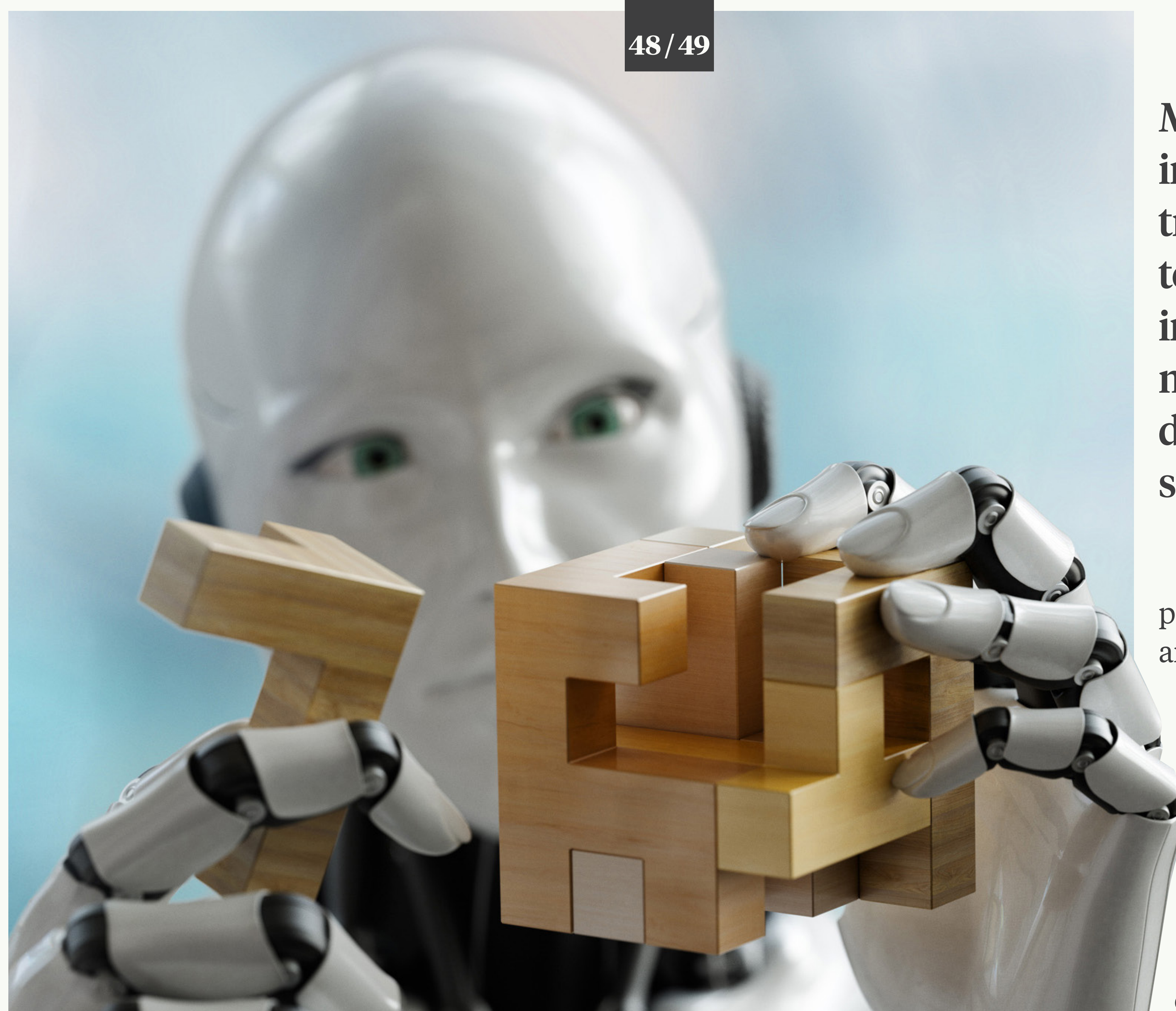
You'll have your own dreams for retirement, but it's important to have a strategy even when you're young.

If you're in your 40s or 50s, a plan is essential – on paper and not in your head. Too many people don't give any thought to the life they want in retirement or how much it will cost.

No doubt, 2019 is going to be an interesting year and has the potential to mess with your plans, but we have to keep faith with the principles of investing. Nobody likes to see their portfolio plummet, but it's happened to us all before. To get the ups, you need the downs, and this might just be the start of a brave new world.●

L&G Growth Trust's **Gavin Launder** is keeping a close eye on three stocks that are using digitalisation and automation to add value

The automation game



Many asset-intensive industries are being transformed by new technologies that can improve productivity, maximise efficiency and deliver significant cost savings

At a time when markets are beginning to fret over future growth prospects, we believe the secular trend of digital transformation has only just started. Many asset-intensive industries are being transformed by new technologies that can improve productivity, maximise efficiency and deliver significant cost savings.

Bringing together data and devices enables automation and heralds a new dawn of asset optimisation.

As this trend unfolds, increasingly capable software and services look set to redefine industries as growth and value drive adoption. These new technologies are prevalent in a number of stocks we hold and follow closely. ●

AVEVA

AVEVA is one of the companies most exposed to the digitalisation of the process world. A reverse merger with industrial software assets from Schneider put AVEVA in a unique position to provide engineering and industrial software for the oil & gas and power markets that brings together design, visualisation and simulation. Delivering predictive maintenance and digital twin capabilities can minimise machinery downtime and reduce costs, while industry focus on optimisation increases demand for data collection and asset performance management, which are both key drivers of digitalisation.

Another example of digital transformation comes from RHI Magnesita, a leader in the global refractory industry. The merger of Austrian and Brazilian assets last year means the company has a global presence and product portfolio for the high-temperature production of steel, glass and nonferrous metal materials. Cost competitiveness is important, while higher demand for customisation and greater technical performance are integral to blue-chip clients. A high level of integration is allowing RHI Magnesita to accelerate digitalisation across the value chain.

ocado

Ocado is a structural winner and operational leader in the online grocery channel. It has leveraged its best-in-class intellectual property to create a platform for the most efficient automated solution in its sector. While it has struck many international partnership deals in the past year, we believe more are on the horizon. As Ocado aims to expand its solution offering, the business is well positioned to bring new capacity online to match demand. Ocado can take advantage of growth opportunities and deliver long-term value creation for the world's most innovative retailers.

Brewin Dolphin's **Rob Burgeman** says this fund offers exposure to one of the defining trends of the 21st century – urbanisation

Schroder Global Cities Real Estate Securities

Not all cities are created equal. Just because $1m would buy you 157m² in Cape Town compared with 28m² in London, this does not make the South African city cheap

We have recently started adding to our position in the Schroder Global Cities Real Estate Securities fund, which has been run by Tom Walker and Hugo Machin since August 2014.

Data lies at the heart of the managers' investment process. The fund's exposure is focused on truly global cities – those that have strong infrastructure, large pools of talent, world-leading universities and high levels of economic activity. As urbanisation continues its rapid growth, such factors will allow these cities to thrive and draw in resources from the surrounding areas, enabling the property companies based there to continue to outperform.

In the numbers

The team has built a number of proprietary databases to help guide it through this process. For example, the Global Cities Index ranks each city by factoring in population, GDP, household income, retail sales and universities; the Transport Index rates the assets of each holding on their proximity to key transport hubs; and the Individual Asset Database identifies the most valuable underlying property assets based on their location.

The next stage involves examining areas such as the companies' ESG policies, balance sheet strength and valuation to produce a portfolio.

These three databases contain some six million data points which help to create an "intellectual moat" around the fund.

The defining trend

While the fund offers exposure to the defining trend of the 21st century – urbanisation – the managers say it is important to remember not all cities are created equal. Just because $1m would buy you 157m² in Cape Town compared with 28m² in London, this does not make the South African city cheap. "In the knowledge economy, being in the right place has never been more important, even if that means putting off buying a home," the managers say, and this ultimately, is the rationale behind the fund: good properties in good locations run by good management teams are not immune to market movements, but tend to preserve value while participating fully in any boom.

Swimming naked

As we reach the peak of this economic cycle, differentiation will be key. As Warren Buffett says, "you only find out who is swimming naked when the tide goes out".

Net asset values are all very well, but they are not necessarily a good indicator of what a property is worth in cold, hard cash. Secondary shopping centres in peripheral areas may look optically cheap on a discount to NAV basis, but what is their value in the real world and where are the drivers to that NAV rising?

This is a clearly differentiated fund, with a target of optimising long-term returns for shareholders. I suspect as global headwinds pick up speed towards the back end of 2019, this is the kind of fund that should add some stability to portfolios. ●

***Rob Burgeman** is an investment manager at Brewin Dolphin*

FE Trustnet

magazine

February preview

Not EU again!

You're sick of reading about it, we're definitely sick of writing about it, but we can't just ignore Brexit and hope it goes away. The next issue of FE Trustnet Magazine will consider every possible outcome of our departure from the EU and the potential impact on your finances.

Our sector focus will fall on AIC UK Equity Income as we ask if it is wise for investors to rely on a market dominated by tobacco and oil for their income going forward.