# Money Matters

NAVIGATING THE FINANCIAL LANDSCAPE

Summer 2021

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## Welcome to the Summer 2021 edition of Money Matters.

Money Matters is a biannual magazine, so there's always opportunity for reflection when writing this introduction, and especially so in the past six months. Earlier this year we called a selection of clients who responded to our online client survey back in December and we found many of them really appreciated the contact their adviser made during the lockdown, so that's something we want to build on when life returns to normal. Our service isn't just about recommending a financial plan, it has always been about building a relationship based on trust with the goal of delivering on financial plans and this period has undoubtedly reminded everyone at Wren Sterling of the importance of human contact.

In this edition, our lead article is on inflation. The price of goods and services generally rises every year, and is often encouraged by policy makers - if it can be controlled. As advisers, it is our role to help our clients mitigate the risks of inflation in our financial planning work, so it's worth understanding why we could be about to see a bit more inflation than we're used to seeing.

Additionally, we've got a piece on the rise and risks of DIY investments, Liontrust looks at the future of sustainable investments and on a similar theme, a reflection on what is in workplace pension default funds. Finally, there is a reminder of some of our other services that you might not know we provide, including estate planning (Wills, Trusts, Inheritance Tax Planning) and our Employee Benefits Consultancy.

I hope you enjoy our magazine and my best wishes for what I hope will be a golden summer.

Ian Halley
Chief Executive Officer
Wren Sterling

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# SHOULD WE BE WORRIED ABOUT **INFLATION**?

**Inflation rose to 2.1 per cent in May 2021, breaching the Bank of England's target of 2 per cent for the first time since July 2019. After so long living in low central bank interest rate conditions, it might be an indicator of a change in the relationship between our disposable income and the things we buy, while its effect is far-reaching, from everyday spending to retirement strategies.**

Inflation is a result of rising prices and this is measured by the Consumer Prices Index (CPI). The CPI is a combined series of the changes in cost of a number of sectors in our economy, reflecting whether they have become more or less expensive over the last twelve months.

In the most recent measure of May 2021 (released 16th June 2021), transport increased by 0.72 per cent, reflecting the rising cost of fuel in that time and other significant increasing factors included clothing, recreational goods (particularly games and recording media), and meals and drinks consumed out.[1]

Clothes prices rose by 3 per cent compared with last year, the price of a haircut by 7.9 per cent and restaurant prices by 1.7 per cent.

The biggest increase was in transport, where there was a 17.9 per cent increase in motor fuels. Average petrol prices were 127.2p a litre in May, compared with 106.2p per litre a year earlier, when lockdown was in full effect and few cars were on the road.

There was a 2.7 per cent increase in the prices of toys and games, a 5.8 per cent rise in sports and outdoor goods, and a 3.4 per cent rise in recording media, "principally music downloads", the ONS said.

Philip Aldrich, writing in The Times, summarised why the cost of goods has increased.

"Output producer prices, also known as factory gate prices, rose to 4.6 per cent, the highest level since January 2012. Input producer prices, the cost of materials, jumped by 10.7 per cent, the highest rate since September 2011. Inflation is on the march globally, rising by 5 per cent in the United States in May — a 13 year high."[2]

### How did it happen?

Since Covid hit in the early part of 2020, central governments have responded by stimulating the economy. This included measures such as the stamp duty holiday, to encourage consumers to keep spending when their instincts were probably to preserve cash, given the uncertainty of the situation.

The Furlough scheme is another factor here. It pumped a lot of money into the economy by subsidising wages, while the Bank of England launched an £895bn quantitative easing programme to ensure the economy kept running at 'normal' levels and didn't grind to a halt.

However, the situation now is that much of that money remains in circulation and consumers have saved a lot of money (the UK's average household savings ratio exceeded 25 per cent in 2020 from a typical rate of 5-10 per cent in the preceding five years).

The unlocking of the economy and loosening of Covid restrictions, combined with rising prices from manufacturers and the sheer amount of cash available to spend has pumped prices up. We're also seeing low levels of unemployment,

[1] ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2021
[2] thetimes.co.uk/article/inflation-breaches-bank-target-with-rise-to-2-1-vn056lg5l

which typically means that wages will rise as fewer workers chase each vacancy.[3]

At a macro level, immigration for work is on hold at the moment because of countries closing their borders, while the UK has still to coherently set its stall out for how it will allow immigration post-pandemic in light of Brexit, which is causing a shortage in certain industries.

However, inflation also has to be seen in the context of the last few years as a whole. Inflation was negative or very low for most of 2020 and the start of 2021, so the rise now appears to be starker.

### What's going to happen next?

Policy makers, including the Bank of England, try to control inflation so that it doesn't continue unchecked and we spiral into an ever-increasing state of rising prices and rising wages, or hyperinflation.

One option is to increase the cost of borrowing so that people are discouraged to spend and encouraged to save. Since the credit crunch of 2008/9, policy has been to discourage savers as the Bank of England fought against sluggish growth, meaning that the Bank of England base rate has remained at historic lows. In that time, homeowners have benefited from low mortgage rates as the cost for their bank to finance mortgages has been low. We might see the base rate voted upwards by the Bank of England's Policy Committee if inflation continues to rise.

There is a level of inflation that the Bank of England is happy to live with though, particularly as the government will probably chase economic growth in the aftermath of the pandemic. Therefore, there might not be any immediate change and if prices settle across the globe and the impact of post-Furlough does come through negatively by increasing unemployment and reducing household expenditure, as has been anticipated, things might correct themselves.

### Why it matters

In order to maintain purchase power – i.e. money allowing us to buy what we need without it costing us more, then we need money to be appreciating by at least the same as the rate of inflation. For example, if the cost of a loaf of bread rises from £1 by two per cent and your wages have remained static, or your savings are in an account paying you 0.1 per cent, it will cost you £1.02 and you need to find that 2p from your wages or your savings. This is a small value, but replicate that across your utility bills, travel, weekly shop and other household expenses over the course of a year, and it becomes a bigger problem.

It's sensible to keep some cash for emergencies, for purchases and an unexpected fall in income, but it's important to make sure you're not holding too much in cash, as it will lose value over time due to inflation. And the UK has a lot of cash saved after the pandemic.

### What can we do about inflation?

When it's actually happening, not a lot, unfortunately. If you're employed, you could push for an annual wage increase in line with inflation or get another job. Also, as the CPI is an amalgamation of prices of multiple goods, you could avoid those with the highest price increases – although that would be impractical for fuel if you need to drive a car or simply a lot of hassle for basic household goods.

The best course of action is for your financial adviser to construct your finances so that inflation is accounted for. Your adviser will make sure you're:

- Using your personal allowances to save as much tax as possible. Paying tax will almost always cost you more than the effects of inflation
- Minimising the amount you need to hold in cash so your overall estate is not at risk of losing value over time
- Investing in strategies designed to deliver investment returns that outstrip inflation (in line with your attitude to risk and capacity for loss, of course)
- Withdrawing from your pension flexibly (if you're in flexi-access drawdown), to account for inflation and investment performance simultaneously, so it doesn't affect your overall financial planning objectives

Your home may be repossessed if you do not keep up repayments on your mortgage

[3] markets.businessinsider.com/news/stocks/uk-unemployment-economy-jobs-labor-april-reopening-coronavirus-vaccines-2021-6-1030521965

### What about retirement products?

Those with an annuity are most at risk from inflation. The annual amount that a retiring person's pension pot is traded for does not always adjust for inflation (sometimes it has to be added on as a feature), so there's a risk of purchase power depreciation over time.

Pensioners with flexible access to their pension pots could also be affected by inflation. However, they have the option to draw down more to cover inflation. With the bulk of their pension still invested, strong investment performance could create additional funds to withdraw, without it affecting the long-term withdrawal strategy.

### A £4.7bn elephant

The elephant in the room is the state pension, which is a key component to many retirement strategies and is guaranteed to beat inflation. The Triple Lock law means the basic state pension and the new state pension are increased by the highest of three elements on an annual basis.

These are the growth in average earnings; the growth in prices as measured by the Consumer Price Index; or a floor of 2.5%.

It is also a legal requirement that the increase be at least in line with average earnings.[4]

As it stands, earnings growth looks to be the element rising fastest, at 5.6 per cent in April. The context here is that the UK spends £85bn on its pensioners annually, so a 5.6 per cent growth would add £4.7bn to the bill, at a time when the UK is trying to recover from the highest level of state spending since the Second World War.

Politically, this feels like a very thin piece of ice for the Chancellor to skate on. He has options, such as linking to underlying earnings growth, which discounts the impact of wage reductions in the economy through the Furlough scheme and the removal of lower paid jobs in the economy due to closures of hospitality, which has increased the 'average' wage. This figure would be about three per cent.

However, the government could expect strong resistance to any significant increase in the state pensions from a younger population who already feel that they're going to be stuck with the burden of repaying eye-watering levels of state borrowing.

Now might be an opportune moment for the Government to re-evaluate the Triple Lock as a policy, especially given its stated desire to level up the economy and to manage its debts. Furthermore, given that the social care crisis has yet to be resolved, it could be a more prudent use of resources to divert them to that sector and tackle it instead.

As for inflation, given the extraordinary conditions of the last twelve to eighteen months (remember Brexit happened) and the great unknowns of the future, such as the vaccine, whether state aid will continue in the event of another variant outbreak, or frankly, anything that hasn't been foreseen just yet, we may expect inflation to rise and fall fairly dramatically, as policy makers struggle to work out which way it will go.

For the past 26 Bank of England Monetary Policy Committee meetings, members have only voted differently to each other on four occasions. All things point towards much more variety in the minutes going forward.

While investing your Capital is at risk. Equity investments do not afford the same capital security as deposit accounts. A pension is a long term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Pension income could also be affected by interest rates at the time benefits are taken. Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits. Accessing pension benefits is not suitable for everyone. You should seek advice to understand your options at retirement. The Financial Conduct Authority does not regulate taxation advice.

[4] moneymarketing.co.uk/news/inflation-could-force-sunak-into-triple-lock-hike-fudge

# THE FUTURE OF **SUSTAINABLE INVESTING**

Ongoing fallout from Covid-19 and a number of flashpoints around social inequality have focused attention on sustainability and posed questions about the future role of ESG (environmental, social and governance) in investments.

Peter Michaelis,
Head of the Liontrust
Sustainable Investment team

**While no one predicted the full impact of the pandemic, we have long recognised our current system is unsustainable and needs dramatic reform if it is to 'meet the needs of the present without compromising the ability of future generations to meet their own needs' (a 1987 quote from Gro Harlem Brundtland, who chaired a commission on sustainable development).**

On a social level, the success of our economy at generating wealth has not fed through to all. We know the system is not working when in a country as wealthy as ours, those essential front-line nurses, carers and teachers cannot afford housing in the areas they work and particular groups are persistently disadvantaged. Meanwhile, the state of our natural world was summed up in a 2020 podcast by Inger Anderson, head of the United Nations Environment Programme (UNEP), in which she gave a dismal report on the effect of human impacts on land, sea and air. In each area, we have drastically decreased the resilience and abundance of the ecosystems upon which we ultimately rely.

People working together with businesses, putting capital to work towards a common purpose, has delivered immense good in many areas.

And yet despite this, our belief on the Liontrust Sustainable Investment team is that the prevailing system of capital markets and competition between companies has to be a major part of the solution. People working together with businesses, putting capital to work towards a common purpose, has delivered immense good in many areas. Much of the progress towards higher quality of life has been driven by this, leading to the vaccines and cancer treatments, solar and wind generators, electric vehicles, LED lighting, internet, and countless other products and services that make our lives better and more sustainable.

Over 20 years, the key to performance on our Sustainable Future Funds has been investing in such companies, which have been successful because they help make our world cleaner, healthier and safer. This highlights the importance of identifying structural growth and we continue to believe investors underestimate the speed, scale and persistency of such trends.

As long-term sustainable investors, we have faced questions over the years on whether ESG would survive the next downturn and Covid-19 has brought renewed scrutiny on this. Our answer remains firmly in the affirmative but rather than debating sustainability itself, we address the question via our investment process and funds.

We start by looking at the world through the prism of three mega trends, Better resource efficiency (cleaner), Improved health (healthier) and Greater safety and resilience (safer), and 21 themes within these, all focused on the shift towards a more sustainable economy. Building on this work, we also require excellence in ESG and our holdings tend to have processes in place to manage customer relationships, employees and supply chains; we believe outperformance on these issues will deliver more resilient businesses over the long term. We bring all this information into our forecast earnings, only selecting companies that can make money from their good work, and the final part is an attractive valuation.

Taking our process step by step, because of our thematic work, our funds came into the Coronavirus crisis with no exposure to airlines, casinos, pub chains, luxury shopping or cruise ships, all sectors that suffered the worst declines. Because of steps two and three, on ESG and business fundamentals, we are largely invested in companies making products the world genuinely needs, demonstrating close relationships with their customers, treating employees with respect, and understanding the complexities of modern supply chains. Our view remains that as we start to look past Covid-19, the tools companies have developed to outperform in the face of a climate emergency, an obesity epidemic or failing boards will be the making of sustainable investment.

Another point to note is that crises often accelerate changes in action for years and this is happening across many of our themes. Our Connecting People theme has seen a marked acceleration, for example, as millions of us work from home and stay connected with friends and family digitally. Rising demand for more digital communication, as we become more connected, increase our data consumption and become aware of the environmental impacts of travel, has been evident for years but lockdowns have supercharged this shift.

Companies such as Cellnex and TeamViewer – an operator of wireless telecoms infrastructure and a company specialising in remote desktop software – help towards more seamless digital connection and remote working and we believe the increased demand for their products over recent months is not transient but the beginning of a permanent shift in habits. Now so many of us have shown we can successfully work from home, it would be disappointing to see a return to widespread unnecessary travel.

"We anticipate the next year being one of recovery and it seems the shape of this will be more aligned with better welfare and lower environmental impacts."

While increased communication is important for the development of a sustainable economy, however, the challenge is to decouple this growth from its environmental impacts. Digital technology's share of greenhouse gas (GHG) emissions is rising fast and we also see considerable opportunities coming from the trend towards outsourced storage and processing.

Meanwhile, with vaccines allowing the world to look past Covid-19, one thing the pandemic has hopefully done is open people's eyes to the importance of getting healthcare right.

While pharmaceutical companies are currently in the headlines because of their efforts against Covid-19, we invest in healthcare because the sector's innovation is vital for a more sustainable future. Over recent years, there have been significant advances across areas such as gene editing and DNA sequencing, and these are revolutionising how we think about treatment. The traditional model has a large element of trial and error, with people seeking help when they feel ill and hoping whatever drug or procedure prescribed is effective – but this often proves too late.

In contrast, we are moving towards a more personalised system where we can understand how someone's genetic make-up makes them vulnerable to certain diseases. A recent addition across our funds is US healthcare business Illumina, a global leader in sequencing for genetic analysis. Illumina continues to lower the cost of sequencing, enabling broader adoption of these techniques and accelerating trends such as liquid biopsy, which allows doctors to detect cancerous cells from a blood draw rather than source tissue.

We expect healthcare companies to continue to do well by doing good; a company like Roche, for example, has seen significant demand for its

diagnostic machines during the pandemic and we believe it will continue to expand its footprint. Even as Covid-19 testing falls, these machines will be put to work to scan for diseases where governments have been reluctant to invest, such as Tuberculosis or Hepatitis C.

Looking forward, with sustainable investing growing increasingly popular, there are inevitable questions about whether these stocks, and the concept overall, are in 'bubble' territory. While there has been a large increase in demand, we are still in the early stages and growth is coming from low levels; from our perspective, we would also highlight the diversification of our themes and the fact our long-term investment horizon and concentrated portfolios allow us to remain selective.

In contrast to identifying structural trends, we are also looking to avoid growth that is transient in nature as well as crowded and expensive trades such as the mega-cap FAANG names. We have seen bubbles emerge in certain parts of the market recently, including some IPOs in the technology space, SPACs and, to a degree, stocks where new entrants into ESG funds are buying without any regard for valuation, such as Tesla and Sunpower. The fourth pillar of our process, valuation, ensures we avoid companies trading at levels that have lost touch with underlying fundamentals.

Market moves over recent weeks have been indiscriminate but we feel fundamentals will ultimately drive the higher-quality names in our funds back up, leaving behind stocks buoyed by emerging bubbles; having a process that has been running for two decades helps when dealing with periods of rotation in the market.

We anticipate the next year being one of recovery and it seems the shape of this will be more aligned with better welfare and lower environmental impacts. The idea of a just energy transition, for example, has gained traction and, as stated, we expect many themes that have accelerated through Covid-induced lockdowns to persist: remote and paperless working, reduced travel, healthier lifestyles and greater focus on illness prevention, as well as a recovery in the social activities we have missed. Along with that, we hope to see a slight realignment of values so that, in future, wealth and welfare creation become two sides of the same sustainable coin.

Put simply, we cannot afford to go back to 'normal' when this crisis is over. The world should feel emboldened by efforts in response to the virus and go further to make our economy cleaner, healthier and safer, as well as striving to make it fairer. We will continue to invest in businesses at the vanguard of these changes.

**Next steps**

Liontrust is one of Wren Sterling's sustainable investing partners. If you're interested in creating a sustainable investment plan or moving your existing investments to a sustainable solution, please speak to your adviser.

For a comprehensive list of common financial words and terms, see our glossary at: liontrust.co.uk/benefits-of-investing/guide-financial-words-terms. This article should not be construed as advice for investment in any product or security mentioned. Before making an investment decision, you should familiarise yourself with the different types of specific risks associated with each of our Funds. This information can be found in the Prospectus and Key Investor Information Documents (KIIDs) available on our website: www.liontrust.co.uk.

# WHAT'S IN YOUR **WORKPLACE PENSION** DEFAULT FUND?

## The ingredients might surprise you

**Auto enrolment has increased pension membership, and now the UK has a combined master trust pension pot of £38.5 billion. While more of us are saving for retirement, in 2019, 95% of the UK's 16.6 million defined contribution pension scheme members were invested in their scheme's default strategy.**

Default options often appeal to investors who are less confident making decisions about their finances, or who want a 'hands off' approach. Or perhaps more accurately, it is because people have never looked past the fact that they're paying into a pension and changed where their funds are invested.

The disadvantage of the default option is that an employer's default pension fund is chosen to suit the average staff member. It's the equivalent of giving everyone a medium-sized shirt. It won't fit everyone and now that people are becoming more aware of their ability to demand change for an investment solution that suits their values and they're shocked to know that they're investing in industries that they would ordinarily oppose, such as tobacco, fossil fuels or palm oil.

### Understanding the impact of your investment decisions

This was brought into sharp focus for Australian oncologist, Dr Browyn King. In a widely-viewed TED Talk (TED Talks are influential videos from expert speakers on education, business, science, tech and creativity), she talks about the day she took a moment from her job battling the effects of cancer to learn about her pension, and discovered she was investing in tobacco.

Browyn took immediate action to disinvest her retirement savings from that fund and to move to another that excluded tobacco. She now advocates for major financial organisation to move to tobacco-free funds.

### 2020 – a year of much change

2020 saw a lot of investors view the world through the same lens as Dr King, and this change has been bubbling away for a few years from concept to action.

In 2016, Legal & General Investment Management surveyed 1,600 pension scheme members and found that 81%want their pension scheme to be invested in companies with advanced social and environmental practices.

Figures from the Investment Association published in November showed that responsible investment funds saw net flows of £7.1 billion in the nine months up to September - nearly four times the £1.9 billion seen for the same period over 2019[1].

The challenge for those in charge of workplace pensions is to meet demand by finding environmental, social and governance (ESG) solutions and then communicate that change to their members. This is made more complicated by the different ethical viewpoints of employees – no two people see the world the same way.



[1] fidelity.co.uk/markets-insights/investing-ideas/esg-investing-articles/2020-bumper-year-sustainable-investing/

*“I’m sitting at the hospital cafeteria, having my first ever meeting with a representative from my superannuation (pension) fund. He tells me I’m in the default option. And I said, "Option? Does that mean there are other options?"*

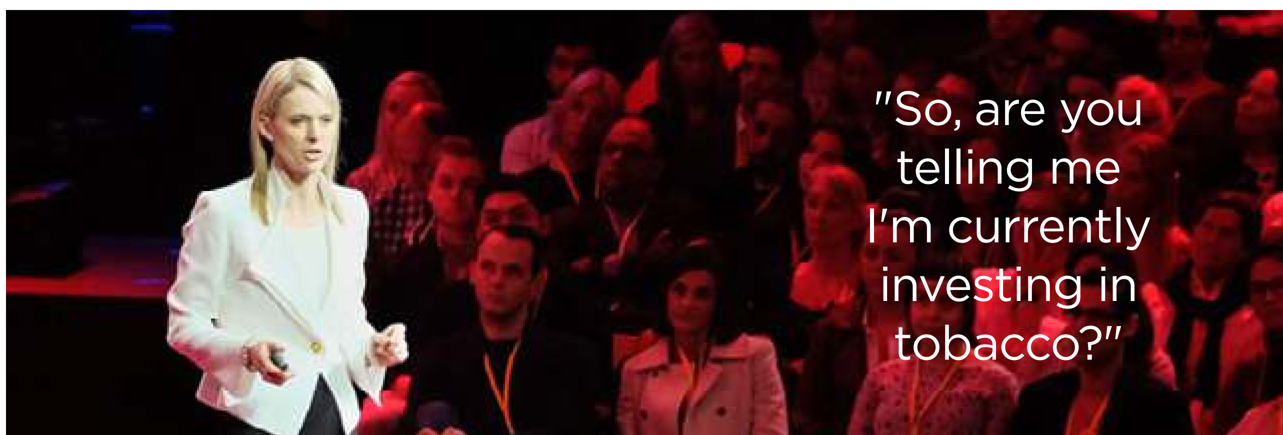
*He looked at me, rolled his eyes, and said, "Well, there is this one greenie option for people who have a problem with investing in mining, alcohol or tobacco."*

*I said, "Did you just say tobacco?"*

*He said, "Yes."*

*I said, "So, are you telling me I’m currently investing in tobacco?"*

*When you invest in a company, you own part of that company. You want that company to grow and succeed and thrive. You want that company to attract new customers, you want that company to sell more of its products. And when it comes to tobacco, I couldn’t think of anything that I wanted less.”*




### The reporting challenge

It is difficult for providers to quantify a fund’s effect on people and planet in a consistent manner. There are already several different matrixes rating funds’ ethical credentials, but no single source of authority, so it’s not really comparing apples with apples.

Furthermore, it also leaves them open to ‘greenwashing’, a process of claiming funds are greener than they are, in order to attract inflows.

The Pensions Bill currently making its way through parliament aims to raise the bar for pension funds to report the climate change impact of their investment portfolios. This is just one part of a series of changes to “update the law to require pension scheme trustees to consider the impacts of their investments from a changing environment, corporate governance and social trends.” This clause requires “occupational pension schemes to manage the effects of climate change effectively as a financial risk to their investments and to report publicly on how they have done so.”

### Using empowerment to increase engagement with younger savers

We have broached the subject of needing to increase awareness and engagement of retirement planning many times in the pages of Money Matters. The earlier someone starts displaying the right behaviours, the better chance they have of building a suitable retirement income pot.

This is where ESG has the edge on previous initiatives and it is more likely to capture the attention of younger generations.

Moving investments from one seemingly faceless fund into another on the basis of slightly improved performance has been an option for many years but clearly not many have taken it up, hence the 95 per cent of people remaining in their default fund.

However, we live in an activist society now where movements supporting climate change, anti-racism and gender equality are mainstream. It is easier for people to identify those causes and direct their investments that way, rather than learning the fundamentals of stock market performance and identifying future growth areas – that is the preserve of professionals anyway.

Have a conversation with a child or grandchild who is starting their retirement planning journey and encourage them to look underneath the bonnet of the fund is one such option. You could also involve them in considering fund choices for your estate planning. Would your beneficiaries be happy if their inheritance contained funds that include tobacco companies, for example? If the answer to that is no, now is the time to start the conversation with your adviser.

> "... being invested in a 'bad' ESG company can enable us to deliver 'good' ESG outcomes."

## Where to get information on default funds

Help for scheme trustees who want to report on the contents of their funds and members who want to find out what they're invested in is likely to come from the investment managers running the pension funds.

One of Wren Sterling's key partners, Aviva, has been busy in this space, embedding ESG into its default funds and setting itself an ambitious target to be a net-zero insurer by 2040.

**Jason Bullmore, Aviva's Workplace Investment Proposition Lead explains.**

Your pension can be a powerful force for good in a world that is increasingly focused on ESG. Taking into account environmental, social and governance (ESG) factors is rightly no longer deemed 'nice to have' for pension providers and their default solutions, it's now a necessity.

In attempting to understand how "ESG" your pension is, individuals should focus on two key areas.

> Have a conversation with a child or grandchild who is starting their retirement planning journey and encourage them to look underneath the bonnet of the fund...

Investment Integration is the way a provider incorporates ESG into their investment processes. Most providers now say they do this, but you should try and establish how committed they really are. Do they have dedicated analysts, and enough of them, to make meaningful ESG decisions? Do they incorporate this expertise into decision-making for active and passive portfolios? Or has the provider outsourced their ESG decision making – using simple screens, and perhaps implementing sector-wide exclusions without consideration of the nuances of different companies?

Active Ownership is how a provider interacts with the companies they own. Ownership confers the right to vote at AGMs and shape corporate policy towards better ESG outcomes. It is also the springboard to meet with company management, explain the changes to corporate behaviour that you require, why these are important, and then to collaborate with them through the process of change. So being invested in a "bad" ESG company can enable us to deliver "good" ESG outcomes.

We believe choosing to partner with a fund manager that shares the same values, namely that as a guardian of people's money we must act responsibly for the good of the world around us, is the first step in the journey to integrating ESG into a pension.

That's why - as well as having a net zero carbon goal for 2040[2] - we work closely with our fund manager partner Aviva Investors, which has a dedicated ESG team.

The team is regarded as a centre of excellence on all responsible investment matters across Aviva Investors and sits alongside the investment team managing My Future Focus, our default solution. This ensures that ESG factors are embedded into the design and management of My Future Focus. Engagement and voting also play a key part of the team's work; this involves encouraging the businesses that My Future Focus is invested to improve their ESG credentials.

Communicating regularly with customers about such work is crucial for pension providers; it's only in this way that members can find out that where their contributions are being invested. Relatable examples of engagement will also hopefully encourage members to want to learn more about the world they live in, and how they can help on issues such as climate change, something that we believe investing responsibly should be all about.

At Aviva, we believe that powerful change comes about when you have the information to make decisions, and the means to communicate them. To this end, we have developed sophisticated reports that explain the ESG credentials of your fund. We are also developing an app that allows you to see the companies we own on your behalf, and to advise us how to interact with them.

**Next steps**

We've covered a lot of ground here, but if you or a relative are invested in a default fund, there are a few things you might want to explore:

- Is the default fund right for you? Is the fund invested in the right split of assets to give you the retirement you want?
- What sectors is your default fund invested in?
- Does your default fund provider give you the option to move your funds to an ethical solution?

Of course, any changes you make to your pension investments should be done so with the help of an independent financial adviser, who can capture your ethical preferences and recommend a solution that aligns to your values, as well as your financial planning goals.

[2] 1st March 2021 - Aviva became the first insurer worldwide to announce a net-zero carbon target by 2040

The value of an investment may fluctuate due to the geographical area and industry sector they invest in, investors may get back less than they originally invested.

# BUBBLES, INSTAGRAM INFLUENCERS AND DIY INVESTORS

Nick Moules, Head of Marketing, Wren Sterling

**The last 12 months has seen an explosion in amateur investing, from online trading platforms, copying other amateur traders, Instagram influencers and Bitcoin speculators. Nick Moules looks at what has occurred, why financial advice is a tortoise and how we can all help people to achieve their goals with considerably less risk.**

If you had a four in five chance of losing money in an endeavour, would you do it? Unless it was for fun, you could easily afford to lose, or the reward outweighed the risk substantially, you would probably not do it.

Plus 500, the financial betting company, made a staggering 1,836 per cent profit in the early part of the first lockdown in 2020 after amateur investors piled in, fuelled by some spare time and cash and a desire to make money. Four in five of its customers lost money, but they kept coming back.[1]

> First-time investors have been intrigued by the recent Reddit-inspired pile-in to GameStop stocks

What we don't know is what people were investing for. With a lack of live sport on TV at the time, was this a way of filling a gambling-sized hole in their lives, or was it for long-term plans?

Either way, Plus 500 was in the money and its customers were not. Other DIY platforms recorded huge rises in customer numbers and cash invested too.

AJ Bell saw its inflows double and customer numbers soar at the tail end of 2020 as the platform continued to cash in on an increased number of investors amid the Covid crisis.

A trading update published on January 21 shows investors placed £1.6bn with the platform in the three months to December — double the £800m recorded for the same period in 2019.

Advised investment business accounted for some £800m of the inflows, up 33 per cent on the prior year.

Meanwhile platform customer numbers grew by nearly 17,000 over the three months, closing at a total of 298,000. This represented a 6 per cent increase in the quarter and 31 per cent over the year.

Advised customers grew by 12 per cent year-on-year and 3 per cent during the quarter to hit 112,300.[2]

Marketing by direct to consumer platforms has gone stratospheric and could help explain the rise in adoption. Some of the best-known brands, including AJ Bell in traditional investments and eToro in cryptocurrencies (reportedly in talks with Goldman Sachs for a $5bn IPO[3]) have stepped up their game and are hitting consumers online and offline. A half-time ad break in a football match recently featured eToro and Vanguard's direct to consumer offer within a couple of minutes of each other. With a potential clampdown on betting companies in top-level UK sport on the horizon, these platforms could step up and fill the sponsorship void.

> Arguably, an increase in participation in the investment market is a good thing for everyone.

All of this is good news for markets, at least in the short term. It pushes up the prices of stocks as more investors want to buy them. It does make the investing environment more volatile though. Algorithms designed to follow trades have accentuated the impact of movements for some time now. Social media and hype are adding extra wind to those sails.

Arguably, an increase in participation in the investment market is a good thing for everyone. People are investing their money, rather than relying on savings accounts to grow their money, or, whisper it quietly, the property market. We've featured articles on these pages before talking about the difficulties in becoming a landlord these days and with property prices in urban areas forecast to fall plus the additional cost of Stamp Duty restricting entry, the attractiveness

[1] standard.co.uk/business/plus-500-broker-wins-from-covid-financial-crisis-a4409136.html
[2] ftadviser.com/investments/2021/01/21/aj-bell-inflows-double-as-customer-numbers-soar/
[3] finance.yahoo.com/news/etoro-said-talks-goldman-possible-170821158.html

of property might be slipping further, leaving investments as one of the only options. TINA to her friends – the investment community coined this acronym for There Is No Alternative - meaning people are investing their money because there's nothing else about with the bond market also returning very little.

However, there's speculation that we're entering bubble territory and there's a very real risk that amateur investors are not going to read the signs or be able to spread their risk sufficiently to bear the brunt of a market slowdown. Investment management firm, GMO's, co-founder Jeremy Grantham has described the rally since 2009 as an "epic bubble" characterised by "extreme overvaluation".[4]

### Exploding bubbles

First-time investors have been intrigued by the recent Reddit-inspired pile-in to GameStop stocks, which has been a very handy example of a bubble. GameStop is the US equivalent of Game, a staple electronic retail presence in UK high streets for decades.

The problem with Bitcoin, as it always has been, is that nobody is regulating it

Threads on Reddit, the largest online forum in the world, encouraged retail investors to stick it to the man (the hedge funds) by buying up stock and blowing the hedge funds' shorting strategies up in their faces. The hedge funds borrowed the stocks, paying a fee to do so, on the premise that they would dump the stock, cause a downward movement in valuation and then buy up the stock later on for less. The stock rises in time and the fund sells, repaying its loan fee and keeping a tidy profit. By keeping the price rising, amateur investors made sure the hedge funds couldn't sell at a lower price, so they were carrying the can.

However, this pushed prices up to such an extent as more people joined in, that there are now people holding very overpriced stock. On January 11th, stock was worth $19.44 a share. It rose to $347.51 on January 27th. At February 9th, it is back down at $50[5], so anyone who bought in at the top of the market is looking at a $300 loss per share if they were to sell now. If they were investing because they wanted to see what happened and $300 isn't a big deal to them, that's a lesson. If they were investing because they thought it would go up further, they've learned a very expensive lesson.

### We're all part of the bubble

News that Tesla invested $1.5bn of its spare capital in Bitcoin was taken by investors as a sign that the stock is solid and has driven the price of coins higher still. Furthermore, as Tesla itself is a stock held by many global funds, many of us now have an indirect stake in the performance of Bitcoin.[6]

We've avoided speaking about Bitcoin in Money Matters before, primarily because it is not something we advise clients on. However, more institutions are buying it, including Blackrock. If pension funds begin dipping their toes in, we will all be more directly invested in Bitcoin – whether that means we will be able to succinctly articulate where it comes from or what it physically manifests as, is another matter.

The problem with Bitcoin, as it always has been, is that nobody is regulating it, nobody owns it and if it all went downhill, there would be no recompense for anyone. Investors are gambling that this isn't the case. Cryptocurrency is a new field and we don't know what future use there will be for Bitcoin and how valuable it could be to society – we could reflect on the current price of Bitcoin and consider it a bargain. The point is that nobody knows and while stock markets have risen historically over a sustained period of time, investment professionals are split on which way Bitcoin will go.

### Murkier influence

GameStop and Bitcoin are very much mainstream though. There is a lot of media coverage from respected sources, which allows people to make their own decisions about the merits of being invested there.

Where the amateur investor pile-in is less noticeable, but arguably more serious, is the scam activity being rolled out of social networks, especially Instagram. The Facebook-

[4] ft.com/content/a790c796-f0c4-4cf9-8c7a-3b52daff89e4
[5] marketwatch.com/investing/stock/gme
[6] bbc.co.uk/news/business-55939972

owned app allows people to upload photos to be seen by others in their network. This has evolved into people offering “share tips” alongside images of a glamorous lifestyle, indicating that following the influencers trades can lead to similar rewards.

Since the coronavirus outbreak began last year, the average number of Instagram frauds reported each month has increased by more than 50%, according to new figures by Action Fraud, the UK police national reporting centre for fraud and cyber crime.

There's also been a rise in the reported amount of money lost. Before the pandemic it averaged £60,000 a month, but it has now risen to about £200,000 a month.[7]

Needless to say, the old adage of it being too good to be true is certainly the case here. As a society, we’ve always liked get-rich-quick schemes, from the 18th century South Sea Bubble, the build up to the Wall Street crash and the sub-prime mortgage crisis are good examples of this. Right now, it’s a perfect storm. The Covid crisis has wreaked a lot of economic havoc, social media proliferation means fraudsters have instant access to vulnerable people and regulation of activity like “share tips” is non-existent, it falls on the likes of Action Fraud to investigate after the event.

### The role of financial advice

Rather like the sensible parent calling a halt to a children’s game that is getting out of hand before someone gets hurt, financial advisers can do the same for people who think they can outperform the market by picking stocks or following the foreign exchange tips of a twenty-something with a Maserati.

It’s doubtful that people attracted to these sorts of schemes will have their head turned by the chance to sit down and discuss their life goals and go through a fact-finding process to understand their motivation and attitude to risk. It’s considerably less exciting and gratification is far from instant.

However, in the age-old parable, financial advice is the tortoise and playing the stock markets or piling into markets on the strength of a tweet is the hare. It’s up to everyone connected to

[7] bbc.co.uk/news/business-55804205

The value of an investment and income from it can go down as well as up.
Capital is at risk.

financial advice to make that point loud and clear and to refer people to financial advisers if they have the chance.

Our messaging around the Covid-19 crisis was to trust in the efficiency of global markets and to hold positions and the recovery has born that out. However, many investors did sell at the bottom of the market because they listened to hype and didn't have the reassurance of an adviser to fall back on.

We all know people who have talked about buying Bitcoin or a Tesla stock. They want to grow their wealth and there's nothing wrong with that, but they're probably not seeing the bigger picture.

What if they could still make their money grow, but they can invest in a diversified manner so they're not going to lose it all, they can maximise their pension and ISA allocations so they're benefiting from time invested in the market, and they can put insurance in place so that if they lose their job they won't have to liquidate their investments to cover them? Cashflow planning tools visually convey this message to people but they need to engage with an adviser first.

Helping people to understand that there's a way to their objectives that is slower, but with considerably less risk is a tough message to get across

Helping people to understand that there's a way to their objectives that is slower, but with considerably less risk is a tough message to get across but it will become more important than ever over the next few years as the proliferation of DIY opportunities and socially-pushed scams is likely to increase.

### Next steps

Do you know someone who could benefit from a cashflow planning session with an adviser? Please speak to your adviser or email marketing@wrensterling.com and we will get in touch

# 6 STEPS TO YOUR **ESTATE PLANNING**

Early estate planning for long-term peace of mind

**As financial advisers, our clients often ask for help with building their wealth. But we're also here to help them make sure they can pass their wealth on efficiently.**

If you haven't started your estate planning – or if you haven't written it down – this checklist will help get your thoughts in order.

### 1. Make a Will

Almost three times as many people wrote a Will in 2020 compared to 2019[1], unsurprisingly. Your Will is an essential part of any financial or estate planning, as it sets out how you wish for your assets to be divided upon your death.

Without a Will, your estate will be distributed according to intestacy rules rather than your wishes. Wills are increasingly important for unmarried couples, for those who have dependents who rely on them financially, or for those who wish to leave assets to those outside their immediate family.

Your Will is the only way for you to have your say in how you want your legacy (money, possessions and other assets) to be distributed:

- You decide who you want to benefit from your legacy
- You decide what should go to who
- You decide how you want your beneficiaries to inherit
- You decide who you trust to be your Executor

Making a Will can now be done online. Legal professionals review your answers, help you draft a Will, and send it for you to sign when it's ready.

Wren Sterling has an arrangement with third parties, giving you discounted Wills, so please speak to your adviser.

> "Speaking about money as a family isn't always the easiest thing, although initiating the conversation can be hard, most people are glad they found the time – and strength – to do so."

### 2. Consider a Power of Attorney

A Lasting Power of Attorney is a legal document that allows others to make decisions on your behalf – about your finances or health and wellbeing. There are many reasons why you might be unable to make these decisions. Making an LPA isn't just about getting older, or protecting yourself against terminal illnesses.

A common misconception is that your partner will be able to make decisions on your behalf. However, your partner does not have the legal right to make decisions on your behalf – no matter how long you've been together or whether you're married. Neither does having a joint account, or being their 'next of kin'.

A Lasting Power of Attorney will come into effect once an individual is unable to manage their affairs for an extended period of time. But it cannot be applied after you have lost your competency or your consciousness, unfortunately, you have already waited until it is too late. There are options available to the families of those who have waited too long to sign, but these options are costly, involve court intervention, and will take some time to put into place.

### 3. Calculate your Inheritance tax

The allowance freezes announced in the 2021/22 Budget over the next few years will mean many more estates are likely to be liable for inheritance tax. Inheritance Tax (IHT) is a tax on the estate of someone who has died, including all property, possessions and money. If your estate is worth more than £325,000 then you may need to pay Inheritance tax or investigate the exemptions that apply.

Your adviser can help you make the most of the reliefs and exemptions which apply to you, reducing or even removing this bill with tools like:

[1] todayswillsandprobate.co.uk/main-news/remote-will-writing-increase/

The Financial Conduct Authority does not regulate taxation, trust advice or Wills

All information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation, are subject to change.

- Gifting – You can give away part of your estate during your lifetime, which becomes exempt from tax after 7 years.
- Trusts – Putting assets into a trust allows them to exist separately from their original owner. This can help you provide for vulnerable beneficiaries, allocate funds for a particular purpose.

### 4. Allocate funds for your care

For those who do not have funds to pay for their care, their local authority will step in – but they will have little to no say in where they go, or the quality of that care.

Your adviser can help you consider strategies to finance any care you or your partner may need and highlight the effect this may have on your estate. They can then help you plan how you will pay for this.

### 5. Do you need specialist services?

You do not need to have a solicitor to help you complete your estate planning. But if you have complex needs, you may benefit from a specialist who will help ensure there is no dispute later on. We partner with a number of firms to provide access to specialist services – while you're completing your financial planning, we'll let you know if we feel your circumstances require the input of a lawyer, tax specialist, accountant, or mortgage adviser, and can recommend one of our partners. We work with these specialists regularly to ensure our client's estate planning is as seamless as possible.

### 6. Talk to your family

"Speaking about money as a family isn't always the easiest thing, although initiating the conversation can be hard, most people are glad they found the time – and strength – to do so." Alex Holder wrote an article for us about talking about money for a previous edition of Money Matters, but the messages in her article have never been more relevant.

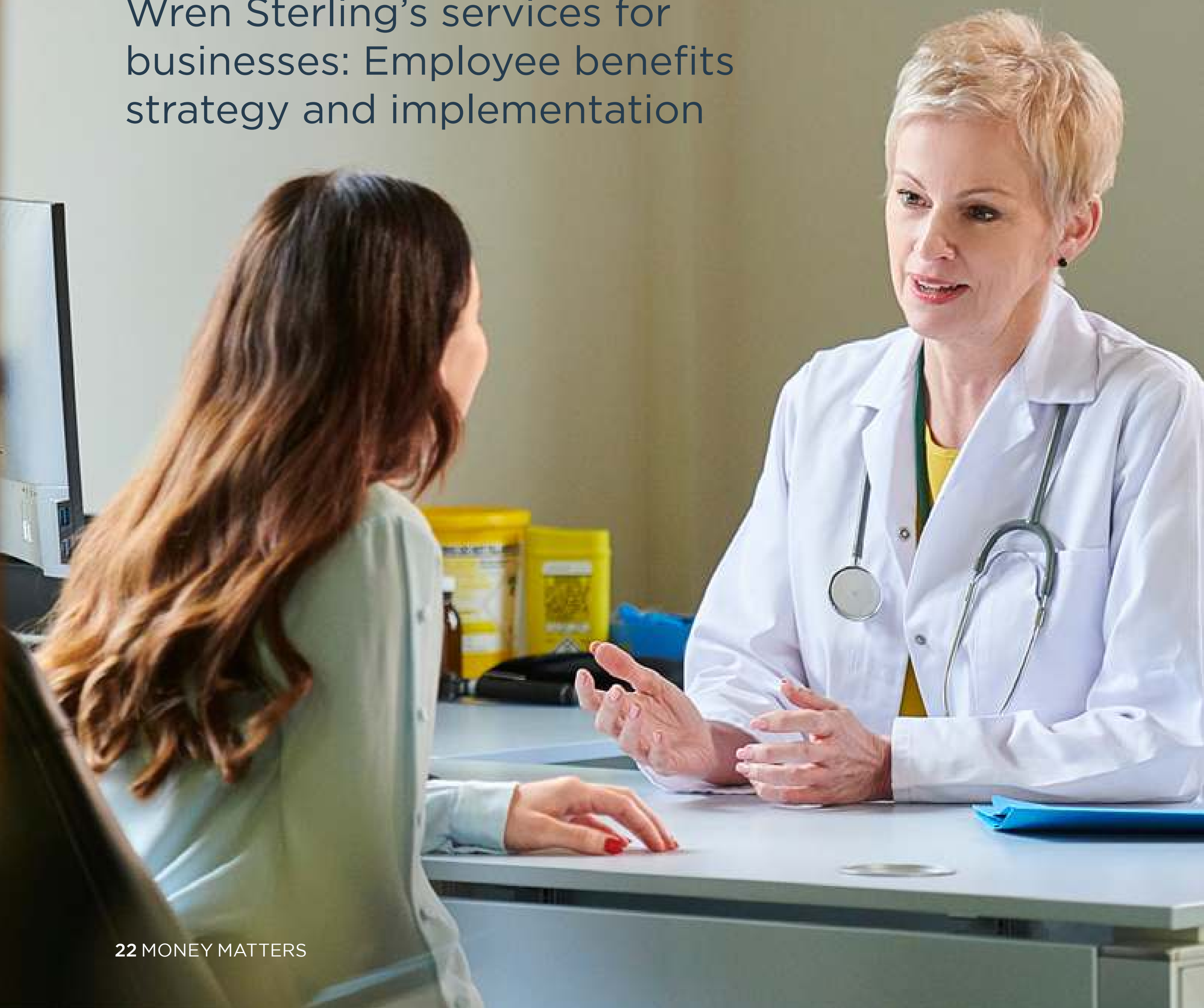
We've found an unexpected benefit to hosting most of our appointments online – either through video chat or telephone. We can invite our client's family members to discuss their financial situation with us, allowing them to ask questions about the financial health of their loved ones, and give them peace of mind about the future.

### Financial Advisers can support your Estate Planning

Estate planning can be overwhelming with new information, emotional topics, and dependents to consider. Our advisers have been trained in estate planning and they recognise the different needs people have in retirement. They can help you use your assets to provide an income for life . If you'd like to learn more about how Wren Sterling can help you to future-proof your plans, please get in touch.

# PROTECT, REWARD, RETAIN YOUR EMPLOYEES

Wren Sterling's services for businesses: Employee benefits strategy and implementation



**It's not just the UK. Globally we're facing a period where absences from 'Long Covid' and burnout are expected to rise, at a point when employers need to maximise productivity to be a part of the economic recovery.**

And yet the latest figures show that UK waiting times for treatment have increased – with 192,000 people waiting 12 months or more for treatment[1], compared to about 1,600 last January.

As a result of Coronavirus, 67% of employers are evolving their benefits packages to support employees' needs, both to treat and pre-empt mental and physical health problems.[2]

Employee benefits offer a range of tools which can improve the mental and physical health of your employees – and remove financial anxiety. Is it time to review the healthcare benefits you offer your staff?

### Retain staff and attract new talent

Many UK workers are looking a fresh start in 2021 with 9 in 10 considering starting the job hunt, according to Totaljobs. 84% of those are currently employed but have begun looking for new jobs for a change of scene. If these applicants are successful, many UK businesses will lose valuable knowledge and skills as staff seek employment elsewhere.[3]

Companies that invest in their employees have an opportunity to differentiate themselves from the competition and demonstrate that their welfare is being taken care of.

### Support your employees at work and at home

The benefits you offer must be valuable to your employees – and this changes, frequently. Just consider the changes that have been made to their commuting habits, healthcare concerns, travel insurance, death benefits in the last 12 months alone.

Your people should be aware of their employee benefits and how to access them. The question is; how can you find out what they value?

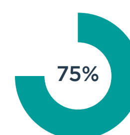
Well, we ask. Wren Sterling carries out a workforce assessment and benefits review before suggesting changes to an employee benefits strategy that is developed in partnership with you. This helps us get to know your business, your employees and what they value. We place an emphasis on financial education to ensure they understand how their benefits can support their personal lives – proving that your business is the right fit for them, both in and out of work.

### Looking for help?

Wren Sterling's experienced advisers are there to guide your employees and help them make good financial decisions. If you're interested in finding out more about how we approach employee benefits or you know an employer who might want to talk, please get in touch.

During lockdown, more than half of employees reported new aches and pains, especially in the neck, shoulder and back

said the loneliness they experienced during lockdown was having a negative effect on their wellbeing




of HR leaders think the risk of employee burnout is increased potentially as a result of a new culture of 'e-presenteeism' brough about by mass homeworking[4]

[1] healthcareandprotection.com/year-long-waits-for-nhs-ops-could-become-the-norm-health-bosses-warn
[2] employeebenefits.co.uk/employer-relationships-weakened-covid-19/
[3] totaljobs.com/media-centre/uk-workers-after-a-fresh-start-in-2021-with-9-in-10-looking-for-a-job
[4] totaljobs.com/advice/lockdown-loneliness-the-collapse-of-social-life-at-work

# About Wren Sterling

Wren Sterling is a nationwide independent financial planning business that specialises in all aspects of investments, protection, and retirement planning. We pride ourselves on navigating clients through their financial journey by providing uncompromised and objective advice.

Our advisers are committed to developing longstanding client relationships that span generations to achieve our clients' lifetime financial goals.

# Where we are

We have advisers throughout the UK, based in seven regional offices including our head office in Nottingham.

- Glasgow 0141 341 5240
- Halifax 0333 0438 900
- Nottingham 0115 908 2500
- Warwick 0333 043 9001
- Grantham 01476 560 662
- London 0370 1432 100
- Surrey 01932 481069

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