Santander

Think Investments

Winter 2022

Welcome

Think Investments helps you keep in touch with and navigate your way around the world of investments.

Your personal goals for investing will be as individual as you. But to reach them it's likely you'll want to grow your money, generate an income from it or a combination of both.

In this edition of Think Investments we get under the bonnet on investing for income. What types of investment might you focus on? How do income funds work? And how can changing market conditions affect them? We guide you through the essentials.

We also take a look at Cryptocurrency. In challenging economic times, it can be tempting to consider alternative routes to grow your money. Cryptocurrency makes headlines in good and bad ways and may seem to be promoted by celebrities, but is it a good idea to get involved?

Before you explore either of these topics though, I'd like to mention that now all of our investment customers are serviced on our Investment Hub platform. This is a major milestone for us. It not only gives online access to our customers moving to the Hub, it's also a win for our staff. Our telephone and back-office teams now use just one IT platform, allowing them to support you more effectively.

Whether you've been with us for years or are just getting to know our service, read on to find out (or be reminded) how you can make the most of the Investment Hub.

As always, we hope you find Think Investments an interesting and helpful read.

Allan Mclachlan
Head of Operations,
Investment Hub

Getting the most from the Santander Investment Hub

We're pleased to see all our investment customers are now on the Investment Hub, putting you in control of your investing journey.

The Investment Hub gives you the benefit of viewing all your Santander investments online, along with access to our dedicated Investment Hub contact centre team, who can provide support and answer any questions you may have.

Your regular quarterly statements will now show all the investments you hold with Santander in one place.

We know from feedback that having 24-hour access to the Investment Hub to track performance, buy, switch or sell investments, make payments and update personal details, is important. You can also view and download your statements and any other documents on your smart phone, tablet or computer.

How to get started with the Investment Hub

If you haven't explored the Investment Hub online yet, it's easy to find. Just log on to your Online Banking home page and select 'Investment Hub'. If your investments aren't visible straight away, select 'Add, remove or rename an account' and follow the steps from there.

If you're not signed up to Online Banking, head to **santander.co.uk** and select 'Register'. You can reset your Online Banking log on details here too, if you've forgotten them or been locked out. You'll need your account number and the mobile phone registered to your Online Banking. Select 'Log on' and follow the 'forgotten your details' link. And if you need any support along the way, you can call our Investment Hub team on 0800 328 1328 or chat to us using 'Sandi', our online digital assistant.

Here to meet your needs

These are some of the most popular things that you can do at any time through the Investment Hub:

- **Get up to date investment values.** You'll find these on your Investment Hub home page, along with lots of other useful information about your current investment portfolio.
- **Access important documents.** Your document library holds copies of your regular statements, contract notes and other important documents for your investments, so you can save time on paper files and read or download them whenever you want.
- **Link to your bank account.** It's straightforward to do this and means you have the comfort of knowing we'll only make payments from your Investment Hub account to a secure and verified account, in line with your instructions.
- **Add to your investments.** You can top-up investments you already hold or, if you're comfortable making your own investment decisions, research and invest in new funds. You can create a personalised favourites list to help you follow any funds you might be thinking about but are not ready to invest in yet. If you work with an adviser you might want to check with them first, to make sure the investment is suitable.
- **Change your personal details.** You can let us know if you've moved to a new address, have a new phone number, or want to add or change your email address.

Why give us your email address?

If you give us your email address, we can keep you up to date on your Investment Hub service and the broader support available to our investment customers. We can also let you know when a new document is available in your document library and support you to go paper-free. One small way that you can help do your bit for the environment.

Making the switch to paper-free

If you want to switch to paper-free on the Investment Hub, it's easy. Click on 'Settings' at the top of the home page and select 'Preferences' from the drop-down list. Click 'Yes, go paperless', then click on 'Save changes' at the bottom of the screen and you're all set. You can also change back to paper documents at any time here too.

Could a Direct Debit work for you?

You can easily set up or change existing Direct Debits on the Investment Hub. There's a choice of variable, one off and regular options which means you can set them up in the way that works best for you.

You can use Direct Debits to make payments into your account and to give us instructions for how those payments should be invested.

You can also use them to pay your fees, for example the Platform Service Fee, which we charge to cover our costs for providing your Investment Hub service. We collect this fee twice a year and you can find all the details at tools and guides > investment fees, charges and key documents

If you don't have enough cash in your Investment Account to pay your Platform Service Fee when it falls due, we'll need to sell some of your investments to cover it. So using a Direct Debit helps you stay in control and means one less thing to remember too.

Your quick guide to investing for income

Investment income can help support you in retirement, or if you need to supplement other income for any reason.

Dividends on shares and interest payments on bonds may be what springs to mind when you think of investment income.

- **Dividends** are a share of the profit a company has generated. They can vary from year to year or not be paid at all, depending on the fortunes of the company concerned and the decisions made by its directors.
- **Interest** on bonds is interest on a type of loan that's been made to a company or government. It's usually at a set rate and paid out regularly until the term of the bond comes to an end.

A 'natural' income is when the fund pays out its naturally generated income, which can be from dividends or interest. A 'total return' approach to income is where the fund's objective is to generate and pay out a return from income and capital.

Natural income or total returns?

If you rely on natural income only, you don't touch your underlying capital which, depending on markets, can still benefit from growth over time. On the flipside, natural income levels may ebb and flow significantly depending on economic and market conditions. With a total return approach, you benefit from all investment growth (which includes the natural income), but would also be using your capital and eating into potential for future growth over time.

What's right for you would depend on your personal circumstances. But whatever your preferred approach, it takes a lot of skill and experience to set up and manage a well-diversified income portfolio that can help see you through good economic times and bad. That's where professionally managed income funds come in.

You can check the investment objectives and strategy of any income fund by reading its Key Investor Information Document (KIID). The KIID should also tell you how often the fund makes income payments, whether it has a target income level (usually not guaranteed) and the details of the mechanism through which income is paid out (for example if the fund manager aims to smooth income payments over time).

Opportunities and challenges

As for all types of investing, there can be opportunities and challenges for income investors as economic and market conditions change.

- **COVID shock** – Dividend payments took a big hit when the pandemic unfolded. A regular expert report from the Link Group put total lost UK dividends in the 12 months to 30 March 2021 at £44.8 billion.[1]
- **A weaker pound** – Two fifths of dividends paid in the UK between 1 April and 30 June 2022 were denominated in US dollars. The pound weakened against the dollar over the same period and Link Group estimated that gave recipients a £1.4 billion exchange rate boost, expected to rise as high as £4.5 billion by the end of this year.[2]
- **Inflation rising** – This year, bond investors faced the prospect of the real value of their current fixed income being eroded over time, just as interest rates on new bond issues started to go up in anticipation of central banks raising official rates. When interest rates go up, bond prices tend to go down impacting the value of their holdings too. A double whammy, in the short term at least.

Whatever unfolds, it's the job of an income fund manager to balance out the opportunities and challenges in line with the fund's objectives.

However, if you're relying on your investments to generate an income now or in the very near future, economic and market downturns like those we've experienced in recent times may still affect how much you can expect to receive in income payments from a fund.

If you're also selling investments to help generate your income, when markets are lower these investments may be worth less, meaning you have to sell more. This could have a significant impact on the value of your capital. It also means you'll have less to benefit from the recovery that usually follows a downturn, making it harder for your pot to grow again. You may hear this effect called 'pound cost ravaging' or 'sequence risk'.

Experts on your side

It's always worth considering financial advice, but it can be crucial when it comes to taking income from your investments and making sure your pot can provide for you as long as you need it to. There's a lot to think about and keep track of, and you may find the support and expertise of a professional financial adviser invaluable.

What is smoothing?

It's trying to level out income payments across a year, so that investors receive equal payments even when there are ups and downs in income from the fund's underlying investments. Smoothing can make it easier for you to plan as it gives you an idea of what you may expect, but it doesn't protect you from ups and downs altogether. Income levels are not guaranteed and a fund manager may need to reduce the level of smoothed income payments in some market conditions or not pay an income altogether. Some fund managers may operate a mechanism whereby there is a balancing payment at the end of a fund's accounting year that's significantly higher or lower than previous payments or may be zero depending on the level of income received by the fund throughout the year.

1 Link Group – UK Dividend Monitor Q1 2021
2 Link Group – UK Dividend Monitor Q2 2022

Article provided by Santander Asset Management UK for Santander investment customers.

Cryptocurrency: focus on facts and not the hype

You don't need to be a regular reader of the financial pages for the term 'cryptocurrency' to sound familiar. There's a good chance you've seen it advertised, quite possibly by a celebrity talking about the potential of crypto. But is what they're saying too good to be true?

A 2021 report by UK financial services regulator the Financial Conduct Authority (FCA) estimated that almost 80% of UK adults had heard of cryptocurrency, with as many as 2.3 million holding some. And while the amount that each cryptocurrency investor holds is going up, the FCA said overall understanding of the asset had declined.[3]

Defining cryptocurrency

The FCA defines crypto assets as 'a cryptographically secured digital representation of value or contractual rights that is powered by forms of distributed ledger technology and can be stored, transferred or traded electronically'.[4] In other words, cryptocurrency is a virtual currency that can't be forged and isn't issued by a central body such as a bank.

A cryptocurrency becomes an asset once it's tradeable. The best-known cryptocurrency is Bitcoin, which launched in 2009 and it's now just one option in a market of thousands.

Some people are interested in cryptocurrencies as a non-mainstream alternative to the traditional banking system, but many people have been attracted to them by the promise of eye-catching investment gains. However, as these types of investments are not regulated a big consideration for investors is that they cannot be used in tax efficient wrappers such as ISAs and pensions. They are also not covered by some regulatory obligations around key aspects such as disclosing key information, clear and balanced

3 FCA – Research Note: Cryptoasset consumer research 2021, 17/6/21
4 FCA – Cryptoassets: our work

Don't be swept away by celebrity endorsements

The high profile enjoyed by cryptocurrencies is due in no small part to endorsements by famous faces. But it's worth keeping in mind that however well-known some of the names may be, they are not financial experts, have different financial tolerance to capital loss and are most likely simply being paid to promote a product.[5]

There's increasing criticism of these endorsements. Former England striker Michael Owen was in the news in June, when the Advertising Standards Authority ordered him to delete a Tweet promoting a Non-Fungible Tokens scheme (another type of crypto-asset).[6]

financial promotions nor are the products covered by The Financial Services Compensation Scheme (FSCS) nor other financial regulatory bodies.

A highly volatile market

There are gains to be made as prices can rise dramatically. The price of Bitcoin, for example, jumped from under $4,000 in mid-2019 to over $65,000 by November 2021. In fact, the total market value of the crypto sector rose by 187.5% in 2021, with some coins delivering four- and five-figure percentage returns.[7]

But while returns are potentially very high, the asset is highly volatile. Recent months have seen prices tumble sharply again, with Bitcoin dropping to a near two year low of less than $19,000 by early-September 2022.[8]

Possible high returns could be offset by significant risk

The volatility and the growing popularity of crypto investments have led regulators to warn investors of the risks. Gary Gensler, chair of the U.S. Securities and Exchange Commission (SEC), cautioned investors in June to be wary of returns from crypto investments that seemed "too good to be true".[9]

Andrew Bailey, Governor of the Bank of England, had previously said investors "should be prepared to lose all their money".[10] The FCA issued a similar warning earlier this year.

The risk is largely due to cryptocurrencies being intangible assets where the price is dictated not by the underlying value of something solid, but entirely by the level of demand from other investors.

For example, price movements in stock market-based investments, such as shares and collective funds, are driven by factors such as inflation and interest rates as well as a company's results and management, not just demand and sentiment. When you invest in funds or shares you can gather information on the underlying company or companies, whereas cryptocurrencies don't produce anything of inherent value so there's nothing to research.

Proceed with caution, information and advice

For some experienced investors there may be a place for crypto investments in a well-diversified portfolio. As the market matures it may become more transparent and easier to invest indirectly, such as through buying shares in the companies operating in the market.

But it will remain volatile, and there's potential for disruption as regulators and governments take measures to address the risks. While cryptocurrencies will continue to attract interest, it's an area where professional advice is vital in mitigating risks and making sure your portfolio is in line with your risk appetite and wider objectives.

Beware the crypto scammers

While they may be high risk, cryptocurrencies are legitimate investments. However the rapidly growing interest in all things crypto has led to investors being targeted by scams. One example saw fraudsters use a doctored video of Elon Musk to promote a fake cryptocurrency exchange in order to attract money from investors.[11]

5 Business2Community – Celebrities Promoting Cryptocurrency Tokens Face Growing Backlash, 20/5/22
6 CityAM – Michael Owen gets a red card from UK advertising watchdog over crypto tweets, 9/6/22
7 WEF – How have cryptocurrencies performed in 2021?, 26/2/22
8 Fortune – Bitcoin falls below critical $19,000 mark, 7/9/22
9 Reuters – U.S. SEC chair Gensler says investors should beware of crypto returns that seem "too good to be true", 14/6/22
10 Reuters – Bank of England's Bailey calls crypto-currencies 'dangerous, 24/5/21
11 TechRadar – Crypto scams are now a billion-dollar market, 6/6/22

LIFE1075 OCT22