Santander

# Think Investments

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# Welcome

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

To get the most from a journey, it can help to have guidance. Someone to explain what you're seeing, to help you understand the options for getting around and give you confidence you're heading in the right direction. That's our theme for this edition of Think Investments.

Investing is an extended journey in search of long-term reward, with inevitable ups and downs along the way. And this year we are seeing some challenges. So, we begin with a guide to what's going on, from my team at Santander Asset Management UK.

Then we outline some pros and cons of potential investment routes you might consider taking to reach your investment goals: from building and managing a portfolio of investments yourself to getting expert help. Are you following the right route for you?

Advice is one type of expert help you could consider, especially if you want to be confident in the direction you're taking. Recent research suggests millions of us don't access advice and we end this edition by exploring why that is.

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# 2019: The investing journey so far

Weather can have a significant impact on journeys. For investors, the first half of this year began in relatively sunny conditions and ended with the clouds closing in.

After some stormy conditions in the closing weeks of 2018, many investment markets around the world had ended the year at lower values than they'd started it with. But as we travelled on into 2019, two key factors helped return investors to a sunnier mood.

### A temporary truce on trade

In December 2018, the US and China agreed to a truce on future tariffs (a kind of tax on imported goods) along with other positive measures for trade between their countries.

At the time, and although it turned out to be relatively short lived, this gave investors reason to be optimistic that trade wars between these two giant economies may pose less of a risk to global growth than had been feared during 2018's closing storms.

### More supportive central banks

The other key factor was a change in tone on monetary policy from central banks. This made it seem less likely that they would tighten policy by raising interest rates in 2019 and more likely that they would loosen it and act to encourage economic growth.

### A positive start

While some asset classes and regions around the world performed better than others, the more upbeat mood at the start of the year meant many markets saw positive returns for the first three months of 2019. But then things started to change.

# A very quick guide to monetary policy

Monetary policy is how a central bank controls the money supply and the cost of borrowing for the economy it's responsible for. Monetary policy can be tight or loose.

Tight monetary policy is when the bank tries to slow growth, for example by raising interest rates. This makes saving more attractive and borrowing more expensive, which in turn makes people less likely to spend money.

Loose monetary policy is the opposite of this. The bank tries to encourage growth, for example by cutting interest rates. This makes saving less attractive and borrowing less expensive, which in turn can encourage people to spend.

### Gathering clouds

From April, fresh clouds began to gather on the horizon. After Parliament failed to agree then Prime Minister Theresa May's withdrawal agreement, the UK had to apply to the EU for a further extension to the Brexit process. The extension had limited immediate impact on relevant markets, as underlying economic data still looked reasonably strong. However, the uncertain political outlook remains a challenge.

In May, the US announced it would go ahead and increase tariffs on USD 200 billion worth of Chinese goods. China retaliated with its own round of tariff increases on US imports. This broke the December truce between the two countries. Further escalation followed and market jitters around global growth returned.

By June, the threat of new US trade tariffs for Mexico added to those ongoing trade war concerns. Changing signals from the US central bank, the Federal Reserve, suggested it may now see a need to cut US interest rates later this year to support further growth. The International Monetary Fund, already predicting a growth slow-down for China over the next few years, announced it was reducing its 2019 China growth forecast.

### What's the outlook?

With various clouds of uncertainty swirling, stormier conditions could be a feature for the rest of 2019.

If that does happen it may signal that the global economy, which has (broadly) been expanding for around 10 years, is starting to contract. We've been expecting this for some time, but at the end of June it was unclear whether the decline had started.

### Longer-term thinking

Whatever is ahead, ups and downs in returns are a normal and expected part of investing for the longer-term (usually five years or more).

There is always the risk you may get back less than you put in. But sticking with it through more challenging times can go a long way towards achieving the potential rewards and helping you to meet your investing goals.

# Opportunities are out there

However stormy global conditions may get, there are always opportunities to be found in different markets around the world. In Latin America for example, commodities (like oil) have been performing strongly this year, even though past performance isn't a guide to future performance, and there are indications of potential growth in the Brazilian economy over the next two to three years.

Opinions as at 1 July 2019.

# Navigating your investing routes

**Investing is a way to help grow your money, earn an income or a mixture of both and, as with many journeys, there's more than one potential route to reach your goal.**

Markets are inherently unpredictable – even without the current background of an expected contraction for the global economy, the shifting sands of central bank monetary policy and major political events like Brexit. It's essential, then, that any investment portfolio has the right mix of assets and an effective diversification strategy to help meet its objectives, regardless of the prevailing market conditions.

Your personal goals, time horizon and how much risk you're willing and able to take are all relevant to what the right portfolio looks like for you. At the high level there are several potential routes to choose from when building and maintaining a portfolio, and it's possible to choose more than one, blending them together to help reach your goal.

# Diversification and why it matters

Diversification is one of the golden rules of investment. It's a simple idea. If you spread your money across different investments, if some don't do so well, you could still have money in others that are putting in a stronger performance. It's that balancing out effect that helps smooth your investing journey and keep you on track towards your goals.

**Level of personal support for you**

| Build your own | Multi-asset fund | Model portfolio service | Bespoke service |
|---|---|---|---|
| Build and manage your own portfolio. | Invest in a fund that offers a diversified, mixed asset portfolio appropriate to meet your needs. | Your portfolio is managed in line with a model portfolio, managed by a professional as a service to you and others with similar investment needs. | Have a professional build and manage a portfolio that's personal to you. |

### Build your own

The build-your-own route may appeal if you're a confident investor and want to take full responsibility for your own portfolio. However, few people have the time, access to the expert resources or economies of scale that investment professionals do, so they look to those professionals to run portfolios on their behalf.

### Multi-asset fund

The availability of multi-asset funds increased in recent years. By investing across different asset classes to meet agreed objectives, these funds offer their investors access to an instantly diversified portfolio and one that is actively managed on an ongoing basis as market conditions change.

There's a huge variety of multi-asset funds available, covering different objectives, risk levels, asset class mixes and regions around the world. Some invest directly in underlying assets, others in a range of underlying funds that specialise in particular areas (known as a multi-manager or fund of funds approach) and some combine both.

The main source of information for any fund is its Key Investor Information Document (KIID) or Key Information Document (KID) depending on the type of fund. Investors should always read this document before deciding to invest.

It covers key facts about the fund, including the charges you can expect to pay to the manager of the fund. You may also have to pay a service fee if your fund is held and administered on a platform (that's the Platform Service Fee for any funds you hold on the Santander Investment Hub) and, if you decide to take it, a charge will also apply if you've received advice.

### Model portfolio service

With a model portfolio service, a portfolio manager builds and manages diversified model portfolios of investments (usually a selection of funds) to suit different investor risk appetites and time horizons. These portfolios are not funds in their own right. They are run as a service for you and other investors with similar needs.

As an investor in a model portfolio service, you could choose the model portfolio that best matches your personal risk appetite and time horizon. Your portfolio would then be constructed with the funds set by the model portfolio manager for that model portfolio. You'll be able to find out the details of each of those funds through their KIID or KID and prospectus.

The model portfolio manager might also adjust the investments from time to time to keep everything running in line with the portfolio's objectives and risk levels. Those adjustments can range from replacing one or more investments in the portfolio to adjusting the proportions in which they are held.

# Why charges matter

Whichever investment route you take, it's important to understand your total cost of ownership. That's the cumulative effect of all the charges you'll pay on what you might get back from your investments in future.

As a general rule the more expert support and services that go with your chosen route, the more you're likely to pay in total charges and the harder your investments will have to work to cover the costs and grow your money over the longer-term.

With Santander and other providers who offer a similar service, you'll get a statement each year that shows the total charges you've paid to own your investments and how that's affected your returns. You can use it to help decide if you're happy with your chosen route.

It's likely you'll need to take advice to find a model portfolio service that's suitable for you. Many are only available through advisers. An adviser will also be able to support you in choosing the portfolio that best matches your personal financial goals, risk appetite and time horizon.

There will be a charge for the advice you receive. You'll also pay a charge to the model portfolio manager, charges to the managers of the funds you're invested in through your portfolio and potentially a platform charge.

### Bespoke service

It's also possible to pay a professional to design and manage a completely personal portfolio for you around your particular needs and objectives. Minimum investment levels for this type of service tend to be on the higher side and the level of charges you pay will reflect its personal nature.

### Which route to take?

Investment values can go down as well as up and there is always the risk you may get back less than you put in. But identifying the right portfolio and route for you can help get your investing journey off to the best possible start and keep it on track, regardless of what's on the horizon for financial markets.

This is something a financial adviser can help you with if you are unsure how to approach investing by yourself. They can talk you through all the options, and help you decide which investing route is right for you.

# Mind the advice gap

## Recent research suggested millions of us are not getting advice on our money. But there are several ways we could potentially benefit if we did.

For most people, investing is just one part of a bigger financial picture of life. At different times that picture might include managing debt, protecting our families from financial misfortune and building a savings pot for later life.

### The benefits of advice

Advice from an expert can help us work out how to make the most of our money. It can help us identify the right financial priorities to get what we want out of life. It can help fill any knowledge gaps we have about the world of money and how it works. And it can help us face the future with more confidence that we're on the right financial path.

So why don't more of us take it?

### Four main reasons people don't get advice

Research by YouGov for a financial service provider earlier this year, building on initial work done by Citizen's Advice, highlighted four main groups of people who aren't getting advice[1].

1. **Can't afford advice**
   People who are willing to pay for advice but think it's too expensive.

2. **Need free advice**
   People who want advice but don't have the means to pay for it. They need free services but either don't know about them or can't access them.

3. **Don't know how to get advice**
   People who are interested in advice but don't know how to go about getting it.

4. **Are vulnerable and need support**
   People who are vulnerable in a way that could affect their financial lives – they might have physical or mental health challenges for example – but can't get the advice they need.

[1] The UK advice gap: Are consumer needs for advice and guidance being met? OpenMoney, May 2019.

### What's the answer?

That depends on who you ask. But two things can help are:

- **Choice.** People's financial needs may range from simple to complicated. So, having a choice of services tailored to different needs makes sense. Maybe you're taking some early steps on the investing journey for example and just want a bit of help with choosing the right fund for you. In that case you may not want to pay for a service aimed at those with more complex needs.
- **Technology.** Personal financial advice, face to face or over the phone, can be great for those who do have more complex financial needs. But as trained experts are involved it can cost more than some people might be comfortable with. Thinking of those early steps on the investment journey, a digital service that takes you through a set of questions designed by experts can potentially work just as well. And it's likely to be far more affordable too.



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