Santander

Think Investments

Autumn 2022

Welcome

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

I'm pleased to welcome you to my first issue of Think Investments as Chief Executive Officer at Santander Asset Management UK. I'm looking forward to sharing some useful insights and information to help you make the most of your money.

At Santander we're committed to helping you while making a positive impact on society and the environment. Part of that is doing our bit to reduce carbon emissions and learning more about how nature restoration can contribute to combating climate change. Our partnership with the award-winning National Parks is an important part of that and we're delighted to share an update on what we've been doing in our first article.

Rising inflation is a key feature of the economic backdrop for investors right now. Our second article looks at some of the causes of inflation, how it can affect investments and how having an investment portfolio can ease the impact of inflation over the longer-term.

Structured products can offer investors a different way of making the most of their money than funds. In our final article, we consider how structured products work, how they compare to some collective investment funds and how they can be used.

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

Pak Chan
Chief Executive Officer
Santander Asset Management UK

Nature-based projects are helping to fight climate change

A team of Santander volunteers swapped the office recently for the rugged majesty of the Cairngorms National Park in Scotland and got their hands dirty, fighting climate change.

A group from our Wealth Management and Insurance division spent a day on the Balmoral Estate as part of our collaboration with the Net Zero with Nature programme.

Restoring peatland and planting moss

The team was tasked with peatland restoration, which involved blocking and damning an eroded peat gully to prevent water flow as part of the restoration process. They also planted sphagnum moss to aid revegetation, prevent exposed peat releasing carbon and help store carbon efficiently.

It was all in aid of the partnership we have with the Net Zero with Nature programme, set up to help restore nature and mitigate climate change by repairing UK peatlands, woodlands, wetlands and wild spaces.

Santander National Parks UK

Working together for a lower carbon society

- Degraded peatland emits carbon dioxide. Repaired peatland stores and isolates it.
- Santander has so far funded the restoration of 220 hectares of peatland in the Cairngorms National Park through Net Zero with Nature.
- This restoration has potential to avoid more than 16,000 tonnes of carbon dioxide emissions and will help to establish other nature-based solutions in the UK at scale.
- It's also helping National Parks test a new model for managing land across the UK that reduces carbon emissions, reduces flood risk and restores biodiversity at scale.

Proud to partner National Parks

The Net Zero with Nature programme reflects efforts to meet growing demand for UK-based carbon credits with such projects still relatively new and having the potential to produce meaningful reductions in the amounts of carbon released to the atmosphere.

Net Zero with Nature has three main categories of nature-based project to their work: creating woodland; peatland restoration; and soil restoration and regenerative farming.

As well as offsetting our own direct emissions with UK-based credits, Net Zero with Nature opens up the possibility of new investment solutions for our clients who want to play their part.

You can find out more about Net Zero with Nature and sustainable investing at:

santander.co.uk/personal/savings-and-investments/net-zero-with-nature

You can get involved in volunteering at your local national park at:

nationalparks.uk/volunteering/

Inflation and the cost of living on the rise

Investors are adjusting to the effects of inflation again after a long period of it being largely under control. Here we look at what that might mean for your investments and what action you could take.

The rate of the Consumer Price Index (CPI) inflation reached a 40-year high of 9.4% p.a. in June[1] and is forecast by the OECD (Organisation for Economic Co-operation and Development) to reach double figures later this year, before averaging at 7.4% in 2023.[2] The Bank of England have warned that UK inflation could hit 11% in the autumn.[3]

Rising inflation is a global issue

Central banks are tasked with price stability, normally targeting 2% as a rate in which gradual price rises helps support long term economic growth. More recently they have taken action to address higher inflation by increasing interest rates from their recent record lows.

There are a number of factors behind the global surge in prices. The still ongoing pandemic has created supply chain challenges across the globe. Demand for goods increased sharply after lockdown periods that saw distribution and manufacturing severely disrupted. On top of this, the conflict in Ukraine has driven up oil, wheat and other commodity prices. That's accounted for more than a third of the US inflation spike, according to analysts.[4]

It's all having a very real impact on the cost of living for us all, with the cost of fuel, food and household energy rising sharply.

1 Bloomberg – UK Inflation at New 40-Year High Worsens Living Standards Crisis, 20/7/22
2 FT – UK growth set to be worst in G20 apart from Russia, OECD warns, 8/6/22
3 Bank of England – How high will inflation go, 17/6/22
4 Marketwatch – The Russian invasion of Ukraine accounts for more than a third of U.S. inflation, forecaster says, 13/6/22

Inflation is affecting investment portfolios and markets
This is partly because inflation affects the future buying power of money, including a company's future earnings. That can make investors look less favourably on a company's future value and have a negative impact on its share price.

And while some companies benefit when prices go up, inflation can reduce consumer confidence and so pull company revenues down. While wages in some industries are being pushed up by inflation, costs are increasing at a much higher rate. That means businesses that rely on consumers having money to spend on things other than essentials, such as retailers, restaurants, hotels and luxury goods manufacturers, can be particularly vulnerable.

Some companies may also be more directly affected by the higher cost of materials and commodities they rely on to do business.

As central banks try to manage inflation by raising the cost of borrowing through interest rates, this tends to act as an additional drag on earnings and share prices.

Higher inflation can bring investment opportunities as well as threats
Fears that inflation will continue climbing, leading to recession as consumers and business tighten their belts, have contributed to recent stock market falls and volatility.[5] But while some companies and sectors are likely to struggle as prices go up, others may do better.

For example, asset classes that benefit from the cause of inflationary pressure, such as property, commodities (including oil and gold) and infrastructure that's important to society, like roads and railways, often do well when prices are going up. So too do businesses able to pass on higher prices to consumers without losing sales, those selling staple household products such as toilet roll and cleaning goods for example.

Other asset classes behave differently at times of inflation. The buying power of cash savings can be reduced at a faster rate during inflationary periods, even if interest rates begin to increase. Inflation tends to be negative for bonds too, as it erodes the buying power of the fixed income investors receive, although not to the same extent if the income is inflation or index-linked.

This is another reminder of why diversification – spreading your investments across different asset classes – is so important.

Looking to the longer term
No-one knows exactly how inflation and interest rates will behave in the future or how the economy will be impacted. We don't know how far the economy will go down before it starts to recover or how long it will take to recover.

What we do know, although there are never any guarantees, is that economies and markets operate in cycles, which means that what goes down tends to come back up again over time.

This is why it's often a bad idea, during times of uncertainty and turbulence, to base investment decisions on short-term developments.

It's tempting to sell when markets are headed south, for example, but while there may be personal circumstances which mean it's the best course of action for you, it can make paper losses real and mean you end up with less than you put in. It can also mean you miss out on recovery when it comes, making it tougher to build your funds back up.

Patience allows us to make more productive decisions which often lead to greater success. Maintaining a diversified portfolio, staying focused on your long-term objectives and taking professional financial advice if you feel you need it should keep you on track whatever happens next week, next month or even next year.

A simple route to a diverse portfolio

It takes a good deal of time, skill and expertise to select and maintain a well-diversified portfolio of individual shares, bonds or other assets. That's why so many people choose to invest through collective investment funds, where your money is added together with that of others and an expert selects and manages the fund's portfolio on your behalf.

Multi-asset funds are type of funds that can help you achieve a diverse portfolio under a single roof. These can invest across different assets, sectors and geographies, with the manager reviewing and rebalancing the portfolio over time. Most focus on the main building blocks of shares, bonds, cash and property, but many can also invest in alternatives such as infrastructure, private equity and currencies to maximise diversification.

5 Yahoo Finance – Stocks break two-day winning streak as inflation concerns persist, 8/6/22

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

Structured products: an alternative route for investors

Structured products aren't as well-known as collective investment funds, but they can offer an alternative route to meet a need for investment growth over time.

It's well established that any investment portfolio worth its salt should be diversified across different assets – shares, bonds, cash and property for example. For many of us that's associated with putting our money into collective investment funds.

But using different types of product to get the most from your money can be another way to diversify. This is where structured products can come in.

What is a structured product?

Structured products aim to give investors the benefit of price movements in certain underlying assets, such as particular currencies or stock market indices. With a structured product you don't get impacted by the market fluctuations like a fund, but there are a number of downsides to this, notably the fixed term which limits when you can access your return. If markets drop in the last few months of your fixed term, this could wipe out any gains, with no ability to hold and wait for a recovery. If you hold a capital at risk structured product, you could also see a significant loss in the amount of capital you receive back.

To illustrate, a product might say that investors will get a specified return over six years provided the FTSE 100 index doesn't fall below a stated level or by more than a certain amount over that period.

How do structured products work?

Structured products are fixed over a defined period. There are 3 main types of structured products:

- Structured deposits – These might offer to return a specified level of interest if certain conditions related to the underlying index or other assets are met. They usually promise to return at least the amount you invested at the end of the term.
- Structured Capital-At-Risk Products – These might offer a specified return if certain conditions related to the underlying index or other assets are met. However you could lose some or all of the initial amount you invested if certain conditions are not met.
- Structured Capital Protected Products – These are similar to 'Capital-At-Risk Products' however these products promise to return at least the amount you invested at the end of the term.

Structured Capital-At-Risk and Capital Protected Products are known at Santander as 'Fixed Term Investments'.

Some structured products aim to provide an income during their term, others offer capital growth and some a combination of the two. While the idea is simple, in practice they can be quite complicated and as with any investment it's important to take the time to understand the detailed terms of any product you may be considering and seek advice if unsure.

They're not right for everyone either. For instance, they're not suitable for investors who can't leave their capital untouched for the full term, want instant access to it and who don't want to take any risk of losses.

How do structured products compare to funds?

The returns from both funds and structured products are shaped by the stock market, but there are some fundamental differences between the two.

For example, funds don't usually include promises to return a certain amount of income or capital, or include a capital protection element, while they will also invest directly in companies and indices rather than simply being linked to them.

Where all structured products have fixed terms, typically 4, 5 or 6 years you can usually hold a fund indefinitely and most allow you to access your capital at any time. Structured products also doesn't allow for any additional capital to be invested during the term.

Adding to the mix

There are pros and cons to structured products and funds, but you don't have to choose between using one or the other.

Structured products are often designed for investors who don't want full exposure to the stock market. They can be used for other purposes too, for example if you're looking for time-limited returns to meet a particular financial objective.

Structured products can add to the diversification in a fund-based investment portfolio, perhaps providing an element of protection when held alongside a blend of funds with different risk levels. They may in some cases give investors a way into asset classes that are hard to access directly, or which they don't want full exposure to. However, unless you have a capital protected type structure, there can be a risk to losing the capital if markets have fallen significantly at maturity. And with all types of structured products there is likelihood of capital loss if money is needed before the end of the term.

Exactly how structured products could fit into an investment portfolio will depend on factors such as your objectives, appetite for risk and the other assets you hold. If you want to explore them, getting help from a financial adviser who understands how different products work and could fit into the wider financial picture for you is a good place to start.

As with all investments your capital is at risk and you may get back less than you invest. Investments should be held for the medium to long term (5+ years), unless there is a fixed term that applies.

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