Think Investments

Spring 2021

Welcome

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

Longer days, green shoots peeking through the soil and the return of birds singing are welcome reminders that we're leaving behind the darkness of winter for the light and potential of spring.

This has been a difficult time for many of us with new variants of Covid-19 and a further lockdown. But this time we've had the knowledge that vaccines are being rolled out, paving the way for our return to 'normality'.

In the meantime, life is carrying on and young people are starting out on their own financial journeys. A helping hand can make all the difference here and, with the first Child Trust Funds (CTFs) now reaching maturity, we look at how this forerunner to Junior ISAs has given millions of children a financial start.

We've seen some more positive changes during the lockdowns that may be with us for the longer-term. One such is the ever-increasing role technology plays in our lives, including how we save and invest. While this trend was well underway before the first lockdown it has grown in ways and at a pace few would have predicted. In this edition, we consider some of the risks to be aware of and how you can protect both yourself and your investments.

Finally, we take a look at how significant political events around the world – such as government and central bank responses to the pandemic, a new president in the US and lasting changes like those associated with Brexit – can influence your investment portfolio.

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Child Trust Funds come of age

Child Trust Funds (CTFs) may now be in the shadow of Junior ISAs (JISAs) but they have left a strong legacy; their launch in April 2005 providing parents with a crucial 'nudge' to save for their children.

The earliest CTFs reached maturity last September when the oldest holders began turning 18.[1] Whether they access the money in their accounts or transfer it into adult ISAs, a lot of 18-year olds will have reason to be grateful for CTFs.

A helping hand

More than 6.3 million vouchers had been issued by the time the government stopped providing them in January 2011.[2] That's a huge number of children with some savings behind them as they start out on adult life. In many cases, families may not otherwise have been in a position to set money aside for their children's futures.

Almost 80% of CTFs were invested in stakeholder accounts and another 4% in non-stakeholder shares-based options,[3] meaning the vast majority of funds have been left to benefit from growth in the stock market.

That's likely to have made a big difference to their value over the long term.

1 Gov.uk – Maturing child trust funds, 15 January 2020
2 HMRC – Child Trust Fund – Statistical report 2012 (page 5)
3 As above (page 6)

How CTFs worked

Parents of qualifying children were sent vouchers as opening payments for the accounts, with the government contributing £250 (or £500 for low income families). The first vouchers were issued from January 2005 to children born after 1 September 2002, with HMRC automatically opening accounts if parents hadn't done so. Parents, family members or friends could then contribute up to a set amount.

There were three types of accounts – cash, shares-based and stakeholder (a shares-based account where charges were capped at 1.5% a year). The money held in a CTF is locked in until the child turns 18, at which point they can access it as they wish.[4] Like JISAs today, money in CTFs is sheltered from both income and capital gains tax. **Please note that tax rules, including the tax treatment of JISAs, depends on individual circumstances and could change in the future, which could affect what the child gets back.**

Investing for children makes sense

Of course, what you get back from an investment will always depend on exactly what you invested in, at what point you put your money in and when you take it out again. There's always a chance you could get back less than you put in. But the figures to the right offer a compelling case for investing for children, rather than leaving the money in a savings account.

The long-term nature of investing for a child, assuming you start when the child is young, can allow for more risk to be taken in earlier years, though this can also mean greater volatility. While past performance isn't a guide to future performance, history shows that the ups and downs of the investment markets have been smoothed out over time. Long-term investments, typically five years or more, can also benefit from the power of compounding – the snowball effect that happens when income (dividends and interest) is reinvested and goes on to generate its own growth.

Growing up and moving on

New CTFs are no longer available, but JISAs, which can also be invested in cash, stocks and shares, or both, are similar. Up to £9,000 can be paid into a JISA in the 2020/21 tax year, with the money held in it automatically rolling over into a traditional adult ISA in the child's name when they reach 18 years of age.

Anyone with money in a CTF opened between 2005 and 2011 but yet to mature can also transfer it to a JISA if they wish before the CTF reaches maturity. But that's just an option and there is no need to transfer to a JISA for the child to be able to access their money at the age of 18. Either way, from 18 it's up to the now young adult to decide if and how they want to continue with their investment. For those still in a CTF, one option will be to transfer it into an adult ISA in their own name.

An example for illustration

Research by What Investment magazine[5] showed that the government's initial investment of £250 would have more than doubled in value by January 2020, had it been invested in any one of a range of six different funds in April 2005. If this same amount of money had been held in a savings account over the same period, it would have grown to just under £320.

Building solid financial foundations

As society changes, today's younger generations face financial challenges over the coming years. Investing for a child or a grandchild could go a long way to helping them get through life with solid financial foundations to build on.

Exploring the options

If you know of a young adult who has a decision to make about what to do with their maturing CTF or JISA savings, they can find a range of useful resources in the savings and investments section at **santander.co.uk**

4 Money advice service – Child Trust Funds
5 What Investment – Child Trust Funds outperform when invested in shares, 6 February 2020

The year technology took centre stage

The unprecedented events of 2020 increased the role and influence of technology in nearly all aspects of our lives. We came to rely on it more than ever to help us work, home-school, stay well, keep in touch with others, keep entertained and manage our finances.

The power of connection

As the first Covid-19 lockdown got underway, technology was ready to meet the sudden surge in demand. In April 2020 alone, some 70% of UK adults used videoconferencing[6] and Microsoft chief executive Satya Nadella reported that the company, provider of the Teams videoconferencing platform, saw "two years of digital transformation in two months" as a result of the pandemic.[7]

Taking control with technology

Even before the pandemic, technology was changing the face of investing, allowing investors to take greater control of their own investment journey.

Millions of us now use and feel confident using online investment services like Santander's Investment Hub. These allow us to research investments, make

A new era for working at home?

According to data from the Office for National Statistics (ONS):

47% of employed UK adults did some work at home in April 2020.

86% of those did so as a result of the pandemic.[8]

Many companies are now reviewing their long-term remote working policies, potentially maintaining the demand for supporting technology and infrastructure.

6 Wired – How the pandemic has sped up digital transactions, 5 November 2020
7 Microsoft – 2 years of digital transformation in 2 months, 30 April 2020
8 ONS – Coronavirus and homeworking in the UK: April 2020, 8 July 2020

Managing your risks online

- **Understand your rights**
  Before using any online investment service check if you'll have access to the Financial Ombudsman Service **(financial-ombudsman.org.uk)** and the Financial Services Compensation Scheme **(fscs.org.uk)** if you have a complaint or things go wrong.

- **Understand your needs**
  If you have more complex financial needs or want more than a simple investment portfolio, consider whether a real-life adviser might be best for you.

- **Understand what you're paying**
  How much you pay (from service charges to ongoing investment costs) can affect what you get back from your investments. Make sure you know exactly what you're paying, to whom and what for.

- **Watch out for scams**
  UK investors lost at least £657m to investment fraud in the year to September 2020, a 28% increase on the previous 12 months.[9] Visit the Financial Conduct Authority's ScamSmart pages at **fca.org.uk/scamsmart** for tips on avoiding investment scams and what to look out for.

our own decisions about what to buy or sell as well as check latest values and performance at any time. It's possible too, to access ideas and guidance online to help you with your decision making or even to get a personal investment recommendation such as Santander's Digital Investment Adviser where you can receive a personalised suitability report for £20.

Understanding the risks

While there are many carefully designed online services available from responsible providers, scams are a risk and even experienced investors can make what turn out to be costly mistakes.

Individual investors may choose to avoid these risks by putting their money into regulated collective investment schemes (funds), managed on their behalf by professional investors. Santander Asset Management is just one example.

Many global regulatory bodies have accelerated or introduced initiatives on digital infrastructure since the pandemic began.[10] Much of that regulatory activity has been aimed at tackling increased risks around cybersecurity and scams.

Support is available if you need it

Financial advisers are responding to technological change too. Many are offering remote advice making their services more responsive, accessible, flexible and tailored than ever before. A financial adviser will discuss your advice options and their costs.

You may find it's an investment worth making. Expert advice can help make sure you're as well set up as possible to meet your personal financial goals.

Revisit the basics of investing

However technology changes the details of investing, the fundamentals remain constant. You can find lots of helpful information in the savings and investments section at **santander.co.uk** and at **santanderassetmanagement.co.uk** including our 'Back to basics' guide.

9 FT Adviser – Investors lose £657m to fraud, 12 December 2020
10 Finextra – Covid-19 spurs fintech regulation innovation, 29 October 2020

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

Politics and your portfolio

National and international politics can have a big influence on economies and markets and, in turn, on your investment portfolio. Understanding what are known as geopolitical factors can help you to manage risks effectively and spot opportunities along the way.

Geopolitical factors come in different shapes and sizes. How governments and central banks around the world are handling the pandemic and the roll-out of vaccines to bring it to an end is a stand-out example of global significance for 2021. It matters for all investors because it affects how quickly economies and markets are recovering from the dramatic downturn the pandemic sparked last year.

Some national actions can have global impacts

What Joe Biden does in his first 100 days as US president is another geopolitical factor of global relevance for 2021. It's not just about what Biden's policies might mean for the US economy, which is still the largest in the world. It's also about their potential impact on key international trade relationships (with China for example), global progress in tackling climate change and even the stability of regions like the Middle East.

Are markets expecting it?

Many investment experts will have expectations of the Biden administration based on their analysis of its likely policies and the extent to which other branches of US Government (Congress and the Judiciary) are likely to support or oppose them. They may already be taking those into account when making investment decisions.

All of this means Biden's actions may not move markets in the short term, provided they are in line with those expectations. They will, in effect, have already been 'priced in' by the market and be influencing its general direction of travel. It's when geopolitical factors take markets by surprise, or create an uncertain or unpredictable environment, that sudden, sharp ups and downs are most likely to result.

From short-term shock to lasting change

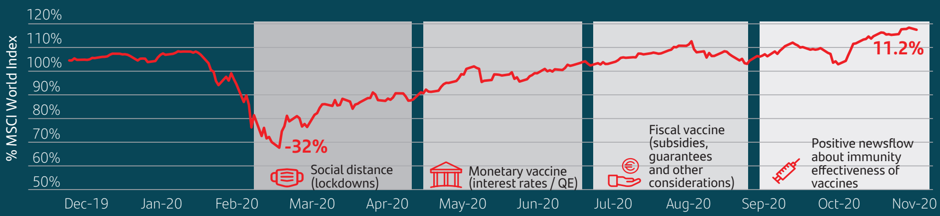
The UK's unexpected vote in favour of Brexit in 2016 is one example of a geopolitical shock that spooked markets around the world in its immediate aftermath. But investors have since had plenty of time to process the implications and get used to the idea.

For 2021, the UK's new trading relationship with the European Union has – after four and a half years of uncertainty about whether or not a deal could be struck – become a known factor around which long-term investment decisions can now be based.

It's time in the market that counts

Our experts at Santander Asset Management (SAM) identified four different stages to the Covid-19 related market crash and subsequent recovery in 2020. It's a good illustration of the influence government and central bank actions can have and also of how staying invested when shocks do strike can often be the most effective approach. The chart below is for illustrative purposes only and please note that past performance does not guarantee future performance.

World stock market (MSCI World Index) recovery in 2020



Source: Bloomberg and Santander Private Banking, data as at 30 November 2020.
Global Outlook 2021: Recovery and Disruption. https://www.santanderassetmanagement.com/about-us/our-vision/market-outlook-2021. December 2020.

The value of expert support

Simply keeping up with geopolitical developments can be a full-time job, never mind analysing their likely implications alongside other relevant factors at play.

It's just one good reason for investing through a professionally managed fund or portfolio service. The experts who run them have the time, experience and resources to help keep your investments on track whatever geopolitics may throw at them.

Having a well-diversified investment portfolio that's a match for your personal goals, circumstances and the level of risk you're willing and able to take is perhaps the most important factor of all. While there are no guarantees with investing, getting these basics right should go a long way towards helping you take any geopolitical shocks in your stride and benefit from the opportunities they may bring.

What can investors expect from 2021?

Here's what our experts at Santander Asset Management have to say.

- Recovery from the impact of the pandemic is a given, it's just the shape and time to recover from it that's under discussion.
- Government and central bank support for this recovery will continue.
- We forecast low interest rates will also continue but we may see inflation rise in the short-term.
- The pandemic is accelerating change that was already underway because of technology, how the global population is developing and how consumers are behaving.
- Short-term ups and down in markets are expected as markets adjust to all that's going on.
- Sustainable investing is predicted to continue to increase in importance. More and more people want to see their money going towards investments that are both profitable and reflect their values.
- Effective diversification means taking account of both the pandemic recovery as well as future trends, and opportunities to enhance portfolios.

The importance of digging deeper

Geopolitics is just one of several factors that can influence how individual markets perform.

For example, in 2020, the UK's flagship FTSE 100 Index lagged behind the US's S&P 500 Index in recovering from the Coronavirus Crash. While the uncertain 'Brexit factor' will have put some investors off UK markets, the type of companies included in each index was also relevant.

The pandemic boosted returns for many in the technology and healthcare sectors. But for those in the financial, energy, and transport and tourism sectors, the opposite was more likely to be true. The FTSE 100 Index is more heavily oriented to this latter group and the S&P 500 Index to the former.

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