Santander

Think Investments

Winter 2020

Welcome

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

We continue to live through a difficult time, trying to balance some sense of 'normality' with the need to keep ourselves and others safe from the threat of Covid-19.

The pandemic continues to affect the UK economy and we're now officially in recession. Naturally this is concerning, but it's also part of a continuous market cycle and each stage of this cycle brings opportunities for investors.

In this issue we look at two of the main reasons for investing - to grow your money over time or use it to provide an income - and the practical ways investment funds work to support you in this. We also consider where we are in the continuous market cycle and what the next few months might bring.

One positive thing to come out of lockdown is a greater awareness of the impact our actions can have on others and our planet. Sustainability in all things, the clothes we buy, our use of plastic and even what we do with our money, is increasingly important. We take a look at the rise of sustainable investing and what's involved.

Finally, an ISA is a tax-efficient way of holding investments and I'm pleased to say that this year, for the third year in a row, Santander has again been recognised as Best Stocks and Shares ISA Provider in the Moneyfacts awards.

WINNER
THREE TIMES
Investment Life & Pensions
Moneyfacts
Awards 2018-2020
Best Stocks & Shares ISA Provider

Christian Dalton
Head of Wealth Direct
Santander

Meeting your goals

We invest to make the most of our money and that's usually about aiming to grow it over time, using it to provide an income or some combination of the two.

Aiming to grow your money

Fund managers will often invest in one or a blend of growth stocks or value stocks:

- **growth stocks** are those a manager believes to have significant potential to grow sales and earnings at a faster rate than the rest of the market. Growth stocks often don't share their profits with investors by paying dividends, instead reinvesting them to drive further growth. Amazon, Facebook and Alphabet (which owns Google) are all examples of growth stocks; so far, none has paid any dividends to investors on their common stock.[1]
- **value stocks** are investments a manager believes to be bargains, undervalued by the market. Value stocks are more likely to be established companies, with good foundations and future prospects, that have fallen out of favour with investors, or niche businesses with potential that has not yet been fully realised or generally understood.

1 Nasdaq dividend history for Amazon, Facebook and Alphabet, as at October 2020

Rising to the Covid-19 challenge

The impact of Covid-19 is posing particular challenges for income investors. In the UK, for example, a regular survey of dividend payments found they fell by 57% in the second quarter of 2020 and predicted they would fall by at least two fifths over 2020 as a whole.[2]

If you're invested in an income fund this may impact the payouts you can expect, in the short-term at least. You may find it helpful to speak with a professional financial adviser if you're concerned about this. If you have a Santander adviser, they will be happy to help. If you seek advice from Santander, there will be fees and charges which will be explained to you by your adviser.

Providing you with an income

Fund managers will typically look for investments that can offer a reliable and continued source of income. These may include:

- **shares** in companies with an established track record of dividend payments and the financial health to continue with these for the future
- **bonds** that pay a fixed rate of interest
- **property** investments that generate a steady income stream from rental payments.

Some income funds may still allow potential for your money to grow in value over the long-term. This will depend on whether the fund's objective is to provide income with potential for capital growth or to provide a combination of income and capital growth. Income funds may also set targets or benchmarks for the level of income they will aim to pay out.

Matching funds to your goals

A fund's Key Investor Information Document (KIID) or Key Information Document (KID) and Prospectus will explain its objectives and help you to understand if it's a match for your investment goals. You can use your Investment Hub account to find the KIID or KID and other information about any fund you are invested in through Santander.

Your personal circumstances and a fund's objectives can change over time so it's sensible to revisit your investment choices every so often to satisfy yourself everything's still on track.

Investing is for the long-term

Whatever your aims, it's important to remember that investing is a long-term project. As 2020 has clearly shown, you'll experience downs as well as ups along the way. If you have a diversified portfolio, this can help to mitigate the full effects of market volatility, and can help you to meet your goals.

Let's be clear – smoothing

Smoothing is the term used by fund managers to describe the ways they even out the market ups and downs. Techniques vary but are usually based either on a fund's historic or expected future performance. In a fund that aims to grow your investment, smoothing techniques might be used for a period of time, providing stability in value for the investor.

In funds that aim to pay an income, smoothing techniques can be used to set the price of the units or shares. The underlying investment chosen by the fund managers normally pays income either quarterly or twice a year, but crucially at different times throughout the fund year. Estimating how much income is likely to be paid and when allows a calculation of the expected average income received, which can then be applied to income payments of the fund.

Smoothing does not guarantee reduced volatility. The idea is to give you an element of predictability that may help you with your financial planning. But smoothed prices or income payments can be adjusted upwards or downwards – sometimes quite significantly – if market conditions change. If a fund you invest in uses smoothing, this should be clear from its KIID or KID.

2 Link Asset Services, UK Dividend Monitor Q2 2020

Investment outlook

As 2020 draws to a close, the impact of efforts to suppress Covid-19 still loom large over the global economy, but it's not the only factor investors have been watching.

The UK economy officially entered recession in July. Between March and September 2020, nearly 700,000 jobs were lost, according to data from the Office for National Statistics (ONS), and UK unemployment was at its highest level for two years (4.1%).[3]

As part of his Winter Economy Plan announced in September, the Chancellor of the Exchequer, Rishi Sunak, continued to support businesses and protect jobs using public money, extending and developing various existing measures into 2021.[4] This was in the face of an autumn rise in the Covid-19 infection rate and a retightening of social restrictions to stem it.

The downs and ups of the economic cycle

A recession is defined as economic growth (measured by Gross Domestic Product or GDP) falling for two successive quarters. While recessions are often triggered by a major event, as this one has been by the Covid-19 pandemic, they are part of a continuous economic cycle that influences the prevailing climate for investors.

Past performance is not a guide to future performance, but we can reasonably expect recovery to follow the recession in time, although timing for this is harder to predict.

The four stages of a cycle

1. **Peak**
   The economy hits a high point.
2. **Contraction**
   Growth in the economy is going down.
3. **Trough**
   The contraction comes to an end.
4. **Expansion**
   The economy is on the up again.

3 ONS – Labour market overview, UK: September 2020
4 The Guardian – Hong Kong falls deeper into recession; US factory orders tumble – as it happens, 4 May 2020

The impact of uncertainty

Covid-19 has created significant uncertainty for many of us:

- Job security
- The possibility of a cut in pay or hours
- Having to perhaps dip into savings

Significant uncertainty often has an impact on the economy, as it means people may be less likely to spend money.

Beyond Covid-19

While it may sometimes feel like it from the news, Covid-19 is not the only factor of relevance to investors and that may influence markets into early 2021. Situations can change quickly and new factors emerge, but at the time of writing this article some of the key themes include:

1 Brexit transition

The agreed Brexit transition period between the UK and the EU ends on 31 December 2020 and cannot now be extended. One area of uncertainty is the extent to which the UK may be subject to tariffs (tax charges) and border checks in the future, as these would potentially drive prices up and cause supply delays, adding to the impacts of Covid-19.

2 US Presidential Election

Whether Republican Donald Trump or Democrat Joe Biden occupies the Oval Office from January 2021 will influence the US economy for the next four years. As the largest economy in the world that will have a big influence on the global economy too. The S&P 500 Index tends to increase during an election year and, despite global lockdowns leading to falls across the investment markets, it recovered and passed its pre-pandemic high in August.[5]

3 US/China relations

Markets fell earlier in the year as President Trump openly blamed China for the Covid-19 pandemic and threatened new trade tariffs.[6] A key ongoing issue is the independence of technology, with battlegrounds so far including Huawei's involvement in providing 5G and the influence of the popular Chinese developed TikTok app. Some reports suggest that a significant trade separation of these two economic superpowers could cost the global technology sector as much as $3.5 trillion over the next five years.[7]

Opportunities are out there

It's important to remember that whatever is happening there are always opportunities.

- If you invest when markets are lower you get more units for your money which means you have more units benefit from any future market growth.
- Regular investing lets you work with the ups and downs as you buy units when markets are both higher and lower, smoothing out the differences over time.
- Spreading your money across different asset classes means you can benefit from the fact that some assets may be doing better than others at a particular point in time, providing the benefits of asset correlation.

Time in the market is key

While it can be difficult to ignore the noise around short-term market ups and downs and focus on the long-term view, it's often a good idea to do just that.

If you sell when markets are low you may get back less than originally invested and missed the potential growth when the markets recover. Over the long-term, growth tends to smooth out the short-term ups and downs, although investment returns will depend on when you invest and then take your money out again. Though future performance is not guaranteed.

Keeping you up to date

Our experts at Santander Asset Management give regular updates on what is happening in the markets and the outlook for investors. You can find these in the investments section at **santander.co.uk** and at **santanderassetmanagement.co.uk**

5 Forbes – S&P 500 Hits Another Record Closing High After Strong Economic Data, 21 August 2020
6 The Guardian – Hong Kong falls deeper into recession; US factory orders tumble – as it happens, 4 May 2020
7 Forbes – Don't Underestimate The Rise In US-China Tech Tensions, 3 September 2020

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

The rise of sustainable investing

Previously seen as niche, sustainability is now playing a leading role not only in asset managers' investment strategies but also their company cultures.

Greta Thunberg and Sir David Attenborough are among those who have brought sustainability into the mainstream. Investors are increasingly aware of where their money goes and whether the companies they support have a positive or negative effect on others.

What is sustainable investing?

Broadly speaking, sustainable investing means a consistent and continuous focus on environmental, social and governance (ESG) factors.

According to figures published by investment research specialists Morningstar, in June 2020 there were 3,432 sustainable funds around the world. Total assets in these sat at $1.062 trillion, with $71.1 billion having been added in the second quarter of 2020, a rise of 72% compared to the first quarter of the year.[8]

The reasons for the popularity of sustainable investing are two-fold. First, more investors favour companies that align with their own values; good returns alone are not enough. Second, fund options have rapidly increased to meet investor demand.

Environmental: how companies approach climate change and how their operations impact the planet through things like waste, contamination and deforestation.

Social: how a company operates in its community, covering matters such as working conditions, health and safety, employee relations, human rights and modern slavery.

Governance: company leadership in issues including executive pay, bribery and corruption, board diversity, political lobbying and payment of taxes.

8 Morningstar - Global Sustainable Fund Flows report, July 2020

A positive outcome from Covid-19

Global lockdowns triggered an increased awareness of and concern over ESG issues such as social inequalities, the impact of travel on the environment and how employers look after their staff. The general disruption caused by Covid-19 may also have highlighted the broader benefits of investing in businesses with sustainable and resilient business models.

Setting standards

Investors still face challenges, however. The main one is a lack of consistent standards across the industry to rate investments based on their sustainability. This increases the risk of 'greenwashing', where companies make false or misleading claims in this area.

On the upside, there are some recognised international standards known as the Principles for Responsible Investing. These have been developed by the United Nations and support its 17 Sustainable Development Goals for the world.

In July, Santander Asset Management as a whole became a proud signatory to these principles as part of its journey to embedding sustainability across all the services it provides.

Shaping a better future, together

As awareness and interest around sustainability continue to increase, it's more important than ever for investment providers to behave responsibly and be transparent. ESG investing is just as much about the company as a whole – how it does business, how it deals with its suppliers, treats its employees and helps (or harms) society – as its products.

For example, at Santander Group, we've drawn on our experience to identify key areas that provide the foundations for our strong sustainable culture and support our commitment to international frameworks.

- Driving sustainable economic growth and financial inclusion.
- Driving inclusive digitalisation.
- Upholding the highest financial ethics and fighting financial crime.

Making ESG part of financial advice

In the future financial advisers will have to include sustainability risk (the risk of the value of an investment going up or down due to ESG factors) as part of their selection process, whether or not their clients express a preference for sustainable investing. This is part of EU-wide regulations which the UK is expected to continue to follow.

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

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