N&V

NEWS & VIEWS H2/2021

Above and beyond

Creating opportunities from the challenges of the investment landscape

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How inflation affects your wealth

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Canaccord Genuity Wealth Management

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Justin Oliver, Deputy Chief Investment Officer

Michel Perera, Chief Investment Officer

Matthew Phillips, Director of Wealth Planning

Patrick Thomas, Head of ESG Investments

Welcome

Autumn is traditionally a time of change, and this edition of News & Views arrives as the investment world is experiencing a series of unusual and unique scenarios. Stock markets are riding high, climate change is creating new parameters based on sustainability and efficiency, and the pandemic has affected attitudes to work and retirement.

In response, to help you navigate and even profit from this new landscape, we at CGWM will make the most of our in-depth knowledge, expertise and relationships to go above and beyond your expectations.

There has been a mood of opportunity in the air as I have been speaking to clients, partners and colleagues over the last few weeks. Now that most government restrictions have been eased and people have returned to their offices, there is a real appetite to work together to make the most of the possibilities that lie ahead.

From our perspective, this also includes welcoming new clients and colleagues following our recent acquisition of Adam & Company. By combining our expertise and experience, from our Edinburgh office we will be able to offer clients a greater range of solutions – from UK-based small caps to global equities – or expert independent wealth planning.

We have also been focusing on change from within and, in particular, on broadening the diversity of our colleagues. We want to ensure that CGWM is representative of the communities we work with, knowing that diversity in our ideas and our thinking can only be of benefit to our clients. As part of this commitment, we are proud to have joined this year's 10,000 Black Interns programme. You can read more in our interview with participant – and now colleague – Peter Uwaifo on page 14.

Meanwhile, regular readers will know ESG has quickly become a keystone in our investment offering (and you can read the latest from Patrick Thomas, our Head of ESG Investments, on page 19). But what you might not know is that for Canaccord, ESG is more than sustainable and responsible investing; it is about re-examining our relationship with suppliers, clients and our local communities and finding ways to reduce the environmental impact of our business. While we cannot deliver change overnight, it is important that we at least begin the transition to embodying 'ESG as a firm'.

Inflation has been a major theme over the last few months and with the Bank of England now forecasting rates to rise above 4% by the end of this year, we have been working closely with our clients to ensure portfolios are well positioned for any surges ahead. We also launched a campaign to raise awareness of just how damaging the combination of low interest rates and comparatively high inflation can be to the real value of cash savings. Partnering with YouGov, we researched high net worth individuals' knowledge of, and attitudes towards, inflation – and some of the results were surprising. You can read more, and find out how to make sure you don't underestimate the impact of inflation on your savings, in our article on page 22.

We hope you enjoy this edition of News & Views. If you have any questions about anything in this edition, or about your portfolio, please get in touch. We would be very pleased to hear from you.

David Esfandi, Chief Executive Officer, CGWM

Justin Oliver,
Deputy Chief
Investment Officer,

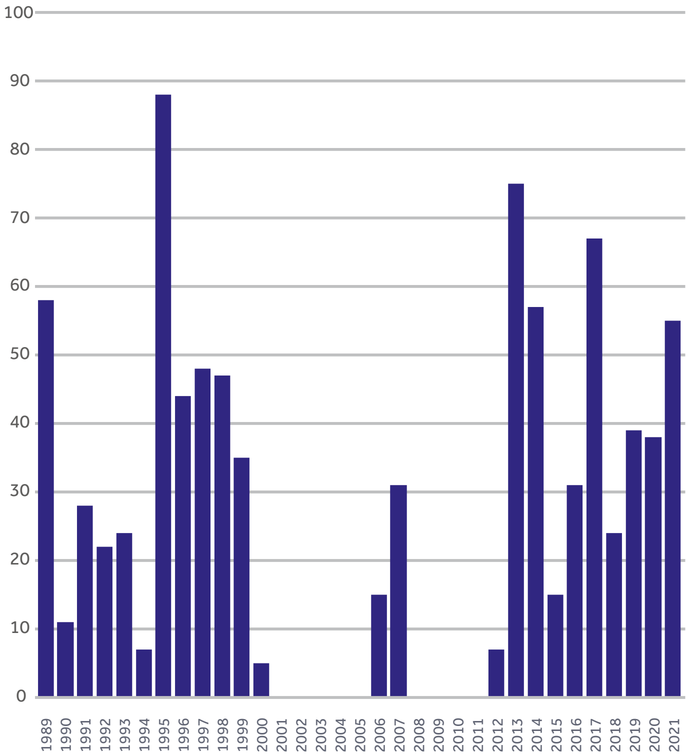
10 reasons why stock market highs shouldn't be feared

We are often asked whether stocks should still be bought while markets are trading at, or very close to, all-time highs. Here we provide 10 reasons why this shouldn't necessarily be a concern for investors.

1. Stock markets make new highs all the time

For instance, over the period seen in the graph below (1989-2021), the US stock market has made 871 new highs. For 57% of this period, the market has traded within 5% of its prevailing all-time high. So far this year, the market has made 55 new highs, but this is by no means unusual. For example, there were 67 new highs registered in 2017 and yet, at the end of August 2021, the market was 81% higher than its end of 2017 level. In 1995, the market made a record 88 new highs.

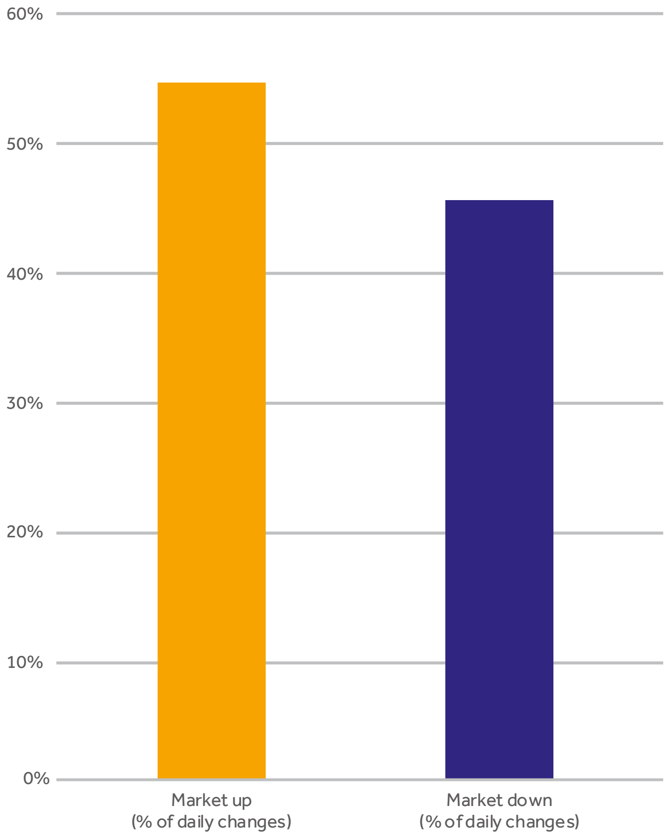
Number of new highs set by the US stock market (total return, US$ terms)



Source: Bloomberg. 2021 data to 31 August

2. Stock markets go up more than they go down

Equity indices tend to rise over time. If this was not the case, they would eventually become worthless. Again, looking at the US stock market, it has risen 54.5% of the time, and fallen for 45.5%. The average gain on up days is 0.4%; the average fall is 0.35%. While these differences might not seem substantial, over the long term the cumulative impact can be massive.



Source: Bloomberg. 2021 data to 31 August

3. A stock market is a market of various stocks

Stock markets comprise many different types of company and even if the stock market itself is trading at an all-time high, not all of its underlying constituents will be. As of 13 September this year, 206 companies within the main US market were trading more than 10% below their 52-week peak. There were 60 companies which were more than 20% below their high for the past year. Irrespective of stock market levels, individual stock opportunities will always be present. If market levels are a concern, there are always companies which are well below their highest price.

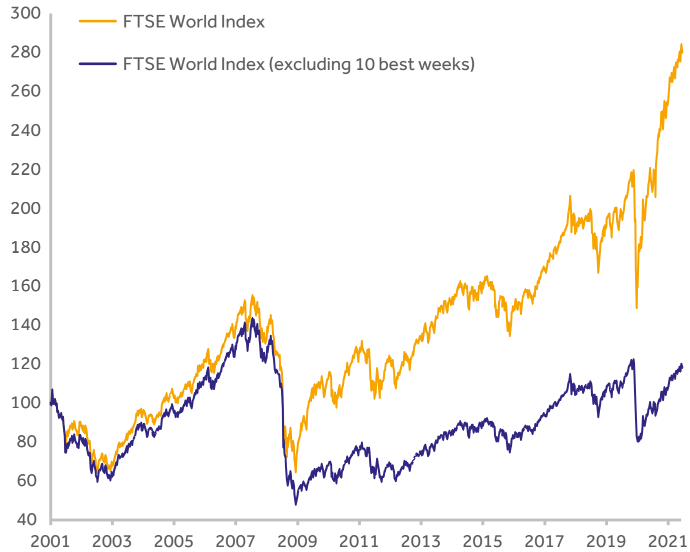
4. It is time in the market that matters, not market timing

Market timing – focusing heavily on when the best time might be to buy and sell – plays a remarkably small role within achieving long-term positive returns from equities. To illustrate this, the graph below shows rolling 10-year returns for the FTSE World Index since 1991, including dividends. The graph shows there have been only 15 months during this time where an investment into this market would not have delivered a positive return 10 years later. And even this was centred around the period ending 2008/2009, which was the height of the global financial crisis. Of course, these returns are illustrative only and actual returns would have varied depending on an investor's specific portfolio.

Source: Bloomberg. Total return, US$ terms.
Past performance is not a reliable indicator of future performance.

5. Trying to be too astute can be costly

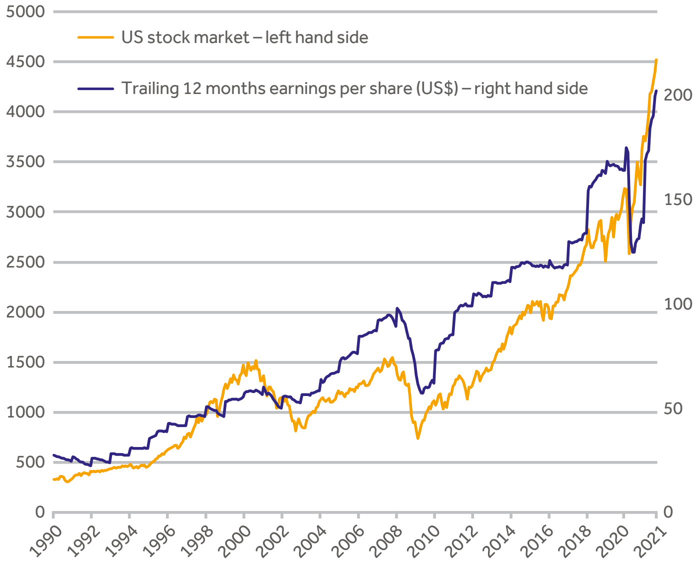
Trying to time market purchases too shrewdly, hoping to invest at a lower level, can significantly detract from returns if the market delivers strong returns while you're waiting. This potential opportunity cost can be seen by the fact that if you missed just the 10 best weeks over the past 20 years, the returns from the market would be significantly reduced.



Source: Bloomberg. US$ terms. Rebased to 100.
Past performance is not a reliable indicator of future performance.

6. It's corporate profits that matter

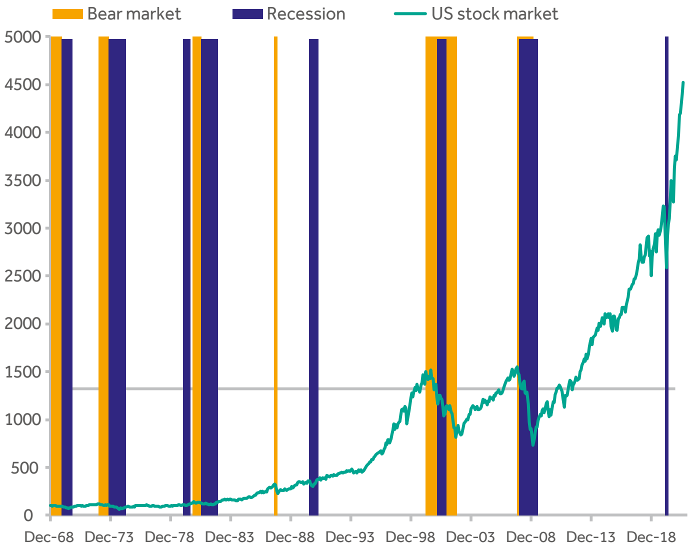
Corporate profitability is inextricably linked to stock market returns over the long term. While the pace of earnings growth might slow moving forward, there is currently little reason to expect earnings to decline, unless there is an economic recession.



Source: Bloomberg. 2021 data to 31 August.
Past performance is not a reliable indicator of future performance.

7. Economic recessions, not market levels, are key

The time to be concerned about equity markets is when a bear market is imminent (a bear market is when a market experiences prolonged price decline; typically securities prices fall 20% or more from recent highs). Ultimately, bear markets are most often caused by US economic recessions which, in turn, are most often caused by the US Federal Reserve (Fed) raising interest rates to a level which curtails economic activity. 2020's recession, which officially lasted a mere two months to April and was the shortest on record, is a clear exception.



Source: Bloomberg. 2021 data to 31 August

We do not believe we are currently in any real danger of a further recession. The Fed is only just beginning to consider the appropriate time to reduce the pace of their bond purchases. They have also been at pains to point out that this does not predetermine that interest rates will rise at a certain point in the future. We are a long way from US interest rates approaching a level which runs the risk of causing a recession.

8. Market levels are not the same as valuations

We admit that US stock market valuations are high relative to their history, although the current low level of interest rates provides considerable valuation support. Valuations are also a very poor timing tool; stock markets can stay over- or undervalued for a considerable time. If you are concerned about US valuations, we would highlight Europe, Japan and the emerging markets as regions where valuations are not as extreme.

9. You could be missing opportunities

Irrespective of market levels, equity markets will continue to provide the best opportunity to access new and exciting investment themes. As just one example, the considerable opportunities presented by ESG-related investments, such as clean energy, cyber security, robotics, environmental protection and sustainable food production, can only be readily accessed via equity markets. All offer considerable potential, and investors would be remiss if a concern about stock market levels meant that the opportunity to invest in these areas was missed.

10. There is no need to fear the future

People can always find reasons to hold off investing in equity markets. Geopolitical concerns, economic challenges, fears of 'catching a falling knife', or high stock market levels have all been used as excuses at various times. History would suggest that, most of the time, these fears prove unfounded.

Michel Perera,
Chief Investment
Officer

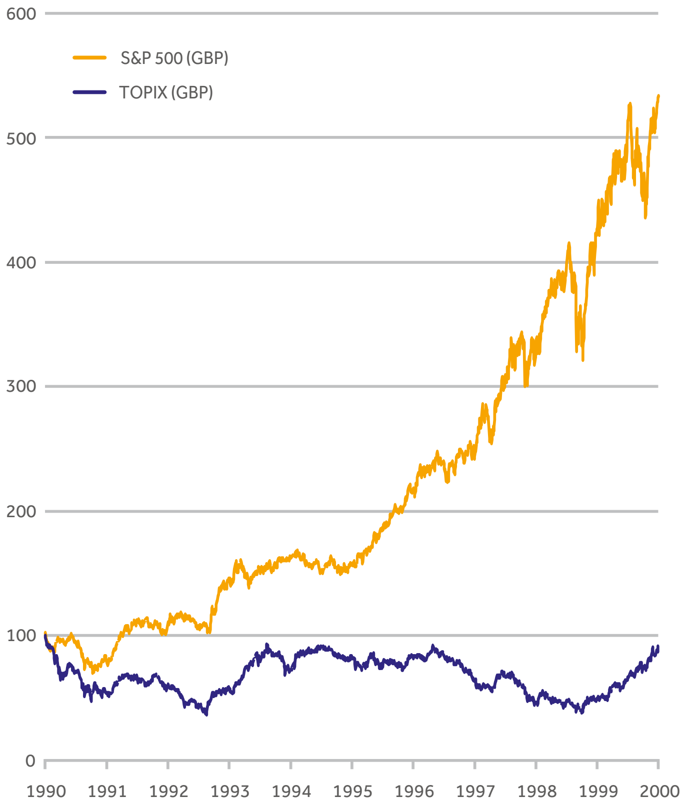
Thematic investing – is it the best way forward?

Why investing by region has fallen out of fashion

Traditional investment portfolios used to be structured by region or country. If, in the 1990s, you were skilful (lucky?) enough to avoid Japanese equities and concentrate on US equities instead, you would have been very proud of your returns, since Japan fell 16% during the decade while the US rose 315%.

This is shown in the graph below, which compares the performance of the Tokyo Price Index (TOPIX) with the Standard & Poors 500. TOPIX tracks Japan's largest domestic companies by market capitalisation, while the S&P 500 tracks the performance of the 500 largest US public companies.

TOPIX vs S&P during the 1990s



Source: Morningstar

Many investors also liked to 'fly the flag' in their portfolios, favouring their home country, mostly owing to their better knowledge and understanding of domestic companies.

Search for a star sector

Both of these trends started unravelling in the 21st century. With the bursting of the dotcom bubble in the early 2000s and the subprime mortgage crisis of 2007-2009, being able to dodge loss-making sectors altogether became good for your wealth. Conversely, trying to find the star sectors turned into a more profitable quest than figuring out whether the UK market would beat Germany.

This concept was also furthered by the focus on sub-sectors rather than top sectors; for instance, cyber-security rather than IT or oncology rather than healthcare. With the arrival of passive investment vehicles (such as trackers and exchange-traded funds, or ETFs) and specialised managers, you could go down to any level of detail. Why invest in the whole energy sector if you really want wind farms?

Detailed sub-sector ETFs

Tech themes available in ETFs

5G
Artificial intelligence
Blockchain
China interest
Cloud computing
Cyber security
Digital economy
Digital payments
ecommerce
Electric vehicle and driving technology
Emerging market internet and ecommerce
Gaming and esports
Robotics and automation
Semiconductors
Smart factory
US fintech
US internet

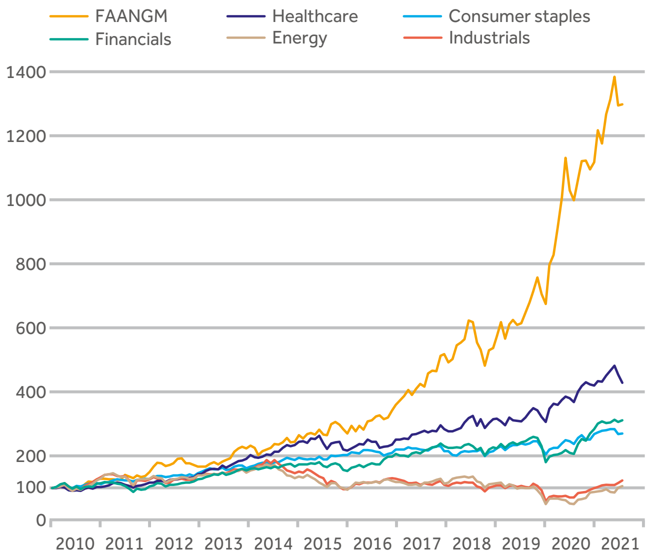
Healthcare themes available in ETFs

Biotech
Pharmaceuticals
Medical equipment
Aging population
Healthcare innovation
Cancer immunotherapy
Genomics
Junior biotech
Telemedicine and digital health

Investment nationalism was also beginning to take a back seat: if you're interested in batteries for electric vehicles, do you really care where the companies are headquartered? Indeed, when the COVID-19 vaccines were first unveiled, it was interesting to note that one of the most successful ones was developed by Turkish immigrants in Germany, who then built an alliance with one of the large US pharmaceutical firms. Investment themes were definitely becoming more important than geography.

You could point out, though, that over the last 12 years US equities have beaten the rest of the world hands down. If you analyse this more deeply, however, you discover that US equities have benefited from the booming technology sector, in particular the so-called FAANGM (Facebook, Amazon, Apple, Netflix, Google, Microsoft). Indeed, without these top shares, the US market would not have scored compared to other regions. Ultimately, picking the right sector is crucial.

Returns of FAANGM vs other US equities



Source: FactSet.
Past performance is not a reliable indicator of future performance.

Building a portfolio based on sectors vs themes - defining the difference

Sectors and sub-sectors are useful as they allow investors to take a diversified and refined approach to building portfolios. They can help mitigate volatility and manage cyclicality as well as allowing us to invest in areas of particular interest or where we have high conviction.

Themes can be much broader than sectors, encompassing major trends in society like people living longer, global warming, poorer countries improving their standard of living, etc. In that case, as an investor, we need to figure out which stocks fit the thematic trend and will therefore outperform. Broad themes can be turned into smaller ideas, like electric vehicles, vaccines, online shopping, etc. and can therefore be a small part of a larger business area.

Looking at it another way, a portfolio based on sector choices might potentially need to rotate quite a few times during a cycle, as we move from a cyclical recovery to a sustainable expansion, to overheating, to a recession and to a bounce-back. One would have to be very nimble to navigate the sectoral peaks and troughs during these diverse periods.

A thematic portfolio, on the other hand, can cover ideas that will remain for 5 or 10 years, through different phases of the economic cycle, and should seek long-term outcomes for investors. Will electric vehicles take a bigger share of the car industry over the next 20 years? Will hackers continue to destabilise western countries, creating a need for constantly enhanced cyber protection? As we live longer, will we fall prey to a higher incidence of cancer? Will the US finally bring its infrastructure to the level of other developed countries?

This is not a recommendation to invest or disinvest in any of the companies, funds, themes or sectors mentioned. They are included for illustrative purposes only.

Developing thematic investment ideas

Broad theme	Direct consequence	Further consequence	Sectors affected	Thematic ideas
Longevity increasing	• Older populations	• Support ratio worsening • Less economic growth	• Healthcare systems • Life insurance • Value sectors	• **Oncology** • **Structural growth**
Global warming	• Natural disasters increasing	• Human toll • Economic disruption	• Catastrophe insurance	• **Electrification** • **Water management** • **Renewable energy**
Deglobalisation	• Reduced global trade	• Goods inflation • Supply chain issues	• Industrial sectors	• **Automation/robotics**
Growing wealth in emerging markets	• Middle class increasing	• Spending on basics • Enhanced lifestyle	• Consumer products	• **Premiumisation**
Geopolitical tensions	• Military build-ups	• Cyber attacks	• Strategic sectors	• **Cyber security** • **Defence procurement**
Improving infrastructure	• Building programme	• Government spending • Higher taxes	• Building and public works	• **Capital goods suppliers** • **Financial planning**
Working from home	• Communications systems need • Home space improvement	• Wifi and systems enhancement • Property moves	• Utilities • Inner-city services	• **Cloud computing** • **Homebuilders**

Source: CGWM

Focusing on companies

Ultimately, the trick is not just identifying the themes or sectors but selecting the individual companies that will benefit from them. Sometimes, a theme can outlive its usefulness (once we are all fully equipped with systems to join conference calls, for example) and sometimes a theme can morph into something else (e.g. globalisation turning into robotics as imports are replaced by automated factories).

At CGWM, our chief investment office has been active in exploring global thematic ideas through the various stages of the COVID-19 crisis. In the depths of the pandemic the most defensive investments were online shopping, communications systems and healthcare, while in the post-vaccine period we tactically focused on banks, energy and industrial sectors. We also identified longer-term themes, such as cyber-security and the battery value chain, which can perform well regardless of the macro-economic backdrop.

When investing on our discretionary clients' behalf, we are region-agnostic, preferring to analyse global trends and take advantage of global themes and thoroughly researched investment opportunities. Currently more than two-thirds of the investments we manage on behalf of clients are outside the UK, which reflects the breadth and depth of our investment research and global expertise as we look to build our clients' wealth with confidence. Ultimately, how we identify and classify investment ideas must evolve and reflect the increasingly complicated and connected world we now live in.

Ask us about our current investment themes

If you would like to find out more about our specific investment themes and our can-do approach to choosing companies, please get in touch with your usual CGWM contact. They will be pleased to discuss our thematic ideas.

A thematic portfolio can cover ideas that will remain for 5 or 10 years, through different phases of the economic cycle, and should seek long-term outcomes for investors.

Investment involves risk. The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested. Past performance is not a reliable indicator of future performance.

Meet Peter Uwaifo

The 10,000 Black Interns programme offers life-changing work experience and training opportunities to young black people. More than 20 industries will provide 10,000 internship opportunities over five years.

Peter Uwaifo, from north-west London, studied law at the University of Nottingham and graduated in July 2020, despite COVID-19 and the national lockdown, with a 2:1 degree. He joined us through the 10,000 Black Interns programme in July 2021 and has now been offered a permanent role.

As a law graduate, what brings you to wealth management?

I enjoyed studying law, but I have always had a passion for finance, particularly investment management. I would research investment and finance in my free time. Lockdown actually accelerated my learning as I had more time than ever before. Before this, I would absorb as much knowledge as I could about finance through podcasts, books, videos and my own personal experience of investing.

Once I graduated, it was time to start thinking about my career. I wanted to do something I was passionate about and that fuelled the switch to investment management.

What did your internship entail?

I spent a lot of time with various people in the business. They gave me an insight into all the different components of a wealth management company, the role they play and what a day in their job was like.

We also had a project, set out at the beginning of the internship, to help us put everything we were learning into practice over the six weeks. We had to create our own investment portfolio, considering every element from risk profiles and asset allocation to sectors and equities. We then presented our portfolio and approach to the Chief Investment Office panel in our final week. We were asked to explain and pitch some example investments, summarise the type of client this portfolio was suitable for and explain whether we had included direct or collective investments and why.

The internship was very dialogue-driven, which I really enjoyed. The exposure to real-life asset allocation and committee meetings helped me understand the processes, rationale and 'behind the scenes' discussions. The opportunity to shadow experienced investment managers, who encouraged me to ask questions and express opinions, really made me feel involved and comfortable about speaking out.

What was it like working at Canaccord?

From the very beginning, Canaccord created an environment that enabled me to express my strengths. I felt that everyone genuinely wanted to get to know me. Nobody tried to catch me out, and I established a rapport with every interviewer at each stage. This meant that on my first day I wasn't anxious because I had felt so comfortable during the interview process.

What surprised and motivated you most at Canaccord?

There was no ego, no hierarchy – instead a real sense of team and collaboration. Everyone made time to talk, made themselves approachable and available. Whether it was through a follow-up meeting or grabbing a coffee, the team at Canaccord gave me so much insight, advice and knowledge. Everyone spoke to me like an equal – they strived to educate me as much as possible, while still making sure I was enjoying my time here.

Canaccord is brimming with brilliant people. There's a real sense of community, and everything is done collectively with the firm's and clients' best interests in mind. I feel privileged to have been here and very grateful for the opportunity given to me.

How did you feel on your first day vs now?

I had a good impression of what I was walking into because of the type of people I had already met. I wanted to impress and embrace the opportunity at an incredible firm. I knew the next six weeks would show whether I had what it takes.

Now, I feel grateful and privileged. It has been so exciting, and I look forward to coming into the office every day. I have learned so much, and feel very at home. I am delighted to have been offered a role here. The company took a chance on me and I look forward to calling them colleagues.

What three words would you use to describe the culture at Canaccord?

Approachable, collaborative and meritocratic.

The people at Canaccord really embody the sentiment of being approachable. Every member of the team that I met was welcoming and friendly from the minute I was offered the internship.

I was able to touch base with every single department – from the investment managers to compliance and marketing to client services. This gave me a holistic view of the functions and how they work together – for example, the marketing team helps investment managers with business development.

What was the highlight of your time at Canaccord?

David Herbert, the Head of UK Portfolio Management, offering me the job – life milestone!

If you had to change anything about the internship what would it be?

Nothing. Six weeks was perfect, and it was very well organised. I feel like I spent time with everyone and could follow up and learn more if needed.

One thing I would have liked to experience was to be a fly on the wall in a client meeting. It would have been really interesting to see how the investment managers interact with their clients.

How has your internship with CGWM motivated you for the future?

In so many ways! The internship cemented my choice of a career in wealth management. I believe that doing a job you love is the greatest motivator, and the faith that Canaccord has put in me has made me determined to perform well and do my very best for them in return.

#10000 BLACK INTERNS

We are proud to be one of the investment management companies addressing the underrepresentation of black talent within our sector. We will continue to participate in the 10,000 Black Interns scheme over the coming years, working to build a more diverse workforce.

Matthew Phillips,
Director of
Wealth Planning

Facing the future with confidence

Shakespeare wrote about the seven ages of man, but for most people, until recently, life fell into three stages: childhood (until the end of full-time education), working life, and finally retirement.

Previous generations would rely on a financial adviser for pensions and investment advice during their working life. When they retired, they would buy an annuity and the relationship with their adviser would end.

Nowadays, it's not so simple. Changes to pension rules have widened your options, while the COVID-19 pandemic meant that people started to look at more flexible ways of working, including phased retirement.

Without a clear cut-off between work and retirement, your relationship with your adviser needs to continue. Pension planning can be woven into overall wealth planning, and work effectively with other tax-efficient savings during your working life, while your investments may need to be incorporated into succession planning for future generations.

How the pandemic changed attitudes

During COVID-19 most of us were forced to consider our own mortality, our plans for the future, our ability to earn a living, and the prospects for our children and grandchildren.

Financially, young people have been worst hit. However, a survey carried out at the end of 2020 by MoneyHelper (formerly the Money Advice Service) suggested that a third of people aged 50-70 have also had their finances impacted by COVID-19.

At CGWM we commissioned our own YouGov survey[1] of high net worth individuals (HNWIs). Of those who are not yet retired, we found that 16% have decided to delay retirement because of the coronavirus pandemic. Most (9%) are delaying for financial reasons, while the other 7% wish to continue working, because the new hybrid working model suits their lifestyle better.

> ***Planning tells you what you need to do to meet your objectives or gives you the peace of mind to know that you just need to carry on what you are doing now. The worst outcome is to not plan and find that you cannot do what you want.***

[1] All figures, unless otherwise stated, are from YouGov PLC. Total sample size was 1,006 high net worth individuals (£750k+ assets/savings excluding main home) of which 380 are not yet retired. Fieldwork was undertaken between 6 - 25 August 2021. The survey was carried out online.

Looking into the future

The pandemic created a watershed. From now on, life will be different. We must learn to live with certain changes, perhaps including prolonged social distancing and regular booster jabs.

But is it also a watershed moment for reassessing your financial wellbeing and future plans? It has certainly motivated many of our clients to do so:

- Some clients have decided to move closer to children and grandchildren
- For others, lockdown has been an interesting experiment, showing them what their spending in later life might be like, with less travel and fewer expenses
- It has galvanised some clients into reassessing their retirement plans: they want to be able to travel – having had quite enough of being stuck at home over the last 18 months
- It has also prompted many people to write or update their wills; it may not surprise you to learn that in 2020 the UK's largest will writing service saw a threefold increase in enquires compared to 2019.

It's never too early to start thinking about retirement

According to our survey, pensions and investments still make the highest contribution to retirement for HNWIs (65%), with men more likely to rely on pensions (75%) than women (55%). Yet a recent survey by insurance company LV found that 86% of adults have not checked their pension value in the last year. Even more concerning is that people planning to retire within the next five years are still not checking – 75% are unaware of their pension's current value.

Perhaps this is because so many decisions need to be made nowadays.

- **When will retirement happen?** When will you qualify for the state pension? Will you take or defer it? Do you want to phase your retirement from work, continuing to work part-time and gradually reducing your hours?
- **How will you fund it?** Most retirees will need to take income from a number of sources
- **How will you take the money?** Decisions need to be made about drawdown, tax-free cash (lump sum vs phased tax-free drawdown) and the effects on inheritance tax
- **Could you bolster your pension with income from elsewhere?** Are you making the most tax-efficient use of assets like rental property, offshore bonds and ISAs?

Helping our clients move seamlessly into retirement

In the last year at Canaccord Genuity Wealth Management we have helped our clients prepare for the future in various different ways.

During lockdown, **Mr and Mrs A** decided to retire early. We used cash flow planning to give them the guidance and support they needed to take this major step.

Dr B realised she was tired of working 60 hours a week, and wanted to sell her business. We worked alongside her business advisers to help her navigate the next stage of her career.

Reassessing their stock holdings, **Mr C and Mr D** saw that they were increasing risk through significant exposure to their own company stock. We helped them diversify their portfolio.

A widow with no direct descendants, **Mrs E** wanted to start sharing her wealth with her favourite causes. She decided to set up a charitable trust, to provide a framework for her donations. We used cash flow planning to calculate how much she would need to live on, and how much she could afford to put into the trust.

Mr F had several different pensions with different providers, and wanted to consolidate them into a single pot, giving him more transparency and control.

Talk to us about your dreams for the future

If the pandemic has prompted you to reassess your financial future, contact us to talk things through. We can help with support and suggestions, whether you have built up additional cash savings to invest (see Keeping up with inflation on page 22), want to postpone retirement for a few years, or need to check you've saved enough for your ideal retirement.

The tax treatment of all investments depends upon individual circumstances and the levels and basis of taxation may change in the future. Investors should discuss their financial arrangements with their own tax adviser before investing.

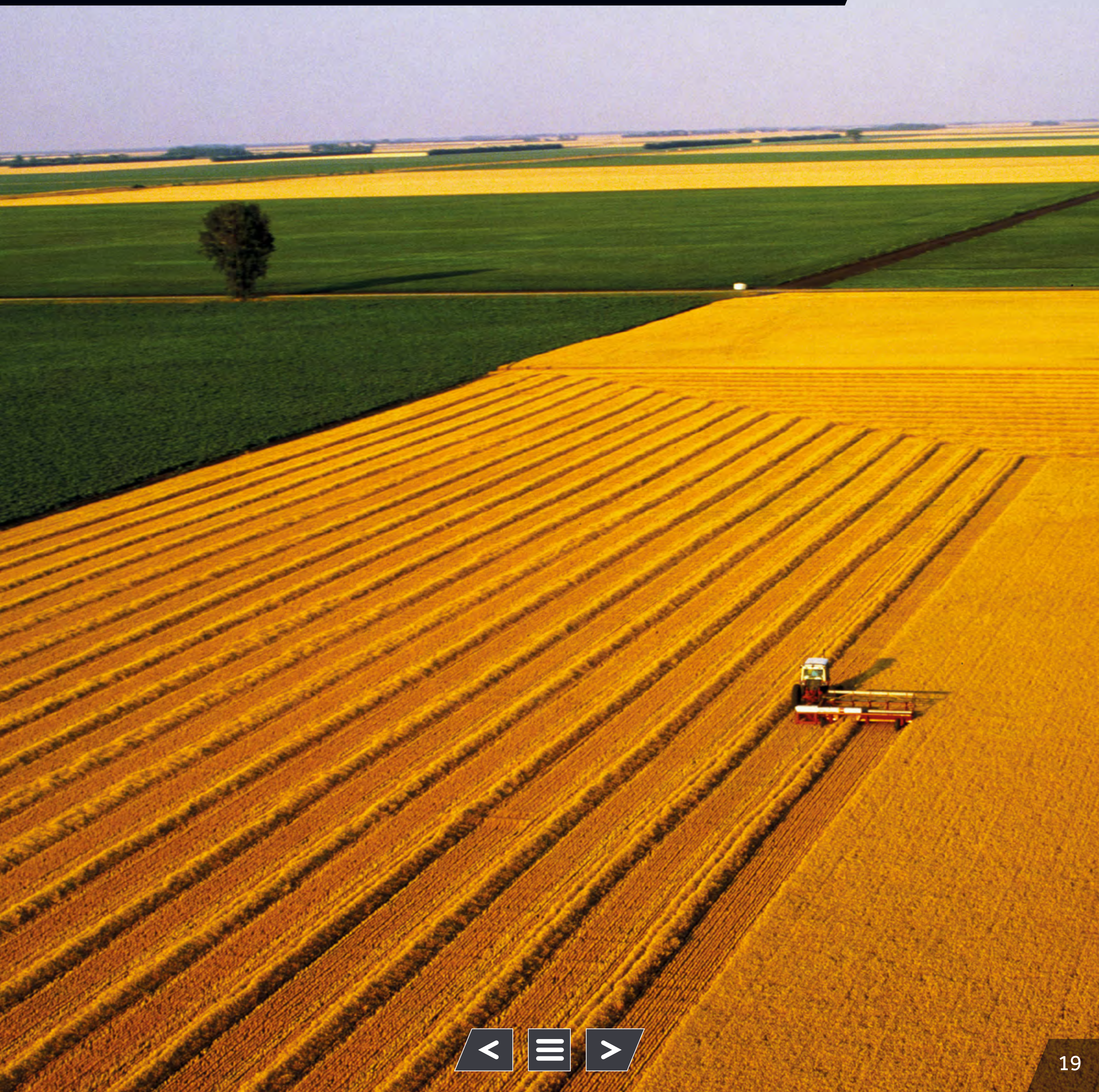
Investment involves risk. The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested.

Patrick Thomas, Head of ESG Investments

Investing in the sustainable food revolution

The world is facing a huge challenge. Global resources are dwindling and the population growing. By 2050, global food systems will need to meet the dietary demands of more than 10 billion people, compared with 7.8 billion today.

Unfortunately, food production takes a significant toll on the environment. It creates greenhouse gases and pollution, depletes land and water resources, leaches phosphorus, and affects soil biology and function through the use of herbicides and pesticides.



The world needs a sustainable food system to provide nutritious food efficiently to a growing population. At the same time we need to reduce environmental damage by developing sustainable agricultural practices and food distribution systems, as well as reducing food waste.

What are the problems with conventional food systems?

- Conventional food systems are largely based on the availability of inexpensive fossil fuels, which are necessary for mechanised agriculture, manufacturing chemical fertilisers, processing foods and packaging food products
- Demand for cheap, efficient calories has climbed as populations have expanded, resulting in a general decline in nutrition
- Industrialised agriculture often leads to the compromising of local, regional and even global ecosystems through fertiliser runoff, water pollution and greenhouse gas emissions.

Further, the need to reduce costs encourages businesses to move food production to areas where economic costs (labour, taxes, etc.) are lower or environmental regulations laxer, but which are usually further from the end consumer markets. For example, the majority of salmon sold in the United States is raised off the coast of Chile, due in large part to less stringent Chilean standards regarding fish feed – and regardless of the fact that salmon are not indigenous in Chilean coastal waters. The globalisation of food production can result in the loss of traditional food systems in less developed countries, and have negative impacts on health, ecosystems, and cultures in those countries.

The World Resources Institute has warned that:

"If today's levels of production efficiency were to remain constant through 2050, then feeding the planet would entail clearing most of the world's remaining forests, wiping out thousands more species, and releasing enough greenhouse gas emissions to exceed the 1.5°C and 2°C warming targets enshrined in the Paris Agreement, even if emissions from all other human activities were entirely eliminated."

Changing consumer preferences

Today we see a strong movement towards healthy, sustainable eating. Again according to the World Resources Institute, the increasing instances of obesity and related diseases are making consumers more health conscious and they are demanding food and beverage products that are natural and low in fat and calorie content.

Studies claim a whole-food, plant-based diet can prevent and even reverse a litany of food and lifestyle-borne illnesses, including heart disease and type 2 diabetes. And according to the European Commission's 'Sustainable Food' report 2020, "The promotion of a healthy diet also reduces the environmental footprint of food consumption in Europe and globally."

How do we invest on the right side of this disruption?

Responsibly meeting the sustainable food needs of a growing population means there is a significant and developing market opportunity, which could whet the appetites of hungry investors.

The good news is that the food industry has begun to respond. We see expanding plant-based protein options; new technologies penetrating farming, aquaculture and supply-chains; and changes in the packaging used to wrap our food, among many other things.

These changes are a response to a consumer shift away from animal products, largely due to rising concerns about animal welfare, personal health, and how they impact the planet's natural ecosystems (forest/habitat loss and methane emissions, waste discharge and freshwater usage). The United Nations Food and Agriculture Organization estimates that livestock production is responsible for 14.5% of global greenhouse gas emissions, while other organisations, including the World Watch Institute, have estimated it could be as much as 51%.

This is creating investment opportunities in the plant-based and organic foods sectors. Companies in this sub-sector are predominantly focused on producing and delivering plant-based foods and alternatives to meat and dairy. Demand for these foods is rocketing – in the US alone, retail sales of plant-based foods grew 29% over 2018 and 2019 to a record US$5bn – and is anticipated to grow exponentially over the coming years.

The demand for organic foods is also expected to continue growing, as consumers learn more about the impact of intense agricultural practices that maximise yields at the expense of the health of the soil and the end consumer.

Recent success stories

Initial Public Offerings (IPOs) of Beyond Meat and Impossible Foods have recently highlighted the market's interest in plant-based catering.

Dairy alternatives are another area of interest. Walking into our local supermarkets, we seem to notice new brands of nut milk almost daily, attesting to the fact that consumers are expanding their horizons. One only has to look at the recent IPO of Oatly, the Swedish oat milk company: the company's shares soared when they made their public market debut in May 2021. The global milk alternatives market, valued at US$20.5bn in 2020, is currently expected to grow at an annual compound growth rate of 12.5% between 2021 and 2028, according to Grand View Research.

While we are not specifically recommending investment in the companies mentioned above, these recent activities reveal the sort of market interest we are starting to see around this exciting new theme. For most investors looking for exposure to sustainable food, it is likely to be through a specialist fund – and at CGWM we can suggest a number of options.

Ultimately we see sustainable food as a great example of how investing in the future of our planet is also an incredible opportunity to deliver returns. If this kind of investment appeals to your taste buds, please get in touch with your usual contact, who will be pleased to discuss your menu of options.

The global milk alternatives market, valued at US$20.5bn in 2020, is currently expected to grow at an annual compound growth rate of 12.5% between 2021 and 2028.

This is not a recommendation to invest or disinvest in any of the companies, funds, themes or sectors mentioned. They are included for illustrative purposes only.

Sources available on request.

Keeping up with inflation

Inflation, as measured by the consumer price index (CPI), has been in and out of the headlines for much of 2021, reaching a peak (so far) of 3.2% in August. The Bank of England suggests it may even hit 4% by the end of the year.

Meanwhile, many consumers will be assessing the impact of the COVID-19 lockdowns on their financial futures, while hoping the worst of the pandemic is now behind us.

Against this backdrop, we partnered with YouGov to survey 1,006 high net worth individuals (HNWIs)[1] to find out whether they had saved money over the course of the lockdowns, and if so, what they were planning to do with that extra cash. We also wanted to find out whether HNWIs truly understood the impact of inflation on their cash savings. Many of the results surprised us.

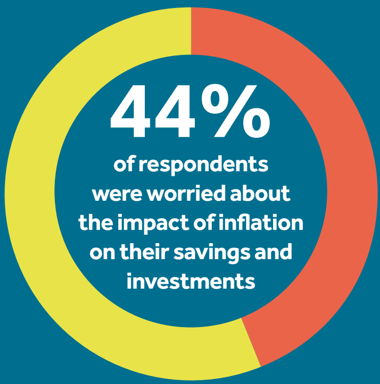
Is cash still king for savers?

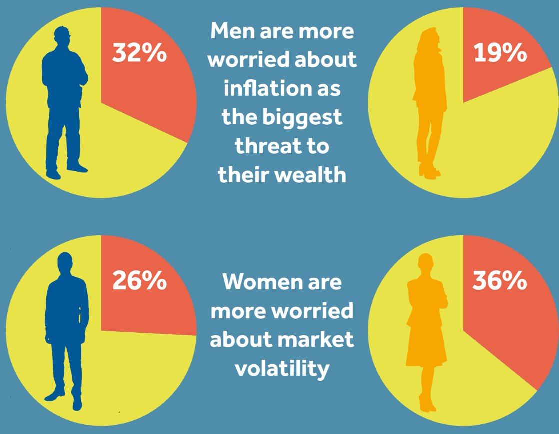
When we asked the HNWIs how much they thought £1,000 cash would be worth today in real terms after 10 years in the bank, taking into account both interest rates and inflation[2], the average (mean) answer was £1,404 – a gain of more than 40%.

In fact, the true figure is vastly lower, at £877 – a 12% decline in real terms. This is a huge £527 less than the average guess!

As a whole, our survey respondents did not realise cash would generate a loss in real terms when taking into account low interest rates and higher inflation.

What does inflation mean for **your** wealth?





- **31%** believe it is market volatility
- **25%** inflation
- **20%** tax rises
- **10%** other
- **10%** N/A – no threat
- **4%** don't know

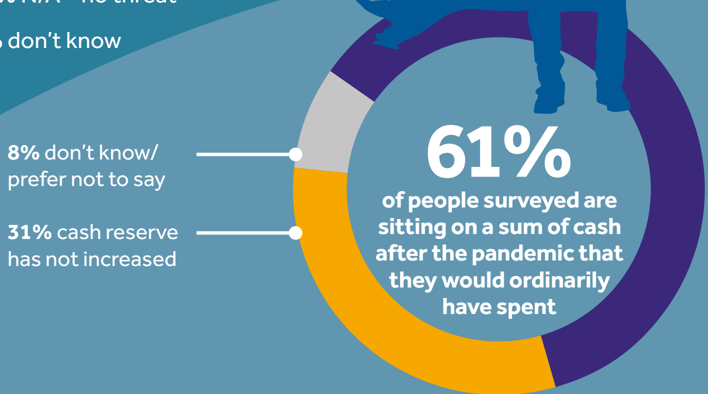
What would £1,000 cash be worth today in real terms after 10 years in the bank*?

£1,000 cash deposited 10 years ago

Our respondents guessed it would now be worth an average (mean) figure of **£1,404 (40% gain)** in real terms

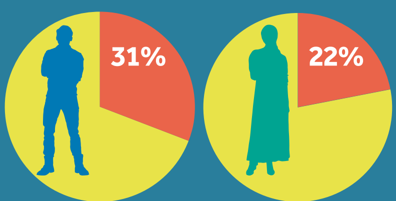
The true figure is vastly lower at **£877 (12% loss)**

*at the prevailing Bank of England base rate



- **18%** keep it in cash (e.g. continue to save)
- **27%** invest it (e.g. stocks, funds, bonds etc)
- **41%** spend it (e.g. holidays, home improvements etc)
- **10%** other
- **4%** don't know

Women are less likely than men to plan to invest their extra cash



Three reasons people gave for not planning to invest their extra cash in the markets:

YouGov survey of 1,006 HNW respondents completed on behalf of CGWM, August 2021.
Investment involves risk.

More cash post-lockdowns

This lack of awareness about the real impact of low interest rates and high inflation at a time when many HNWIs have increased cash savings may be a serious blind spot.

Most people who responded to our survey (61%) said they had increased their cash savings as a result of the COVID-19 lockdowns. Nearly a quarter of them had saved more than £20,000 since the outbreak of the pandemic. 25% had accrued between £5,000 and £19,999, 15% had accrued between £20,000 and £50,000 and 8% had saved more than £50,000.

More men (65%) than women (56%) reported an increase in their savings.

Of those who have increased their cash savings, the extra money is burning a hole in their pocket, with 41% planning to spend it, 27% to invest it and 18% to keep it in cash. Another 15% didn't know or chose 'other'.

Women were noticeably less likely to plan to invest their lockdown savings than men (22% vs 31% of men).

Why are people not investing their cash?

We asked those who had saved money but were not planning to invest any of it in the markets, what their reasons were. We then asked our Deputy Chief Investment Officer, Justin Oliver, to respond with his thoughts.

Investing would tie my money up for too long

While we would always advise investors to take a long-term view, ideally seven years or more, any prudent investment strategy will be highly liquid. Given that cash savers may need to deposit their money in a fixed-rate account for at least a year to get an interest rate much over 0.1%, an investment portfolio could offer both potentially higher returns and increased flexibility to withdraw funds if necessary.

Investors with CGWM are free to withdraw their funds as they wish, although they may of course incur losses if the value of their investments has fallen since investing their money. This is why we always work carefully with new clients to ensure their portfolio is right for them at the outset.

I am worried about market volatility

It is a fact of life that markets go down as well as up and you may not get back the amount you originally invested. However, history shows us that investing in equities over the long term has offered the best opportunity for delivering real returns and, while volatility will always exist, it can be managed and reduced. You can read more about this in '10 reasons why stock market highs shouldn't be feared' on page 4.

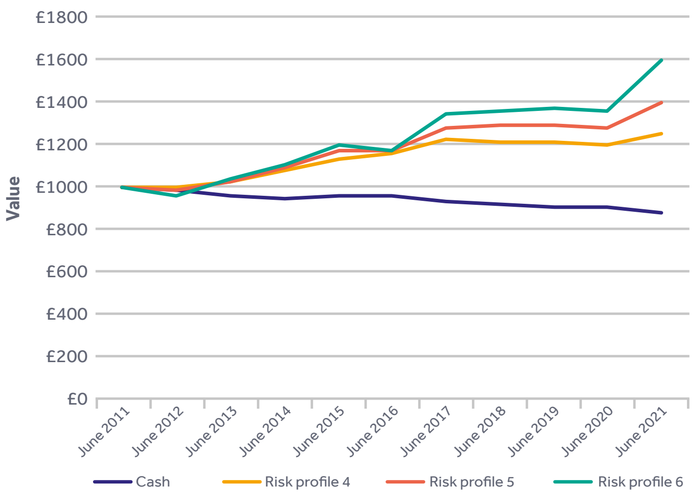
You should also discuss this with your investment manager, as depositing funds into your portfolio on a regular basis (such as monthly from salary) can help you invest at different prices, averaging out the overall price at which you get into the market. Known as pound-cost averaging, this can help you smooth out any fluctuations caused by market volatility over the long term.

I believe in cash

As we can see from the graph below, keeping cash in the bank when inflation is higher than interest rates results in a loss of value in real terms.

Our data suggests that investing in a diversified investment portfolio may be a better option if you want to protect your cash against inflation.

The graph below shows the performance of three of CGWM's largest and most popular model investment portfolios, compared with cash over the same ten years.



Source: CGWM

The £1,000 initial investment has grown up to £1,590 – a 59% gain – in the higher-risk, higher-return risk profile 6 model portfolio, after taking inflation into account. This return is after the deduction of a representative management fee.

Each of these portfolios outperformed cash over the same period. While past performance is no guarantee of future performance, investing in our diversified portfolios clearly gave a much better return over the ten years than cash, protecting our investors' wealth from inflation.

While many people may still feel cash is king, it could be time to consider whether that loyalty is misplaced. If you would like to discuss what to do with your cash savings, please get in touch with your usual CGWM contact, who will be pleased to help you.

[1]All figures, unless otherwise stated, are from YouGov PLC. Total sample size was 1,006 high net worth individuals. Fieldwork was undertaken between 6 - 25 August 2021. The survey was carried out online.

[2]At the prevailing Bank of England base rate and consumer price index (CPI). Figures calculated at 30 June 2021.

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