

Simon Martin, Branch Manager and Senior Investment Manager, Charles Stanley Leeds

It does exactly what it says on the tin.

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As we are coming up towards the end of the calendar year, we felt that it would be a good idea to summarise the changes that have been made within portfolios over the past few months.

We are sure that, like us, you have had lots of things on your mind during 2020 and investments may not have been high on that list. Please be reassured that we have kept a close eye on the investments and made changes that we feel will boost the longer term returns. We hope that the market commentaries have helped to keep you informed of these changes and explain how we have reacted to this new era we have entered.

After a difficult start to the year, we are delighted to report that portfolios have staged a strong recovery over the past six to seven months. This is largely due to the number of changes we have made to the way in which we look at markets and, more importantly, identify investments that we think are suitable for the future of the portfolio.

One of the key messages that we have been reminded about this year is **to keep things simple**. Life has been complicated and challenging and this is one of the reasons why we have changed the focus within portfolios.

As you have probably gathered, from the market commentaries, the emphasis has switched away from looking at assets from just a geographical perspective and instead consider investments from a thematic perspective. As we have pointed out on a number of occasions, many of the themes we are looking at are multi-decade long and should provide sustained growth for many years. That is not to say that it will be a smooth ride and free from any volatility, but we feel that the momentum is moving in the right direction and that these themes are becoming sufficiently large to justify investments in their own right within portfolios.

So, whilst it appears that we are doing things very differently, from a simplistic perspective we are just doing things slightly different. In the past assets were split on a geographical basis, and when we looked at the situation in March it became apparent that the recovery, especially in the UK, would be relatively poor in comparison to other parts of the market. When we looked through all of the market 'noise' we quickly identified that we were looking at cycles that risked moving sideways at best and may not recover for a considerable time.

The following table provides an indication of the sizes of the markets from a geographical perspective and highlights the weighting towards the USA and the relative size of the UK market.

We accept that the UK market is skewed to internationally diverse companies that generate revenues all around the world. But this can be said about all markets especially in Europe and Asia where they rely heavily on exports. It also helps us to put into perspective the size of some of the themes when we consider asset allocation in portfolios.

Geographical Split

North America	61.10%
Emerging Economies	11.80%
Europe (Ex UK)	13.80%
UK	3.60%
Japan	6.60%
Asia Pacific (Ex Japan)	3.10%
Africa	0.50%
MSCI ACWI Index	

In the past we were used to markets and sectors operating in cycles and generally, after a significant downturn, we experienced a recovery to reflect the longer term growth potential in that market. However, in the UK many of the sectors fell but the mechanics behind the companies and the fact that dividends were cut, meant that share prices literally moved sideways and showed no signs of recovery.

This is why we started to examine the implications for thematic investments. As you can see from the thematic split section a number of these sectors are large and are investable entities in their own right.

Thematic Split

Information technology	21.70%
Healthcare	12.30%
Decarbonisation	6.50%
Consumer Discretionary	12.80%
Consumer Staples	7.80%
Industrials	9.40%
Financials	12.80%
Utilities	3.00%
Real Estate	2.70%
Energy	3.10%
Materials	4.70%
Communication Services	9.50%

When you think that the global healthcare sector is already twice the size of the Japanese market which on its own is the second largest stock market in the world, and it is almost as big as all of the European stock markets (excluding the UK) combined. Decarbonisation is already as big as the Japanese market and growing at a significant rate (that is shown in red because it is not an official sector with ACWI, but again we felt it helped to put it into perspective). The global information technology sector is almost twice the size again. These are very big sectors and therefore this allows us to create portfolios that we can focus specifically on the trends that we feel will continue to grow, and therefore it is allowing us to manage portfolios, choose assets that we feel will go up and, in the future be able to bank profits where we feel they are overvalued. We can start to identify large, medium and smaller company funds in the theme and allocate capital accordingly.

We have always done this in the past within the geographical sectors, but we feel that going forward we will just simply do it through the themes.

Old Economy Weighting

Information technology	23.04%
Healthcare	5.00%
Consumer Discretionary	40.00%
Consumer Staples	43.75%
Industrials	60.00%
Financials	68.75%
Utilities	33.30%
Real Estate	90.00%
Energy	80.00%
Materials	80.00%
Communication Services	42.00%

Another reason why we felt that it was prudent to re-evaluate the way we categorise investments in the portfolio, is because of the weighting to old economy in a number of sectors. As you can see from the next table, sectors like real estate, energy, materials, financials and even industrials are made up largely of old economy companies. These by definition are very mature with minimal growth potential. Admittedly, in the past, shareholders have benefited from investing in these sectors as they have traditionally paid large dividends. But as we saw earlier this year in times of hardship companies simply waived dividends as they fought to protect their balance sheets. This in turn compounded the underperformance and resulted in a very poor recovery. But we also have to be mindful that investing in a company just because it has done well in the past does not necessarily mean that it is the way to allocate capital going forward. The perception of old economy companies is changing, and the lack of long term growth could impact on performance.

The UK market in particular was very badly affected by companies cutting their dividends and this reflected the heavy bias towards old economy sectors within the market. This year dividends paid by UK companies have fallen by 47%. Companies have continued to cut returns to shareholders as they strive to conserve cash

during the Coronavirus pandemic and, as a consequence, income investors in the UK companies have been hit hard, especially those reliant on the traditional dividend payers, such as BP, Shell and the banks. We all know that the British banks were banned from returning cash to shareholders this year by the Bank of England. In April Shell cut its dividend for the first time since the Second World War and in August BP halved its pay out after both were hit by the fall in the price of oil.

These companies have recovered recently, but, even after this recovery the FTSE100 is still 12.5% below the level it was 12 months ago. We are not convinced that this is the start of a sustained recovery but simply a sharp overreaction to the fact that they had lagged behind the worldwide recovery so badly.

We therefore don't feel that in the future investors should expect to benefit from the best of both worlds, i.e. a high income and reliable long term capital growth. Sadly, we may have to compromise and accept that we either receive an attractive dividend at the expense of capital growth, or long term capital growth but with a lower running yield. For most people this is not a problem it just involves looking at things from a different perspective. But for other organisations like charities we accept that is a problem and one we will have to address individually.

This is also not just a UK problem and it is an issue that has affected all markets. Globally dividends have also been cut in all markets, admittedly to a much lesser extent. According to Janus Henderson global dividends have fallen by 14.3% over the past 12 months.

For these reasons we felt that it was important that we listen to what is happening and adapt to the changing circumstances, rather than stick our head in the sand and hope things revert back to normal. **The way markets operate has changed, perhaps for ever.** We have to accept this and move on!

After all change is important and nothing to be scared off.

We, as investment managers, need to evolve to ensure that we generate the returns that clients expect in portfolios. As we have pointed out in a number of commentaries, above average consistent long term growth is scarce and there are currently fewer and fewer companies achieving sustained growth going forward. Goldman Sachs have estimated that whereas in the past 15% of companies generated growth of in excess of 25%, this will fall to just 8% of companies. Therefore, in an era where sustained long term growth is becoming scarce we simply have to work harder and have to have the ability to go where we feel the investment thesis is more reliable rather than what has done well in the past or just because of the size of a geographic market.

As we have pointed out in a recent market commentary, we are at an inflection point for a brighter future and that this future will be different. Companies will achieve better returns by adopting more environmentally and compassionate policies and this will be achieved by focusing on the environment, looking after their employees, their social responsibilities and having stricter governance policies

This is the reason why we have moved away from funds heavily exposed to 'old economy' businesses in a specific geography to concentrate on a balance between themes and smaller/ mid cap funds. This in turn has allowed us to focus on themes such as decarbonisation, healthcare, urban growth, demographics, lifestyle trends and technology. We have written at length about these but here is a summary of some of the key points that we feel it is important to reiterate: ~

- Millennials, defined by those under 35, have grown up with the internet and the option to shop online wherever and whenever they want. New age consumerism is underpinned by millennials who will be the wealthiest and biggest population cohort that we have ever seen. They will inevitably change consumption patterns for ever.
- One of the most influential classes today are the Chinese millennials who account for roughly 25% of the Chinese population, (although we do expect Indian millennials to become increasingly significant over the next decade). This generation of Chinese millennials is just entering its prime consumption years and the effects on global markets will be significant.
- We will also see a huge increase in global infrastructure spending from events such as Biden's Green Deal, governments investing in new infrastructure projects, urban growth and the transfer from gas and oil to new energy sources.
- The use of robots in society will increase efficiency, precision and safety and it is estimated that the global robotics market is expected to grow by 15% per year until 2035.
- Across the world the Covid pandemic has accelerated the inevitable use of technology in our lives and the ascendancy of the digital economy. Asia leads these trends in some areas such as ecommerce and financial tech. But in other areas like software and cloud infrastructure, China still lags behind the US. There is room for both to continue to grow.
- As we have pointed out on numerous occasions the greatest secular attraction of investing in Asia is the powerful demographic story. In the next 10 years Asia is expected to have the largest middle class population in the world.

How humans react to risks is a classic behavioural issue and as we have seen this year, the perception of risk affects how we react to events. Coronavirus is considered a present threat over which there is a great deal of uncertainty about its scale and impact. Hence the fact that Governments have mobilised huge amounts of money to combat Coronavirus.

Contrastingly, climate change is predominantly a future threat, but there is a high level of confidence that its long term impact without intervention could be catastrophic for humanity. It is therefore illogical that governments have tended to remain apathetic and indecisive when it comes to the longer term threat associated by global warming but have literally printed billions of Dollars, Pounds, Euros and all currencies around the world to combat a virus that appeared almost out of nowhere. It is

simply a fact that we have a tendency to significantly overweight importance to what is happening now relative to what may happen in the future. It is not helped by the fact that the bias towards the present is accentuated by the frequency of elections. For example, the brevity of terms in office means that politicians are generally focused on actions and activities that will see them retain power over the short term!

This is one of the reasons why we have adopted a longer term view to avoid getting caught up in the short term noise that is Brexit and was the US Presidential Election. All of the media and politicians simply focus on the short term narrative which drives certain investment styles and this volatility can make it much more difficult to achieve sustained long term growth.

So, in conclusion, we have started to build thematic portfolios and when you receive your next valuation in early January you will see funds reflecting these themes in the portfolios.

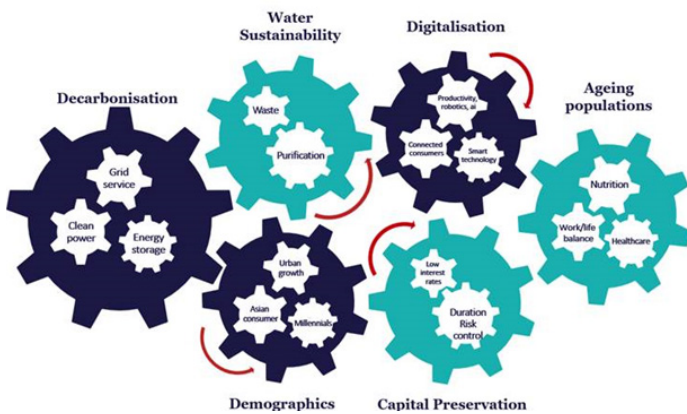
Hopefully, many of the names of these funds will also make it much clearer to work out what the fund is trying to do. In many meetings I have been told that clients don't understand what a fund actually does. What does a special situations fund do? What is a Mercantile investment trust? Does the Edinburgh Investment trust just invest in Scottish companies? Etc.

We hope that the names of the new funds will make it clearer and that they do what it says on the proverbial tin. For example, the **Pictet Clean Energy Fund** invests in the low carbon economy and focuses on renewable energy, energy efficiency, critical enabling technologies and infrastructure. The **Robeco Sustainable Water Fund** focuses on the precious commodity that is water and ensuring that we have sufficient clean water to meet our needs. The **Worldwide Healthcare Trust** focuses on the long term ageing population and treating people to ensure that people are well for longer.

Another part of the lifestyle theme is the **Pictet Nutrition Fund** (which we will be investing in shortly.) This trust concentrates on companies that help to reduce food waste, improving diets and feeding the increasing populations around the world. In addition to enabling companies to manufacture food more efficiently we have to focus on reducing waste. For example, if the global population is expected to rise to 9.8 billion by 2050 it will require a 50% increase in food production. We have the capacity to produce this amount of food, but we don't have the capacity to produce this amount of food with the current levels of waste. Across the 28 European countries they produce 88 million tonnes of food waste every year, equivalent to 20% of all food produced in the EU. This amounts to around €143 billion of waste. This is a big problem that needs solving. If we look at it from a different perspective, if food waste was a country it would be third largest generator of greenhouse gasses globally after China and USA.

These are significant issues that need to be resolved, and when they are combined with the other themes in the portfolio, they are all combining to work towards making our lives better. As a result, **the companies that are focusing on these issues will also make us better off.**

If we can focus on these companies and benefit from this growth, then we will generate much better returns over the next few decades.



We have tried many ways to show how interlinked these themes are. They are not stand alone and to show that they are all linked I enclose herewith the latest presentation that we have put together to highlight the Leeds Investment Themes. The use of cogs is intended to demonstrate that they are all working together. As you can see, we have broken the themes down into decarbonisation, water sustainability, digitalisation, ageing populations, demographics and capital preservation.

We have almost completed the construction of many of themes, for example in **decarbonisation and water sustainability** have been completed in virtually all portfolios and we have a full weighting to the companies shown on the right of the cog on page 3. With regard to **ageing populations** we have invested in 3 out of the 4 funds and I would anticipate by Christmas we will have completed the full set. In **demographics**, many portfolios have almost all of the holdings in the portfolios and we anticipate that we will very shortly have completed the construction of the theme.

All portfolios are fully weighted in their exposure to the **Capital preservation sector** as this is a very important component which is allowing us to focus on themes. If we don't have the foundations provided by the capital preservation cog filled, it does not enable us to focus on where we believe we were getting long term growth. Having that short term defensive element within the portfolio means that we can focus our worry time on the long term growth in the portfolios.

This leads us to **digitalisation**. This will be the next area that we will focus on. All portfolios have a foundation in this sector via **Polar Capital Technology Trust** and the **Robeco Smart Materials fund**. We are however very aware that the large US technology companies are incredibly expensive, having driven the market recovery over the year. We therefore have to be mindful when

trying to time the next move in the sector. However, we know that phenomenal amounts of money will be invested in this sector over many decades and we are actively looking for the next generation of funds that will benefit from this long term investment.

I appreciate I have gone into a huge amount of detail, and I hope that it helps. If you have any questions or wish to discuss any of the investments in your portfolio in more details, please do not hesitate to contact the Team and as we start to emerge out of lockdown, I hope that we can start to meet up again to talk about these issues face to face rather than having to do it via market commentaries or over the telephone.

I would finally like to wish you a very happy Christmas and hope that next year is not quite as challenging!



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