stepstoinvesting.com

Jan - March 2022

Get Investing.

Taking you on a journey from saving to investing

The Pension Special

Strategies and ideas for long term investing

Boosting your pension before retirement

Asset allocation and how to do it

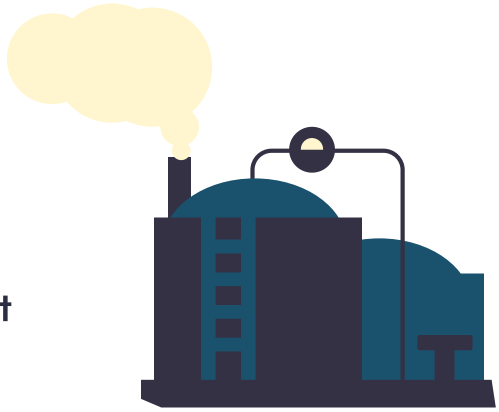
Buy and hold investing

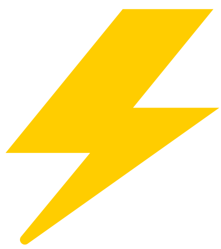
How to become a resilient investor

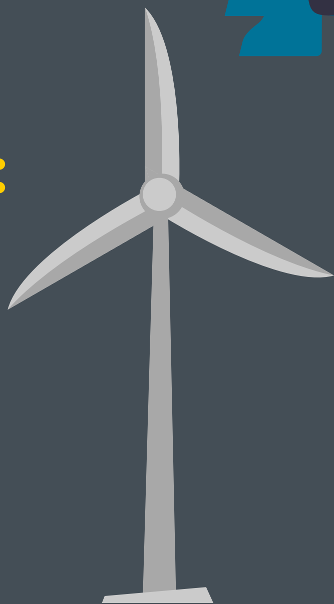
+ much more!

Contents

Taking you on a journey from saving to investing







Note from the editors

Hi Investors,

A very warm welcome to issue 6 of Get Investing!

What a year! 2021 began with great hope, as, with newly developed vaccines in hand, national healthcare systems across the globe got to work immunising us and charting a pathway for economies to return to normal. But it was never to be that easy. Inflation, stoked by high energy prices and sluggish supply chains, continued to rise ever higher and beyond the pale of transitory arguments. Central banks changed their tune accordingly, even in the face of the rising Covid variant Omicron, and started to talk on tightening policy and interest rate rises. For the Bank of England, it could wait no longer, becoming the first major central bank to raise its base interest rate, from 0.1% to 0.25% in December.

For long-term investors, swings in the market remind us to keep cool heads and use dips to top-up existing investments or consider new ones. This edition of Get Investing will focus on pensions, by way of looking at the longer-term strategies we need to employ to ensure the best life for our golden years.

Faith Archer looks at how we can boost our pensions later on, given that many of us won't contribute as much as we'd like in our younger years. Ed Bowsher writes on how we can become 'resilient investors', to preserve wealth as well as grow it. And Cherry Reynard looks at what we mean by 'buy and hold' investments, with plenty of ideas for your portfolios.

In The Big Interview, the Steps team speak to Anna Sofat, trailblazer for woman's wealth management, on how women approach and think about their finances and investing. We take an in-depth look at the importance of asset allocation and how to do it in our Explainer article. We speak to M&G's head of sustainable & impact investing, Ben Constable Maxwell, to get a rundown from COP26 and peer into next year's hottest investing trends. And just to be extra helpful, we've gone through 10 things to look out for that may impact your personal finances in 2022.

All of our editorial is independent! The only payments we receive is for the ads you see throughout the guide - no commission is paid to us on any funds discussed within the articles. All we want to do is find you cracking investment opportunities to help you grow your wealth, from experts we have spent our careers in investing getting to know.

Happy investing!

Marcus and Simon, Co-Founders

Sign-up for our free 7-day course

Investment beat: news from across the industry

By **Marcus de Silva**, Co-Founder at **stepstoinvesting.com**

Rates on capital gains tax (CGT) and inheritance tax (IHT) stay put

Rishi Sunak's second budget ushered in little by way of change to these key personal taxes, following speculation they would be simplified into income tax bands after the office for tax simplification proposed such a move. CGT is applicable on asset sales where a gain of more than £12,300 in a single tax year is made, and currently charged at 10 or 20% depending on your tax status (for second homes, it's 18% or 28%).

Analysts at Hargreaves Lansdown think this isn't such a bad idea, as unintended consequences may have emerged. They say that hikes may have encouraged buy-to-let landlords to keep hold of properties to avoid the tax, and made the nigh impossible problem for first time buyers trying to get on the property ladder even worse.

Analysts did think they missed an opportunity for updating IHT gifting allowances though. Currently, if you gift more than £3k in a tax year, and die within 7 years, then that extra amount falls under your taxable estate, so will attract IHT. The issue is that this rate hasn't changed since 1981, which, if allowed to rise in lock-step with inflation, would be £13,000 today.

They were some small

adjustments however – they made it easier for divorcing couples to pass assets between themselves without triggering CGT.

And the winners are?

Analysts at interactive investor had a little look at the best performing funds vand investment trusts for 2021, with commodities and frontier / emerging market strategies topping the tables and delivering the best returns for investors thus far. One fascinating point made was the exceptional outperformance of investment trusts over funds (see tables below).

In the investment trust sector, two Vietnam focussed strategies made the top 10, along with a smattering of private equity. India featured in the top 10 for both funds and investment trusts.

In a year in which rising inflation, the tapering of government economic stimuli and Covid has fuelled market uncertainty, punctuated by an energy crisis, it is perhaps not surprising to see commodities / energy-related strategies topping the performance tables.

However, the broad recovery in commodity prices seen over 2021 is now under threat on a number of fronts. Not least the Omicron variant and increased global social restrictions over the winter months could increase demand and therefore prices. But it was a niche investment trust, **Geiger Counter**, which has a relatively modest £59 million in assets under management, which was the stellar performer overall, returning 104% according to Morningstar data. The trust invests in companies involved in the exploration, development and production of uranium to supply the nuclear power industry.

Top 10 best performing investment trusts 1 January – 30 November 2021

Position	Name	Association of Investment Companies (AIC) Sector	Return (%)
1	Geiger Counter	Commodities & Natural Resources	104.00
2	Riverstone Energy	Commodities & Natural Resources	78.68
3	VietNam Holding	Country Specialist	66.79
4	Tufton Oceanic Assets	Leasing	54.87
5	Vietnam Enterprise	Country Specialist	54.51
6	Schiehallion Fund	Growth Capital	52.90
7	Electra Private Equity	Private Equity	48.81
8	Ashoka India Equity Investment	India	45.22
9	Gresham House Strategic	UK Smaller Companies	43.81
10	VPC Specialty Lending Investments	Debt - Direct Lending	42.70

Source: Interactive investor/Morningstar

Top 10 best performing funds 1 January – 30 November 2021

Position	Name	Association of Investment Companies (AIC) Sector	Return (%)
1	Schroder ISF Global Energy	Global	49.78
2	Goldman Sachs North America Energy & Energy Infrastructure Equity	Specialist	47.52
3	T. Rowe Price Frontier Markets Equity	Specialist	39.70
4	PIMCO GIS MLP & Energy Infrastructure Fund	Specialist	39.55
5	VT De Lisle America	North America	36.30
6	L&G Global Technology Index	Technology and Telecommunications	34.75
7	Aberdeen S NA SmComs	North American Smaller Companies	33.28
8	Goldman Sachs India Equity	Specialist	33.24
9	Neuberger Berman US Real Estate Securities Fund	Property Other	33.18
10	Vontobel Commodity	Specialist	33.10

Source: Interactive investor/Morningstar

That won't be up everyone's street, and it's also worth being mindful that the share price saw negative returns in a couple of the last five calendar years – and it is always important to assess performance over a range of time frames.

The top performing investment trust is more than double that of **Schroder ISF Global Energy,** the best performing fund over the same period, returning just 50%. Two energy focussed portfolios and a frontier market strategy make up the top three in the list of best performing funds in 2021 (to 30 November). No passive funds were part of the analysis.

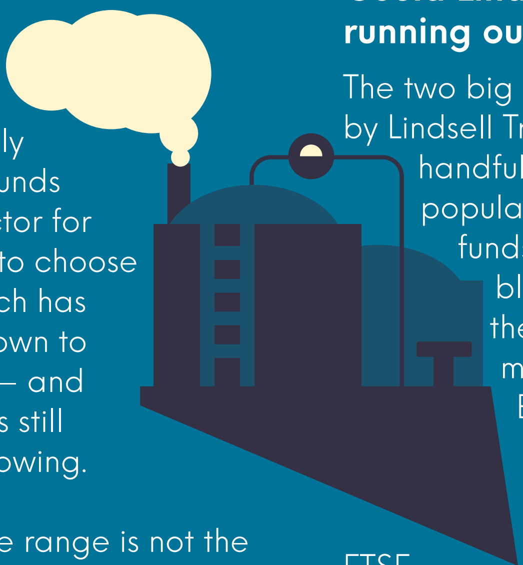
Vanguard

Vanguard launches active sustainable funds to shake up market

US investing giant Vanguard has launched the Vanguard SustainableLife range of actively managed – so, with fund managers picking stocks – sustainable investment funds, to compliment the thunderously popular Vanguard LifeStrategy funds. Sustainable funds have been the highest selling strategy for private investors in recent times. Two years ago, there were just over 100 sustainably themed funds in the sector for investors to choose from, which has today grown to over 150 – and it is still growing.

The range is not the very cheapest – the BMO Sustainable Map range, for example, has an ongoing charge of 0.35% – but it is undoubtedly competitive at a 0.48% ongoing charge. That said, Vanguard do have a history of slashing costs as assets increase, and while ethical investing does not have to be a race to the bottom on costs, charges do matter in the long run.

LINDSELL TRAIN



Could Lindsell Train be running out of steam?

The two big flagship funds run by Lindsell Train – amongst a handful of the UK's most popular private investor funds – have had a bleak year. Over the last twelve months, the UK Equity fund has returned 10%, compared to 17% from the FTSE All Share (see table below). For the Global Equity Fund, it was even worse – returning 3% for investors, while the global stock market increased in value by 24%. There are a few trends which explain this weak recent performance. Certain areas of the market where Lindsell Train has no or low exposure have done well in the last twelve months, most notably energy and tech stocks. Lindsell Train does have a bit of exposure to tech, but one of its three picks in the area, Paypal, has not been having a good time of it recently. Generally speaking, the stocks Lindsell Train likes to buy are masters of their own destiny. When economic growth is very favourable, as it has been this year, these firms fall out of favour because corporate prosperity is plentiful, and investors are willing to shed their reliable all-weather waterproofs in a heatwave.

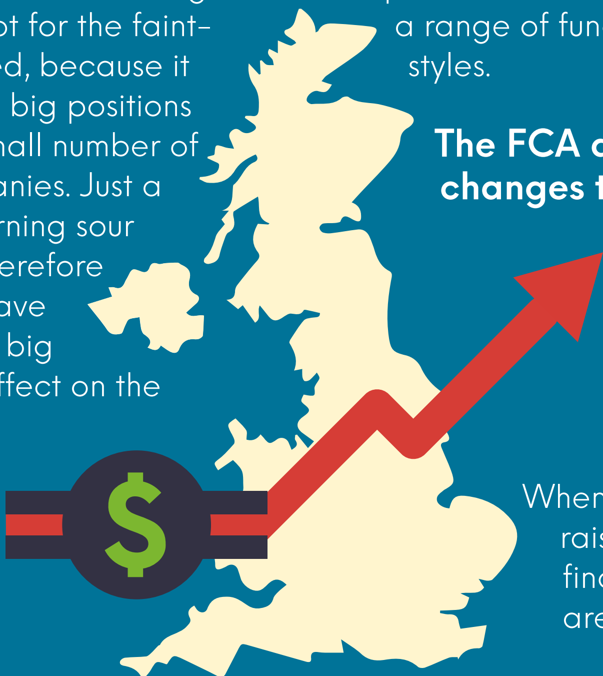
The Lindsell Train approach naturally leads to a portfolio which is skewed towards consumer goods giants like Unilever, PepsiCo, and Mondelez. Supply chain bottlenecks and cost inflation are leading these companies to raise prices, and there are some doubts over whether consumers will stomach higher bills, or switch to cheaper unbranded substitutes. Mondelez, the maker of Oreos and Ritz Crackers, reckons it will have to raise prices in the US by as much as 7% next year. For many consumers already facing higher energy bills, that will really take the biscuit...

Lindsell Train also run very highly concentrated funds, typically only holding 25 to 30 stocks. This helps amplify outperformance when things are going well, and works in the opposite direction when the chips are down. It's a high-octane approach to investment management and not for the faint-hearted, because it means big positions in a small number of companies. Just a few turning sour can therefore have a big effect on the portfolio as a whole.

The big question facing investors is, of course, should they stay or should they go? The bear case is that Lindsell Train's investment style has had its day in the sun, and that rising interest rates will mean less demand for the reliable compounding stocks they favour – cash generative firms that re-invest their earnings and steadily grow over time. This assessment seems premature after such a short, admittedly painful, period of underperformance. Nor should it carry too much weight in a truly balanced portfolio that encompasses a range of fund manager styles.

	Total Return %		
	1yr	5yr	10yr
Lindsell Train UK Equity	10.2	59.8	246.8
FTSE All Share	17.4	30.6	103.0
Lindsell Train Global Equity	3.0	86.9	356.6
MSCI World	24.4	89.1	281.2

Source: FE total return in GBP to 30th Nov 2021



The FCA announces changes to UK listing rules to boost growth and innovation

When it comes to raising public financing, there are rules in the stock market.

For a while there have been calls to tweak some of these, as observers think they are antiquated. The Financial Conduct Authority, the UK's financials services regulator, recently agreed, and announced a raft of changes to boost growth and innovation.

One such change is allowing different share class structures within the premium listings segment to encourage innovative, founder-led companies onto public markets sooner to broaden the offering available to investors.

They have also confirmed reducing the amount of shares an issuer is required to have in public hands (known as their free float) from 25% to 10%, reducing current barriers to listings.

One final change will be to increase the minimum market capitalisation (MMC) threshold for both standard and premium listings for shares in ordinary commercial companies, from £700,000 to £30m. They hope this will give investors greater trust and clarity about the types of company with shares admitted to different markets.

Want to find out more?

Click the button to sign-up to our free, 7 day quick-course: a hop, skip, and a jump through everything you need to know to get started with investing.

Sign-up for our free 7-day course

stepstoinvesting.com

Personal finance: tips to boost your pension

By Faith Archer,
financial journalist and blogger at muchmorewithless.co.uk.

Don't worry if you are late to the pensions party, as you can still boost your retirement savings.

Sure, ideal world, we would all have started ploughing money into pensions way back in our twenties, with more time to contribute and more time for those contributions to grow.

For a comfortable retirement, a couple needs £49,700 a year, or a single person needs £33,600, according to the **Pensions & Lifetime Savings Association.**

If your current pension won't stretch that far, remember that even closer to retirement, you can still benefit from the free money added in tax relief. For every £1 you pay into a pension, you should automatically get another 25p added in basic rate tax relief. Higher and additional rate taxpayers can then claim back even more.

Fundamentally, to boost your pension pot you need to either pay more in or squeeze more out of your existing savings. Read on for tips and

stepstoinvesting.com

Living standards for single person in retirement with differing savings.

	Minimum	Moderate	Confortable
SINGLE	£10,900 a year	£20,800 a year	£33,600 a year
WHAT STANDARD OF LIVING COULD YOU HAVE?	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
HOUSE	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year	Replace kitchen and bathroom every 10/15 years
FOOD & DRINK	A £41 weekly food shop.	A £47 weekly food shop	A £59 weekly food shop
TRANSPORT	No car.	3 year old car replaced every 10 years.	2 year old car replaced every 5 years.
HOLIDAYS & LEISURE	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
CLOTHING & PERSONAL	£410 for clothing and footwear each year.	£730 for clothing and footwear each year.	£1,200 for clothing and footwear
HELPING OTHERS	£10 for each birthday present.	£30 for each birthday present.	£50 for each birthday present.

Living standards for couple in retirement with differing savings

	Minimum	Moderate	Confortable
COUPLE	£16,700 a year	£30,600 a year	£49,700 a year
WHAT STANDARD OF LIVING COULD YOU HAVE?	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
HOUSE	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year	Replace kitchen and bathroom every 10/15 years
FOOD & DRINK	A £67 weekly food shop.	A £74 weekly food shop.	A £94 weekly food shop.
TRANSPORT	No car.	3 year old car replaced every 10 years.	Two cars, each replaced every five years.
HOLIDAYS & LEISURE	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
CLOTHING & PERSONAL	£460 per person for clothing and footwear each year.	£750 per person for clothing and footwear each year.	Up to £1,500 per person for clothing and footwear each year.
HELPING OTHERS	£10 for each birthday present.	£30 for each birthday present.	£50 for each birthday present.

Source: Pensions & Lifetime Savings Association, as of December 2021

stepstoinvesting.com

tricks to transform a smaller pension into something to celebrate.

Plough more into your pension

Typically, our peak earning years are during our fifties, so it may be easier to afford larger pension payments than when younger.

Go through your household bills and living costs, to see where you can make savings, then channel the money into your pension. Every time you get a pay rise, bump up your contributions, before you get used to living on the extra.

Divert previous payments

Shed any regular bills? Consider diverting those payments into your pension, for example if you clear your mortgage, pay off a car loan or finish contributing towards your children's university costs.

Profit from work pensions

If you are a member of a pension at work, check if your employer is willing to pay in more than the 3% required by law. Some employers, for example, will match additional contributions by staff up to a certain point, so by upping your own payments you can nab more money on top.

It's also worth checking if your employer will make a larger contribution to your pension if you switch to salary sacrifice. With salary sacrifice, you agree to give up part of your salary in exchange for a benefit such as higher pension payments, and you and your employer then pay less National Insurance on the reduced salary.

Large it with lump sums

Turbo charge your pension pot with lump sum contributions, for example if you receive a bonus or an inheritance. If you have spare cash earning next to nothing in a savings account, you might want to divert it into your pension and snap up the tax relief.

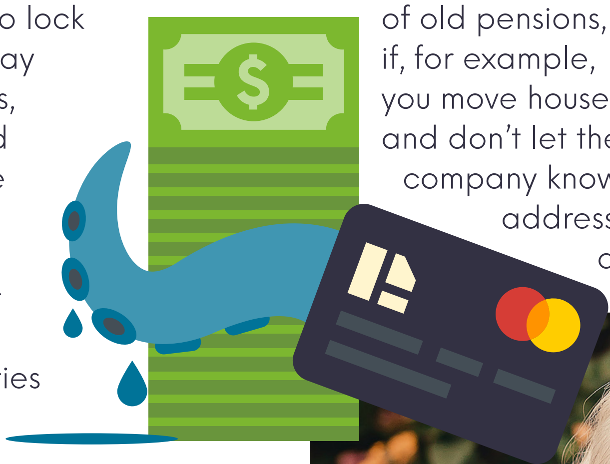
Most people can pay up to 100% of earnings, maximum £40,000 a year, into a pension and still rake in tax relief on top.

You can also 'carry forward' unused pension allowance from up to three previous tax years, if you would like to pay in a particularly chunky sum. However, you can't pay in more than you've earned in the current tax year, and you must have been a member of a pension scheme during the previous years.

Higher earners also face restrictions on how much they can pay into pensions, while still receiving tax relief. Once your earnings top £240,000 a year, adjusted to include pension contributions, the tax man claws back £1 of pension allowance for every £2 of 'adjusted income' above this, down to a minimum pension allowance of £4,000 a year.

Conquer your cashflow demons

The self-employed can be reluctant to lock money away in pensions, concerned it might be needed earlier for investment opportunities or cash flow crises.



However, the tax relief can look increasingly attractive as you get closer to the age when you can whip money out, currently 55 but rising to 57 from 2028.

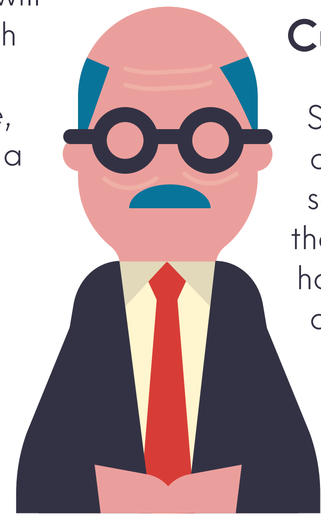
In later life you can therefore whack in larger sums, knowing you don't have long to wait before you could access the money.

The first 25% of your pension pot can be withdrawn tax-free, but anything above that is taxed as income. Just bear in mind that if you do take out more than the 25% tax free, it will restrict how much you can pay into a pension in future, down from £40,000 a year to just £4,000.

Track down lost pensions

It can be all too easy to lose track of old pensions, if, for example, you move house and don't let the pension company know your new address. Tracking down

lost pensions can therefore help boost your retirement pot. Contact the pension provider (if you know who it is), speak to past employers or use the government's free **Pension Tracing Service online** or on 0800 731 0193.



Cut your costs

Squeeze more out of your retirement savings by checking the fees charged for hosting your pension and for funds used. Transferring to a plan with lower charges means you hang on to more of your own money and it has more chance to grow. Just check you won't be giving up valuable guarantees or benefits by moving your

pension cash.

Review your investment choices

Check where your pension money is invested, and whether it matches your goals and attitudes to risk. Watch out because as you move closer to retirement age, many pension plans automatically move your money out of shares in companies and into less risky options.

However, depending on how you want to access your pension, you might be better off hanging onto some stock market investments, with greater potential for growth. If you opt for income drawdown, for example, your money may remain invested for a good 30 years or so. There is always a risk that prices can fall as well as rise, but that allows plenty of time to ride out stock market storms.

Top up your state pension

Lastly, don't forget your state pension. You can discover how much you should get at gov.uk/check-state-pension. If you have gaps in your National Insurance contributions, see if you can boost your state pension payments by making voluntary contributions – although normally you can only go back up to six years. You can also boost payments if you take them later than normal state pension age. For every nine weeks you defer, you will get an increase of 1%, which adds up to 5.8% for every full year.

After deferring your state pension for a year, you would need to live for another 15 years to be quids in, according to calculations by AJ Bell. This assumes that the state pension increases by 2.5% a year, the current minimum increase.

Video: What is a SIPP?

About the author

Faith Archer is a personal finance blogger at Much More With Less as well as an award-winning personal finance journalist writing for various companies, charities, and national newspapers including the Financial Times, Sunday Times and Daily Telegraph.
muchmorewithless.co.uk

Explained: asset allocation

By **Marcus de Silva**, Co-Founder at **stepstoinvesting.com**

Much academic research shows that asset allocation – the overall mix of assets to which we are ultimately exposed through our fund picks – is the most important determining factor of investment success. Some go as far as saying it's responsible for 90% of our returns, which is eye-watering. Yet, we tend to give it little thought: investments are often made as opportunities or information drops into our laps. Given that different assets also come with varying degree of risk, not knowing the portfolio's mix can lead to investments that are totally inappropriate for our goals or attitudes to risk, and results that end up disappointing us.

Here, we look at how you go about getting the mix right.

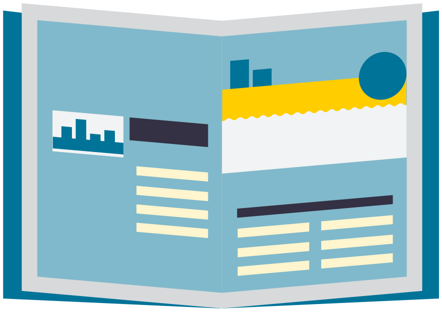
It begins with asset classes

Understanding the risks different assets represent is an important starting point. The value of some assets can swing more wildly, such as shares or more speculative investments like currencies, meaning they're broadly appropriate for those with time on their hands and a robust tolerance for falls in the stock market. The value of other assets bump along the road more gently, for example cash-like products and government and corporate bonds, making them more appropriate for those with less time to reach their goals and a lower tolerance for drops in value.

stepstoinvesting.com

Alternatives like absolute return funds and property sit somewhere in the middle of these two groups.

It means a portfolio constructed largely of smaller companies shares and individual stock positions would be wholly inappropriate if retirement is three months from now, when a drop in the value of your investments could severely impact the quality of your life. In a similar vein, a portfolio of government and corporate bonds wouldn't likely work either for an 18-yr old with little personal wealth, and in need of punchy capital growth and years with which to stomach falls in the market.



As such, determining the overall risk your portfolio represents comes down to the types and proportions of assets that have been blended. This is known as your 'asset allocation'. Very broadly, the more steroids you want in the portfolio, the higher the percentage of shares; for a smoother ride, you need a higher percentage of bonds.

The risk groupings we can use

Fortunately, in deciding how to asset allocate - there are some buckets with labels to help. First, decide what your objectives are: income or capital growth. Then, using the twin components of timeframes to goals and attitudes to risk, you can determine if you require a more cautious, balanced, or adventurous approach to your investments.

Cautious is, unsurprisingly, the least risky approach, and generally suited to those who have less than 5 years to their goals and a nervy disposition regarding risk. A typically cautious investor might be one on the precipice of retirement, or those newly into their golden years.

Balanced turns up the dial a little. Here, you might have between 5-10 years to your goals, and be willing to take a little more risk. A typical investor might be in the latter stages of their career, and have a fair bit of financial firepower that they don't want to overly risk losing.

Adventurous goes full hog on risky assets, with typical investors having 10-30+ years to their investment goals and much more resilience to stock market volatility. They might be in their 20 or 30s, or be much wealthier and endowed with spare cash to play with.

The allocations we might use

Deciding on the percentage split amongst assets is often the job of professional fund managers, who determine percentages according to different risk profiles and then adjust proportions over time depending on how the assets perform and their

Key terms

- Bonds – There are two main types of bond: sovereign bonds, issued by countries, and corporate bonds, issued by businesses.
- Shares – Company shares vary in two main ways: size, so larger companies through to smaller; and by market, for example investing in developed markets like Britain or emerging ones like China.
- Alternatives – groups of more specialist assets that tend to perform differently from mainstream shares and bonds. These include private equity, absolute return, infrastructure, property, currencies and commodities.

relative valuations. It means the mix differs depending on who you talk to, therefore at Steps to Investing, we assessed numerous asset allocations across share dealing platforms and experts to get a sense of the range. In addition, we spoke to Ryan Hughes, head of investment research at platform AJ Bell, to get some fund suggestions that might be appropriate for our investor profiles. These are simple guidelines and not recommendations.

Cautious

50-70% bonds, 25-45% shares, 10-15% alternative, 5% cash

Balanced

25-40% bonds, 50 – 70% shares, 5 – 15% alternative, 5% cash

Adventurous

0-10% bonds, 80 – 100% shares, 0-10% alternative

Ryan Hughes Top Picks

Cautious fund picks

Personal Assets Trust: "With jittery equity markets and fears over inflation remaining elevated for a considerable period, the defensive positioning of this trust, and in particular its exposure to inflation protecting assets such as gold and inflation linked bonds, should sit well for the year ahead."

Fidelity Short Duration Corporate Bond Fund: "With high inflation and interest rates expected to increase, it could be a challenging time for fixed interest (bonds)... [this] fund may work well with its focus on the higher quality part of the UK corporate bond market."

Balanced fund picks

Monks Investment Trust: "While slightly in the shadow of its illustrious Scottish Mortgage cousin, Monks is much more diversified and less volatile and therefore works well for balanced investors wanting global exposure [to equities]."

First Sentier Global Listed Infrastructure Fund: "Whether it is through energy needs, distribution networks or communication services, infrastructure is a key part of a fully functioning economy. The fund looks to provide exposure to all of these areas and more in a global portfolio of infrastructure companies."

Adventurous fund picks

Worldwide Healthcare Trust: "With the long-term drivers behind healthcare well established and fvurther investment set to continue making for an exciting future ahead for drug development, this broad, diversified play on healthcare looks attractive after a period of significant underperformance."

ASI Global Smaller Companies fund: "While big companies such as Tesla, Apple and Alphabet take the headlines, it's often the smaller names that are the engine room of an economy and with global growth set to remain strong in 2022, this could create another strong environment for smaller companies."

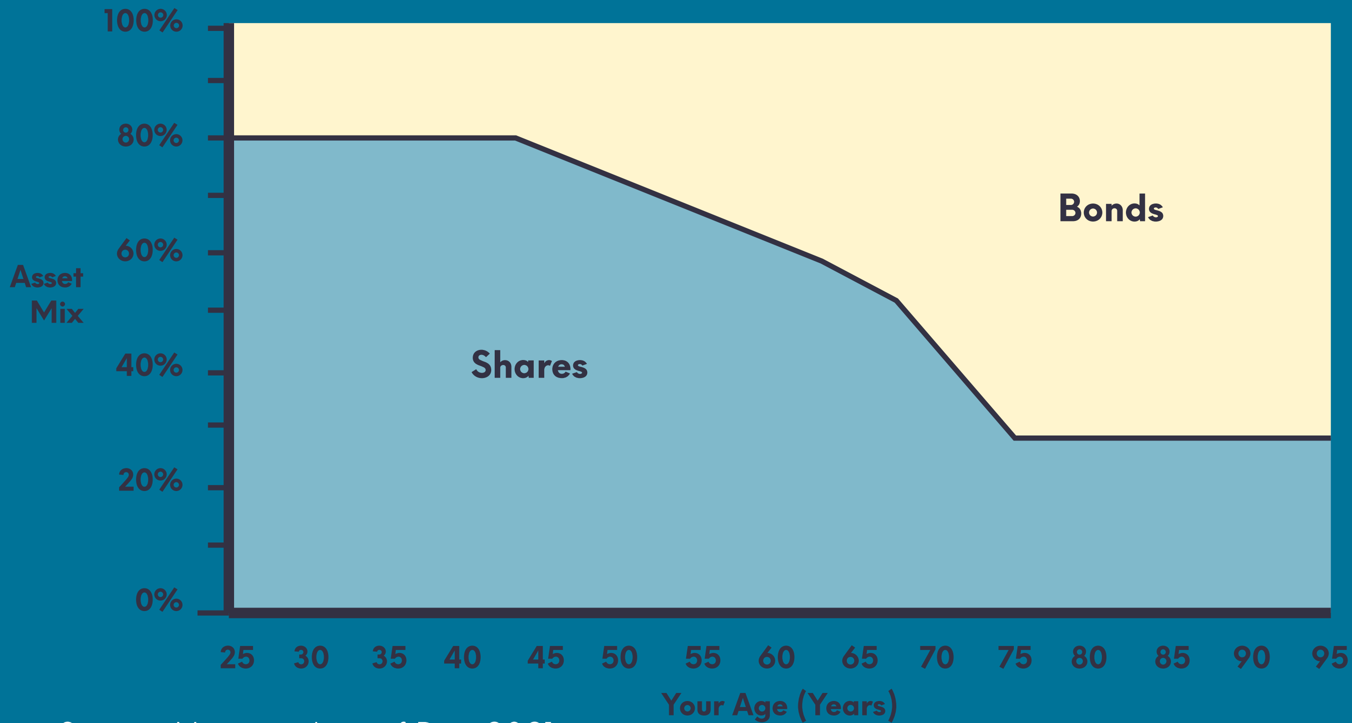
If you're keen not to do the asset allocation yourself, there are some solutions that offer a helping hand. Numerous share dealing services, brokers, and fund management firms themselves create funds that invest in other funds with asset allocation devised by professional investors according to different risk profiles. Often, they're referred to as ready- made portfolios. One word of caution though: funds that invest in other funds can be much more expensive than those that don't because there are layers of charges.

But, if you're seeking these sorts of funds to make life easier, one place to look in is the Investment Association's (IA) mixed investment sectors, which contains funds with varying degrees of assets and asset allocation.

These include the IA Mixed Investment 0 – 35% shares, which, as the name implies, will have funds which contain up to a 35% allocation to shares, but also at least 45% in bonds. This fits in our cautious allocation above, and indeed many of the fund names include the same word. In addition, there are the IA Mixed Investment 20-60% Shares and IA Mixed Investment 40 - 85% Shares sectors. See the **IA's website** for more detail.

One interesting and very popular line of portfolios is the Vanguard Target Retirement Funds, which have differently allocated portfolios depending on when you plan to retire (see

How does a target retirement fund work?

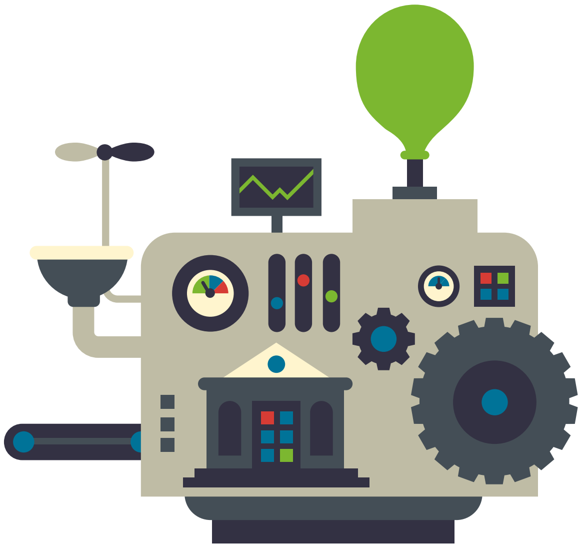


Source: Vanguard, as of Dec 2021

changing nature of mix before) i.e. 2050 or 2060. These are cheap and take away a lot of the hassle of having to choose funds. Another easy approach is to go for the multi-manager portfolios at the share dealing services. Hargreaves Lansdown offer their Portfolio+ service, which includes six portfolios: for the three profiles we've discussed, with either income or growth objectives. These invest in Hargreaves' own multi-manager funds, and asset allocation is done for you.

Other services simply suggest funds in the right proportions for your risk profile. A good example is AJ Bell's ready-made portfolio service, where funds are recommended under asset allocation guidelines for our three profiles, plus a separate income option. You can play around with the allocations if you like, but changes will alter your risk profile.

Interactive Investor offers a similar set of suggestions around five 'model portfolios', as they put it, although ironically asset allocation is far less 'interactive' in comparison to AJ Bell.



These are set around growth or income objectives, with either active or passive funds in the lists, plus an ethical model portfolio.

Finally, there are the roboadvisers like Wealthsimple and Nutmeg, which tend to offer a wider range than the three profiles discussed and the least work necessary from an investor's point of view: just click and invest, and let them do it all for you. But then, where's the fun in that?

Want to find out more?

Click the button to sign-up to our free, 7 day quick-course: a hop, skip, and a jump through everything you need to know to get started with investing.

Sign-up for our free 7-day course

stepstoinvesting.com

Personal finance: the changes to our bills in 2022

By **Marcus de Silva**, Co-Founder
at **stepstoinvesting.com**

A raft of changes is coming for our personal finances in 2022 in a year where inflation is likely to bare down on us and squeeze the pennies, so we spoke to various analysts at investment platform AJ Bell to see what this might mean for savers and investors.

1 Inflation may be here to stay

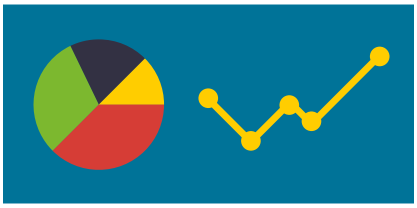
Central banks made much of the transitory nature of inflation when it started to pick-up as the world emerged from the pandemic, but it seems to be persisting for longer than expected.

Video: What is inflation?

Laith Khalaf, head of investment analysis at AJ Bell, discusses what we might have in store for next year:

"UK inflation sits at 5.1% as measured by the Consumer Price Index in November, its highest reading in over ten years, and almost everybody recognises things are going to get worse before they get better. A lot of the inflationary pressure in the system has come from energy prices, which have soared thanks to demand picking up globally in a synchronised manner, as the US, Europe and the UK all emerged from the depths of the pandemic at roughly the same time.

"There's already some further pain in the pipeline on that score, because the Ofgem price cap on retail energy prices is expected to jump up again next April, pushing up the cost of the average gas bill by around £150. After a temporary reduction, VAT on hospitality will go back up to 20% at the same time, so that probably all adds up to inflation rising above 5% next spring, and household budgets coming under even more pressure.



Laith adds that the two factors driving inflation have been a sharp pick-up in global demand intertwined with sluggish supply chains off the back of the pandemic.

"Gradually, these two factors should moderate, and futures contracts in both gas and shipping now point to declining prices in the longer term. Headline inflation is an annual figure, and in order to remain elevated it requires high prices not just to persist, but to continue to rise year on year. In twelve months' time, it's actually possible that the energy market will be applying downward pressure to inflation, because the comparison will be with a base of today's heightened prices."

2 Prepare for rising interest rates

Given the inflationary issues facing us, one might expect the Bank of England to raise rates higher from their recent move, which saw the base interest rate jump from 0.1 to 0.25%. However, the Monetary Policy Committee (MPC), which set interest rates, is likely to move very cautiously in this regard – broadly, we are still unsure at this stage how severely the Omicron variant is going to impact us and the economy, meaning boisterous rate moves could end-up damaging an already fragile economic recovery.

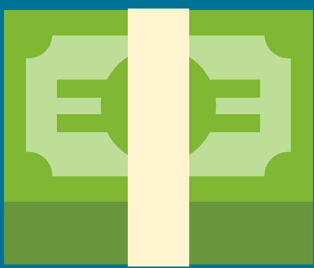
If they do raise rates further, how they will affect us varies. Savers should benefit following 13 years of the base being below 1%. That said, they will likely still remain below inflation for some time, so savers shouldn't get too excited as the real value of their money would still be going down.

Homeowners might be expected to suffer given that higher mortgage payments would crimp disposable cash. Yet, out of the 65% of the population that do own homes, 35% have no mortgage and a further 15% are locked into 5-year rates, so rises won't have a drastic effect here either. If you owe shorter dated debt, it may be time to look at how to lock-in current attractive rates for longer.

3 State pension will increase by 3.1%, in line with September CPI inflation

Out of the triple-lock of pension rise guarantees, the government has scrapped the earnings elements for 2022/23, meaning retirees are left with a 3.1% rise come April next year. This doesn't seem awful, but it would have been 8.3% if the triple-lock had remained in place. None-the-less, it may still keep ahead of inflation next year, depending on how inflation turns out in the second half.

- The 'old' basic state pension will rise by £4.25 per week, from £137.60 per week to £141.85 per week.
- The 'new' flat-rate state pension will rise by £5.55 per week, from £179.60 per week to £185.15 per week.



4 Frozen allowances

Various tax thresholds have been frozen by the Chancellor, and given inflationary pressure is pushing wages up, this will hoist some of us into higher tax bands and into paying more tax. In economics, this is known as fiscal drag – the good news being it's deflationary; the bad being that it transfers money out of our pockets and into to Mr Chancellor's.

Laith Khalaf adds: "No one in their right minds is going to turn down a pay rise simply to avoid tax, but workers can reduce their tax bills with a bit of financial planning, in particular using pension contributions and spreading assets between spouses in order to mitigate higher taxation."

- Personal allowance at £12,570, and income tax thresholds frozen Pensions lifetime allowance at £1,073,100 Capital gains tax (CGT) allowance at £12,300
- ISA allowance at £20,000
- JISA allowance at £9,000
- Inheritance tax (IHT) threshold and Main-residence Nil-rate Band stay the same at £325,000 and £175,000
- Dividend allowance remains the same at £2,000

5 Council tax hikes: Institute for Fiscal Studies estimates 2.8% rise

While we don't know what the rises may be at this point, the

government's reforms to social care leave local councils footing some of the bill, and given the help they've doled out to those suffering from the pandemic, it seems likely council tax bills will rise again.

Laura Suter, head of personal finance at AJ Bell, adds: "Households already saw an average increase of £7 a month this year, and the average Band D home looks set for a similar rise this coming year. However, the actual increase will vary dramatically around the country and many will face far higher increases. Anyone who is struggling to pay should seek help, as there is lots of support available for those on low incomes."

6 National living wage increases to £9.50 / hr for over 23s

There are various changes to the minimum wage depending your age, and encouragingly, they're inflation-beating rises, with those age 23 and over getting near 7%, and those ages 21 and 22 getting 10%.

It means for someone working 37.5 hours a week they will receive more than £1,000 extra in a year.

	23 and over	21 to 22	18 to 20	Under 18	Apprentice
April 2021 (current rate)	£8.91	£8.36	£6.56	£4.62	£4.30
Apr-22	£9.50	£9.18	£6.83	£4.81	£4.81

7 Rail fares could increase by 3.8% in January

Rail fare hikes are usually based on July's measure of the retail prices index (RPI) of inflation, and annoyingly for commuters, this was 3.8% this year, the highest reading since July 2011, when it hit 5%. Inflation-busting rises would be harsh, and they may do it given they put through a 1% above-inflation rise to cover the money it spent helping the industry during Covid.

Laura adds: "Many commuters have had almost two years away from commuting five days a week and its eye-watering cost, and will already be reluctant to return to it – and that's before another hike in fares. But, if you know you'll need to buy

a season ticket for next year, you can buy before the hike in January to keep costs down."

8 Energy price cap: estimates £400 or more

With energy currently a big component of price inflation, potential hikes to energy bills will be worrying given estimates vary wildly from £150 to an extra £400 next year.

We will know fairly quickly into the year, as Laura Suter explains: "The price cap rate will be announced in February, giving everyone a chance to prepare for the increase. But a big question-mark hangs over all this, as Ofgem, the regulator, is currently looking at reforming the price cap, with changes expected in time for April's price increase. With a backdrop of failing energy firms and the price cap currently being out of line with rising wholesale energy costs, it seems unlikely any move will reduce the cost of energy for consumers."

9 Dividend taxes to increase by 1.25% come April

Numerous savers have taken to the stock market in search of income amid record and persistently low interest rates.

Next year, they will need to remember that income from shares – dividends – will see a tax hike, which makes it even more pressing that investing is executed through tax protected shelters such as ISAs and SIPPs.

- Basic rate taxpayers rise from 7.5% to 8.75%.
- Higher rate taxpayers rise from 32.5% to 33.75%.
- Additional rate taxpayers rise from 38.1% to 39.35%.

10 National insurance (NI) increases by 1.25% to pay for social care

Employees and employers will begin paying the PM's £12 billion a year health and social care reform plans through a 1.25% rise in NI next year - controversial given pension incomes don't pay it.

Tom Selby, head of retirement policy, adds: "For savvy savers, the NI hike makes pensions salary sacrifice more attractive, as contributions are taken from your earnings before employer and employee NI has been deducted."

The Big Interview: Anna Sofat

Anna Sofat is a pioneering financial adviser who's been ploughing the furrow for women's wealth for well over two decades. She's received a host of awards over the years, including Unbiased's Financial Adviser of the Year, and recently sold her female focused financial advisory service, Addidi Wealth. We speak to her about her career in the City, and what she's learned about how women approach their financials goals and what they need from investing.

Q: Describe your early life and career?

A: I was born in India and came to England at 11. I then went to the local comprehensive, and was one of a few girls from there that attended university – probably because of my background and strong Asian aspirations. I then studied a masters at LSE, and entered the finance industry with a job in commodities. Following that, I joined Woolwich as banker. Financial advice came a bit later in my thirties because I wanted flexibility around work as I had become a mother. Being an IFA was and still is very balanced, and you can work quite flexibly and balance your working life around your private life.

Q: Did women seem under represented?

A: Woolwich was actually quite balanced in terms of clients and employees. I was also very hard working, and like many twenty-somethings, a bit arrogant and naïve, so I didn't notice women being under-represented. But it wasn't a level playing field, and this remains as so today.

Q: When did you realise it wasn't a level playing field?

A: I first realised it wasn't level when I went to work for financial advice business Fiona Price & Partners. It was the first IFA business for women, by women. I went because she had a brand that really stood out against a sea of similar advisory services. I remember that before I joined the business I told the advisory firm I worked for that I was leaving to go to this firm, and they rather offensively asked: 'but aren't they just a bunch of lesbians?'

When I got there, it became very quickly apparent that women had specific and different issues from men. Be it the female advisers who'd had issues with male colleagues, or clients with issues at work or family around money. It was apparent that they didn't have a level playing field, and really appreciated a trusted home where they could talk about money and make investment decisions they were comfortable with.

Q: When did you transition to starting your own firm, Addidi Wealth?

A: Fiona wanted an exit, so it was sold to another business where it quickly became obvious that they had no feel for the women's space: no understanding, no commitment. That's when I left and set up Addidi Wealth. Fiona's business was very 90s and set up to help women achieve financial independence, which I felt we'd

come a long way with. What I felt was that, now women had money, and woman's wealth and

successes in the corporate world was increasing, not to mention they had big challenges juggling family life, what they needed help with was managing and growing their wealth. Women being women, they wanted to do 120% on everything. They had more and more money, but they felt like they weren't getting what they needed from financial services.

Q: Did you find there were financial goals unique to women?

A: Women broadly have a wider need around money. Typically, the attitude from traditional financial advisory was: you've accumulated some money, so we're interested. Come to us, tell us how long you want to invest for and your attitudes to risk, write us a cheque, we'll invest it, and every now and then we'll report back saying how wonderful we've been. Women just didn't get anything from that process. They wanted more. They had questions like: how do I make sure my money's invested wisely for school fees, or retirement, or my elderly parents, or how do I avoid investing in industries that are harmful from an environmental or social perspective. We wanted to help our clients create, invest and spend wealth. It's why our over-arching plan for women was not just to create wealth, but also spend and enjoy it.

Q: Were men just after higher returns?

A: Yes, but probably because they were used to financial services and that's broadly what advisers would discuss with clients: how your investments and the benchmark and your portfolio were performing. For my female clients, they wanted to know if they were nearer to retirement, or safe in terms of the school fee fund for their children. So, it seemed they was a lot more matching of their lives to their goals.

Q: How risk averse are women?

A: Initially, it seemed that women were more risk averse, but over time I saw that they're actually just much more considered risk takers and want to ask more -questions before taking the plunge. Sometimes that means they step back because they're not comfortable with what's being proposed. My clients almost never got to that point because we spent the time to go through investments and explained carefully the upside versus the downside. A good example is the business angel investing club we ran at Addidi. Prior to setting it up, we'd noticed that very few women were investing in this high-risk but potentially lucrative area. So, we looked into why. What we found with typical business angel clubs was that it was groups of high net worth men, who would hear pitches from businesses and then go with their gut reactions on the night, investing in the ones they liked. Women would go along, but typically they had lots of questions and queries, for example wanting to look through the financials in more detail. However, by the time their due diligence process was complete, it was often too late: the investment opportunity had passed them by. As such, we set about designing a structure that was in-line with their decision-making process regarding investing.

Q: Does this mean women make better fund managers?

A: Women fund managers have tended to outperform their male colleagues, and part of that is low turnover: they don't buy and sell all the time, which adds lots of trading costs and lowers returns. They tend to be slightly longer-term risk takers.

This works well because they are not seduced by short term noise in the market, and herd instincts. Women tend to take a step back, and say 'no, I'm in this for the long term'.

Q: How much further has gender equality got to go in the industry?

A: There are more women on boards and in senior positions, but financial services still has an enormous gender pay gap. The pay gap leads to the wide gender investment gap. It strikes me that lots of women have cash in the bank, and that's not because they're risk averse, it's because they haven't found the right support services to make those leaps into investing; women IFAs only represent around 17- 18% of financial advisers.

Given that women's wealth is increasing rapidly, and in five or six years they will control around 60% of the wealth in the UK, I think change is essential if advisers are to keep hold of their businesses.

Portfolio strategy: 'buy and hold' investments

By Cherry Reynard
Financial journalist

There will be those investors who love the cut and thrust of financial markets, but if you're happier tucked up with a good book than the Financial Times, it may be better to look for an investment you can buy and then – more or less – forget about. How can you go about finding an all-weather investment?

It is worth saying that this approach has more to recommend than it simply providing you with more time to watch Bake Off or play with your lockdown puppy.

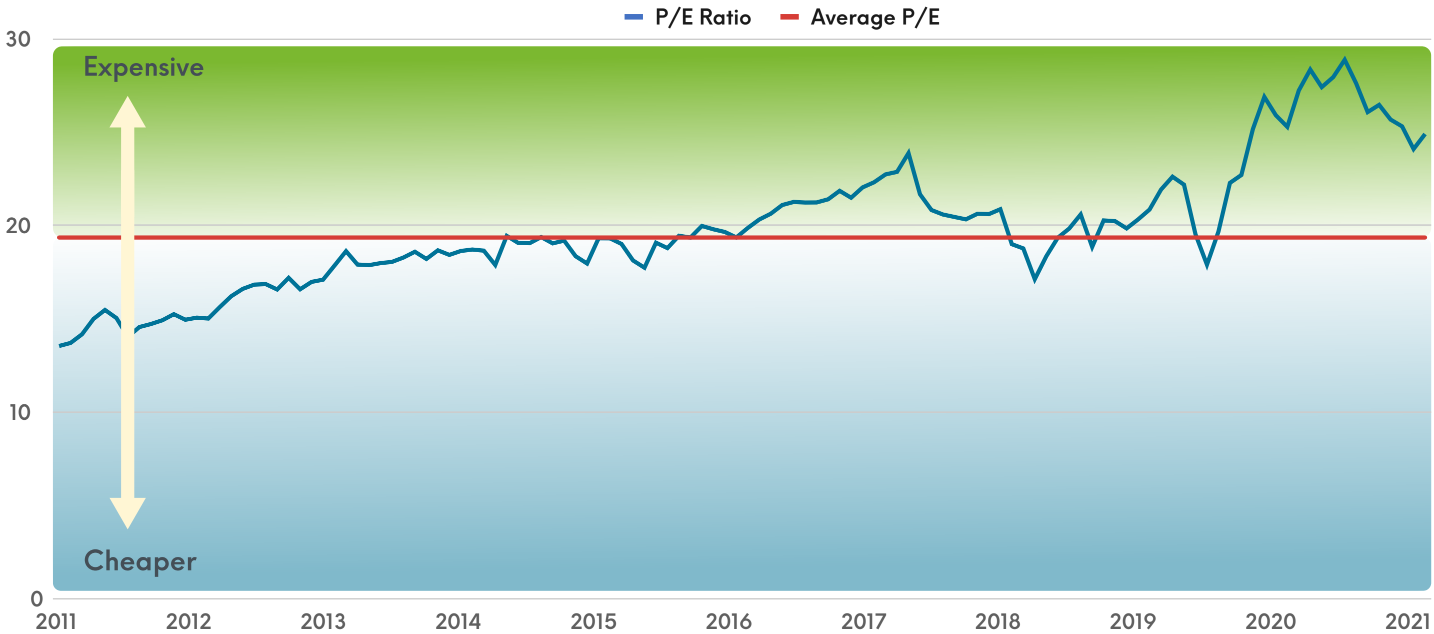
We are generally terrible at timing markets, tending to buy when there is most enthusiasm about a particular investment (and therefore its price is sky high), only to turn horribly gloomy when markets have had a rough patch, thereby missing the opportunity to buy when share prices are low.

In the 27 years that the well-respected Dalbar study has been running in the US, it has consistently shown that investors do worse than the wider market because of this tendency to buy and sell at the wrong time. This saw them miss out on 2.1% of the market gains in the first six months of 2021 alone. Imagine the impact over the lifetime of an investment. Plus, trading costs money and therefore investors start at a disadvantage. With that in mind, you can reassure yourself that a 'buy and hold' approach is not laziness, but sound investment practice – even if the two appear identical. That said, no-one has yet invented the investment that will be brilliant in all markets. Emma Wall, head of investment analysis and research at Hargreaves Lansdown: "The key is finding fund managers you believe have the potential to perform better than their peers and the market through a cycle. There might be months of disappointing returns here and there, but these should be smoothed over the long term to deliver income or growth for investors."

Annoyingly, this analysis is muddied by the current environment. There are sound reasons why the top buy and hold investments of the last decade may not work as well over the next decade. In the recent past, investors haven't had to do much more than buy an S&P 500 tracker and a bunch of government bonds and leave it alone. Both areas have benefitted (for different reasons) from low interest rates.

However, with interest rates edging higher – even if they are unlikely to hit the giddy heights seen in before the Financial Crisis – this is a dangerous buy and hold strategy today. US shares look expensive, particularly the dominant technology companies, while the income available on government bonds doesn't beat inflation. Investors will have to be a little smarter than simply picking the best fund of the past few years and sticking with it.

S&P500 shares looking expensive



Source: ***Morningstar Direct****; as of December 2021*
Index valuation assessed by looking at the share price relative to previous 12-month earnings

says: “Essentially, you’re best off seeking out a fund that is process driven, rather than one where a specific fund manager is making big calls, because ultimately he or she can move to a new fund, or retire, or simply go off the boil.” His solution is a passive fund, such as the **Fidelity Index World**, which has an annual management fee of 0.12%. “It won’t ever deliver outperformance like an active fund can, but it does mean you can just largely leave it alone to do its thing,” he says.

Another option may be to pick a company with a strong institutional framework. That also lessens the impact of an individual manager departure. Baillie Gifford or Royal London, for example, have significant resources and a good track record. The **Baillie Gifford Managed Fund** or **Royal London Sustainable Diversified Trust** may be good ‘buy and hold’ options.

Wall says if you are looking for an active manager, you need to do your homework: “You’re looking to identify a repeatable skill. Start with long-term past performance. It is no guarantee of future returns, but it can be an indicator of how a fund may behave in a particular environment. The longer the track record the more data to analyse. Look to test the fund against its own mandate. What happened to the fund when the market fell? Does the fund say it will invest in companies with sustainable

Cherry’s picks:

	What it’s trying to do	Sector	Size	Manager(s)	Number Holdings	Risk & Reward (1-7)	Type
Fidelity Index World	Capital growth	IA Global	£3,234m	Tracks MSCI World (Net Total Return) Index	1567	Low risk High risk 1 2 3 4 **5** 6 7	Tracker
Baillie Gifford Managed fund	Capital growth	IA Mixed investment 40 - 85% shares	£9,260m	Steven Hay; Iain McCombie	401	Low risk High risk 1 2 3 4 **5** 6 7	Fund
Royal London Sustainable Diversified trust	Capital growth	IA Mixed Investment 20-60% Shares	£3,602m	Sebastien Beguelin; George Crowdy; Michael Fox	349	Low risk High risk 1 2 3 **4** 5 6 7	Fund
RIT Capital Partners	Inflation (RPI) + 3%	AIC Flexible	£4,250m	Ron Tabbouche	56	Low risk High risk 1 2 3 **4** 5 6 7	Investment trust
Miton Global opportunities	Sterling Overnight Interbank Average (SONIA) 3month + 2%	AIC Flexible	£105m	Nick Greenwood; Charlotte Cuthbertson	44	Low risk High risk 1 2 **3** 4 5 6 7	Investment trust

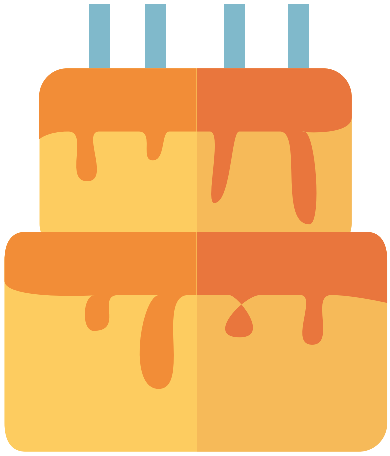
dividends? What has happened to the fund's pay-out over time?

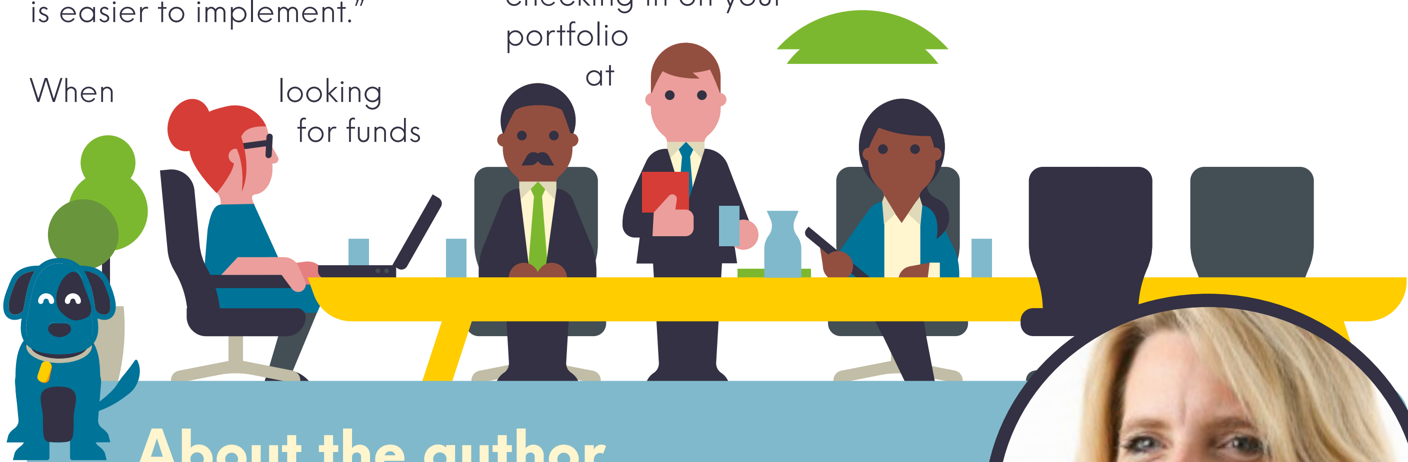
"Look for a stable fund management team, with appropriate support. Are there assistant fund managers or co-managers? How long have they worked together? Is there a bank of analysts suggesting ideas? A simple philosophy and clear process in the whole means it is easier to implement."

When looking for funds with these qualities, don't neglect the investment trust sector. Many trusts have been running for years and have shown remarkable strength and resilience. The £4.3bn **RIT Capital Partners** or the smaller **Miton Global Opportunities** are both good options.

One final point is that while 'buy and hold' is definitely a good approach to picking funds, you can't completely ignore your investments. Khalaf says: "While it's wise to follow Warren Buffett's maxim that his preferred holding period is forever, in reality things change, and it's worth checking in on your portfolio at least once a year, just to make sure everything's ticking along nicely.

Sometimes, you might need to make some adjustments, either because your circumstances have changed, investment opportunities have opened up, or the funds you chose are looking outdated, or no longer performing as they should." And then you can get back to Bake Off.





About the author

Cherry Reynard is an experienced financial journalist, working across national, consumer, and trade titles, including the Financial Times, the Daily Telegraph, Citywire, and Money Marketing. She is six-time winner of the Investment Management Association's freelance journalist of the year, and four-time winner of the Association of Investment Companies' freelance journalist of the year.

Thematic investing: 10 sustainable investing trends for 2022

By **Marcus de Silva**, Co-Founder at **stepstoinvesting.com**

Investing involving careful analysis of a firm's environmental, social and governance (ESG) footprint is by far the hottest ticket in town amongst private investors in recent years, as the message seeps in that we can use our money for doing some good. Hargreaves Lansdown, the UK's premier investment platform boasting 1.6m customers, has seen a 6,000% rise in demand of the strategy over the past five years.

More widely across the UK market, in November alone, even though investors became spooked by the emergence of Omicron, and most sectors for company shares saw selling, ESG funds received record inflows, to the tune of £1.5 billion. The total amount invested in responsible funds in the UK now sits at £88.7 billion. It seems the direction of travel is pretty clear.

Given the popularity of the approach with ordinary investors like us, Steps to Investing caught up with global investment powerhouse M&G's head of sustainable and impact investing, Ben Constable Maxwell, to talk through the outcomes of the UN's climate change conference COP26, the

stepstoinvesting.com

upcoming challenges for the sector, and the investment themes he thinks are likely to be popular.

1 Progress following COP26

Given it’s the most important top-level discussion on how countries co-ordinate tackling climate change globally, the world had its eyes firmly glued on COP26 in Glasgow this November, and “keeping 1.5 degrees alive”, referring to limiting the rise in global temperatures to avoid the worst of the climate change’s potential impacts. Ben believes the Glasgow Climate Pact, signed by 196 countries, gets us much closer to that goal, but that more work will be needed to turn it into a reality:

“There were really high expectations going into COP26. There was a lot of progress, but it’s fair to say, some disappointments too.”

“Governments will need to update and accelerate their de-carbonisation plans. Two of the world’s biggest carbon emitters, the US and China, agreed to get together and co-operate on climate action over the next decade. This is an important statement of intent. Similarly, India was a late player, but has made a pledge towards net zero too.”

“More specifically, it was the first ever COP to explicitly target action on fossil fuels, calling for a phase-down of their use. And there were some side-discussions involving a significant number of countries addressing de-forestation, as well as methane emissions, which is one of the most potent greenhouse gases.”

2 Big spending comes in lock-step

In achieving net zero – the point where the production of greenhouse gases is balanced by their removal – and with plans to accelerate targets for getting there, Ben believes the governments need to open their cheque-books:

“The climate crisis requires a holistic approach and a systemic response, and governments are massively important.”

As such, government spending globally has ballooned, with the UK Treasury expecting to spend £25.5 billion by 2025, for example in de-carbonising buildings by

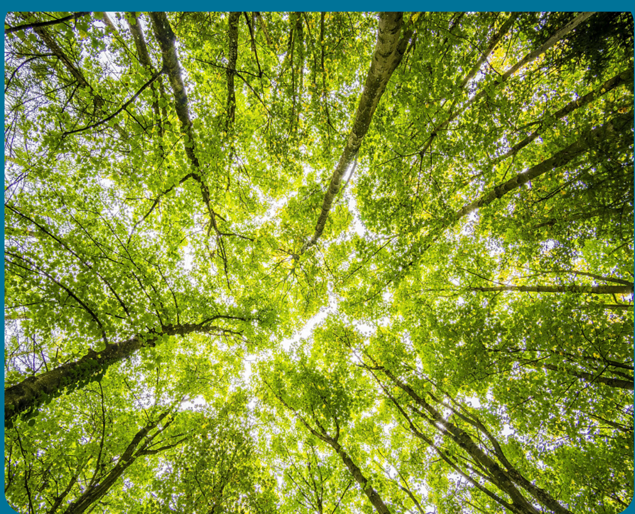
replacing old boilers. But, Ben thinks there's more to be done:

"We really need government to increase public funding on climate action. Rich governments have failed to deliver financing to less wealthy countries to help them de-carbonise. They've really got to dial this up. We also need to see national plans to drive up investments in clean tech and innovation, and clean infrastructure."

3 Private funding is invited to the party

It is estimated that $2.5 trillion in annual spending is required if we are to meet the world's sustainable development goals (SDGs), and realising this, governments are busy crafting policies encouraging private financing to bridge funding gaps and direct "big investors like M&G to make long term sustainable investment in the right areas of the economy."

Ben adds: "Huge numbers are required to focus specifically on climate resilience and mitigation, and dealing with climate change. So, it's a big role for investors, and they're at the table in the most significant way ever."



4 Enormous sums committed to net zero

Important in the climate challenge has been asset managers and asset owners committing $130 trillion to net zero goals, in an effort to create top-down pressure on companies to reduce emissions.

"[Net zero targets] means our investments must, by a set date – for example 2050, or for more ambitious investors, 2045, or even earlier – be net carbon neutral, meaning any emissions the portfolio emits will be counter-balanced by off-sets or nature-based solutions which will help to store carbon. Essentially, it means de-carbonising your portfolio."

"This is very difficult for big firms and big funds to do, and you need a really well-structured approach to do it. We have a lot of people at M&G in the sustainability and stewardship team working on the detail."

5 Transparent and accurate data will deal with greenwashing

Greenwashing is where companies mischaracterise their ESG credentials to investors – widely reported on as a bugbear for sustainability investing. "The question of greenwashing is a growing issue and potentially a massive problem because...it delays climate action...and the necessary steps in decarbonising our economy and delivering a more sustainable and fairer world in which to live." "It's partly about information, data and transparency. The big protection against greenwashing is getting the right information – this helps us understand progress and helps investors hold companies they invest in to account.”

“Whether in the UK, or Europe, and anywhere around the world, the regulators are really focused on disclosure. There’s the old adage: what you don’t measure, you don’t manage. Regulators recognise that...and transparency is the lever.”

Ben points to various bits of regulation that have been brought in to help, including the sustainable financial disclosure regulations (SFDR) in Europe, which puts pressure on investors to disclose how they’re tackling climate issues; as well as the new sustainable disclosure regulations (SDR), which pushes companies in the same way. Other initiatives are aiming for more standardised data to improve comparisons.

6 We’ll see a shift towards impact investing

The sustainable is mainly inhabited by ESG investing and its smaller sibling impact investing.

Ben explains the difference: “In the responsible investing world, ESG investing involves thinking about the key environmental, social, and governance risks that may derail a company’s strategy, or cause reputational damage or harm to the business. Impact investing is about investing directly in businesses that will deliver a positive and measurable outcome regarding these factors.”

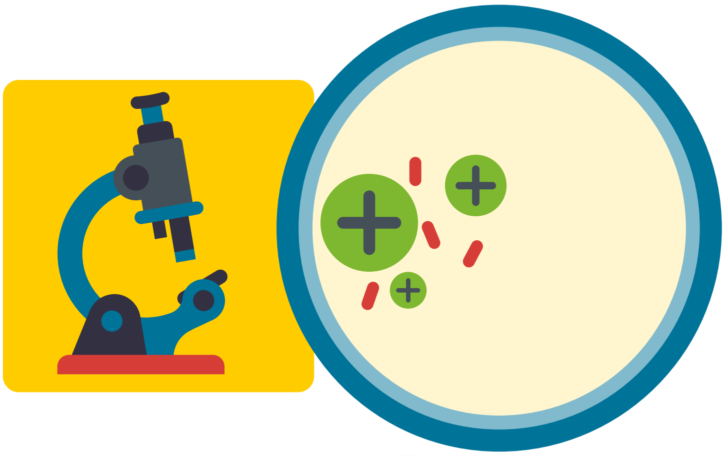
“One way to think about it is this: ESG investing is about ‘outside-in’, so how external factors affect the business and its likelihood of success; whereas impact investing is ‘inside-out’, so how the business drives positive change on people and the planet.”

“Increasingly, we’re seeing a shift towards impact investing. ESG has been really important – it’s a really important part of the process – but increasingly our clients want to see if their investments are creating positive or negative outcomes.”

7 Growing partnerships and co-operation

Ben believes the roots of sustainable practices are really beginning to take hold, as businesses across different sectors, not just within them, start to work together to ensure cleaner and more transparent supply chains.

“One of the points we saw at COP26 was needing to get all actors, all parts of the chain within the economy and society, working together towards solutions on de-carbonising the economy and climate change."



"For example, sectors such as clean tech, renewable energy, and electric vehicles – all of these use raw materials which often come from mining practises that aren't very sustainable. We need the mining sector to work with the automotive sector, with consumer electronics, and clean tech to ensure that supply chains are clean and that these businesses are driving good standards and practices, not just in environmental sustainability, but also in human capital and in labour relations and community relationships."

8 The move towards a circular economy

The circular economy takes its cue from nature: designing systems away from linear processes, that operate without waste, or with resources that are circulated for as long as possible.

"However much we de-carbonise power, roughly half of global emissions come from industry and agriculture. We can address this by designing more circular systems that avoid using virgin raw materials or mining, or using materials once. We need solutions for how we use waste products from industrial processes and feed them back into the system as an input, away from a traditional linear system. This will have a massive impact on emissions, as well as the ecological crisis."

9 Increasing focus on biodiversity loss

Ben's final theme takes us to the issue of biodiversity loss in the natural world, and the impact this can have on investing.

"An equal risk to climate crisis is the ecological crisis. How do we invest to support nature and preserve resources and rich ecosystems like forests and the services that they provide to humanity and the economy?"

"There's a big shift towards thinking about biodiversity as a real risk to our investments.

Trillions of dollars of global assets are reliant on natural resources and the services provided by nature. The economy is very much built on natural capital, but we are extracting and degrading that natural capital much too fast."

Ben Constable Maxwell is head of sustainable and impacting investing, M&G

Ben Constable Maxwell

stepstoinvesting.com

Portfolio strategy: becoming a 'resilient investor'

By Edward Bowsher, Financial journalist

Investors often talk about 'beating the market' and for many, it's become an obsession. But it may not be a healthy obsession. Perhaps instead we should focus more on avoiding losses and becoming 'resilient investors'.

Let's start by looking at why so many investors focus on outperforming the market. It all stems from the huge growth in passive investing over the last 30 years. As a passive investor you might put your money in a fund that tracks the performance of a particular index such as the FTSE 100. If the FTSE 100 rises by 8% one year, your FTSE 100 tracker should rise by roughly 8% too. The beauty of passive investing is that it's very cheap and very simple. You don't have to spend large amounts of time reading market reports and analysing companies.

With that background, many commentators argue that it's only worth devoting time to your portfolio if there's a good chance you'll beat the market and deliver above average returns. It's an attractive argument but there's a flaw. If you focus obsessively on beating the market, you

stepstoinvesting.com

may take too much risk and end up losing money, not making it. This is especially relevant for investors who are heading for retirement but still saving. You may not have the time to make up any loses before you retire.

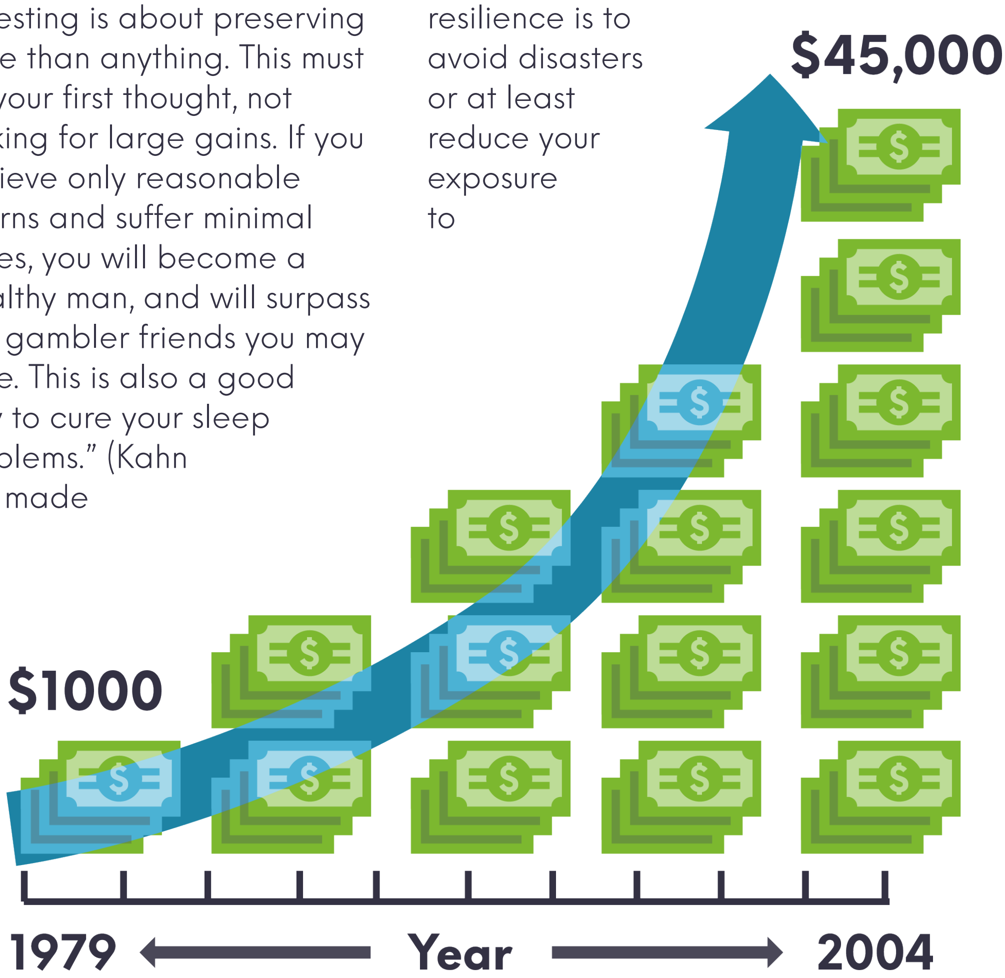
The investment veteran, Irving Kahn, put it brilliantly: “Investing is about preserving more than anything. This must be your first thought, not looking for large gains. If you achieve only reasonable returns and suffer minimal losses, you will become a wealthy man, and will surpass any gambler friends you may have. This is also a good way to cure your sleep problems.” (Kahn first made money in the Wall Street Crash in 1929 and was still monitoring his portfolio until shortly before his death aged 109 in 2015.) If you think about preserving your capital, as well as growing it, you should become a more resilient investor.

One way to achieve resilience is to avoid disasters or at least reduce your exposure to potential disasters. That’s what Jean-Marie Eveillard* did in his 30-year career as a highly successful fund manager. (If you had invested $1000 in his main SocGen fund in 1979, your investment would have grown to $45,000 by 2004.)

He owned no Japanese stocks in the late-80s prior to a massive Tokyo crash; he had no tech stocks in the lead-up to the dot com crash in 2000; and he pretty much avoided financial stocks before the 2009 financial crisis. In other words, he was able to distance himself from the crowd.

Another way to increase resilience is to think about a ‘margin of safety.’ Eveillard was a big fan of this concept. It meant he didn’t just avoid over-valued stocks, he also avoided fairly-valued stocks. He only bought stocks that he considered to be below their intrinsic value, giving him a margin of safety if things went wrong.

Resilient investing is a strategy that can work in all kinds of market, but it looks especially attractive now given that we’re twelve years



into a bull market and there are plenty of risks to worry investors: rising inflation, high valuations, and political tensions with China to name just three.

So, how can you invest more resiliently?

If you're picking individual stocks, look for companies with strong businesses that should prosper in the long-term. These are sometimes called quality stocks. The best quality stocks are also strong financially. They have healthy balance sheets and they generate good returns on any money they invest to grow the business.

Diversification is also important. Invest in a good range of companies in different markets. Or use funds to give you exposure to different markets as well as different asset classes. Gold is one example: when stock markets fall, gold often doesn't fall as much or may even move in the opposite direction. Bonds can also provide a bit of ballast in tough times. As can cash. Here are a few funds that might boost your portfolio's resilience:

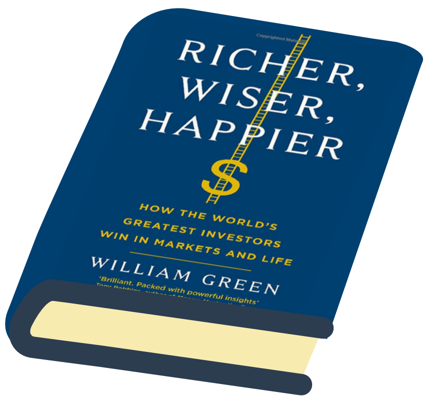
1 Personal Assets Trust (PNL)

This is a long-established investment trust which focuses on 'the risk of losing money' rather than volatility. 41% of the trust is invested in equities including Microsoft and Visa. Around 50% is invested in cash and bonds, with the remainder in gold. That diversity reduces risk. Since 2009, the trust's value has risen every year except 2013 and 2018, and the falls were only small in those years. Overall, the trust has grown by 8.4% a year over that period. That's behind the FTSE All-Share which grew by 10.7% a year, but the Personal Assets Trust grew while taking less risk.

2 iShares Physical Metals Physical Gold (SGLN)

If you want to diversify with some Gold, buying this iShares product is an easy way to do it. It's an Exchange Traded Commodity (ETC), which is similar to an ETF, and the annual charge is just 0.12%.

The ETC buys physical gold and the price moves in line with the Gold price.



*If you would like to find out more about Jean-Marie Eveillard as well as a range of other great investors, read 'Richer, Wiser, Happier' by William Green. Highly recommended.

3 Finsbury Growth & Income (FGT)

This investment trust has a decent performance record and can fall less than markets in difficult times. Conversely, it may not soar when markets are very bullish. The trust only invests in 24 stocks, so it's not exactly diverse, but it achieves resilience by focusing on quality stocks such as Diageo, Unilever and Sage.

4 3i infrastructure (3IN)

Infrastructure is an area that should deliver fairly stable returns. This 3i trust invests in companies that own infrastructure across Europe and Asia in areas such as Energy, Utilities and Communications. It's delivered respectable returns but nothing spectacular – that should be attractive to resilient investors.

	What it's trying to do	Sector	Size	Manager(s)	Number Holdings	Risk & Reward (1-7)	Type
Personal Assets Trust	Protect & Grow Capital	AIC Flexible	£1,766m	Sebastian Lyon; Charlotte Yonge	21 (shares) + bonds	Low risk – High risk: 1 2 **3** 4 5 6 7	Investment trust
iShares Physical Metal Physical Gold	Target gold spot price	Commodities - Precious Metails	$12,533m	Tracks gold spot price	6,959,960 ounces	Low risk – High risk: 1 2 3 **4** 5 6 7	ETC
Finsbury Growth & Income	Growth & Income	AIC UK Equity Income	£2,043m	Nick Train	25	Low risk – High risk: 1 2 3 **4** 5 6 7	Investment trust
3i Infrastructure	Total return	AIC Specialist - Infrastructure	£3,026m	Phil White	19	Low risk – High risk: 1 2 3 4 **5** 6 7	Investment trust

About the author

Ed Bowsher is a freelance financial journalist who has been investing since 1997. His previous jobs include Deputy Editor of MoneyWeek magazine and Editor of The Motley Fool UK. He also used to present several programmes on Share Radio. As a freelancer, he's written for the Financial Times, MoneyWeek, ETFStream and others.