

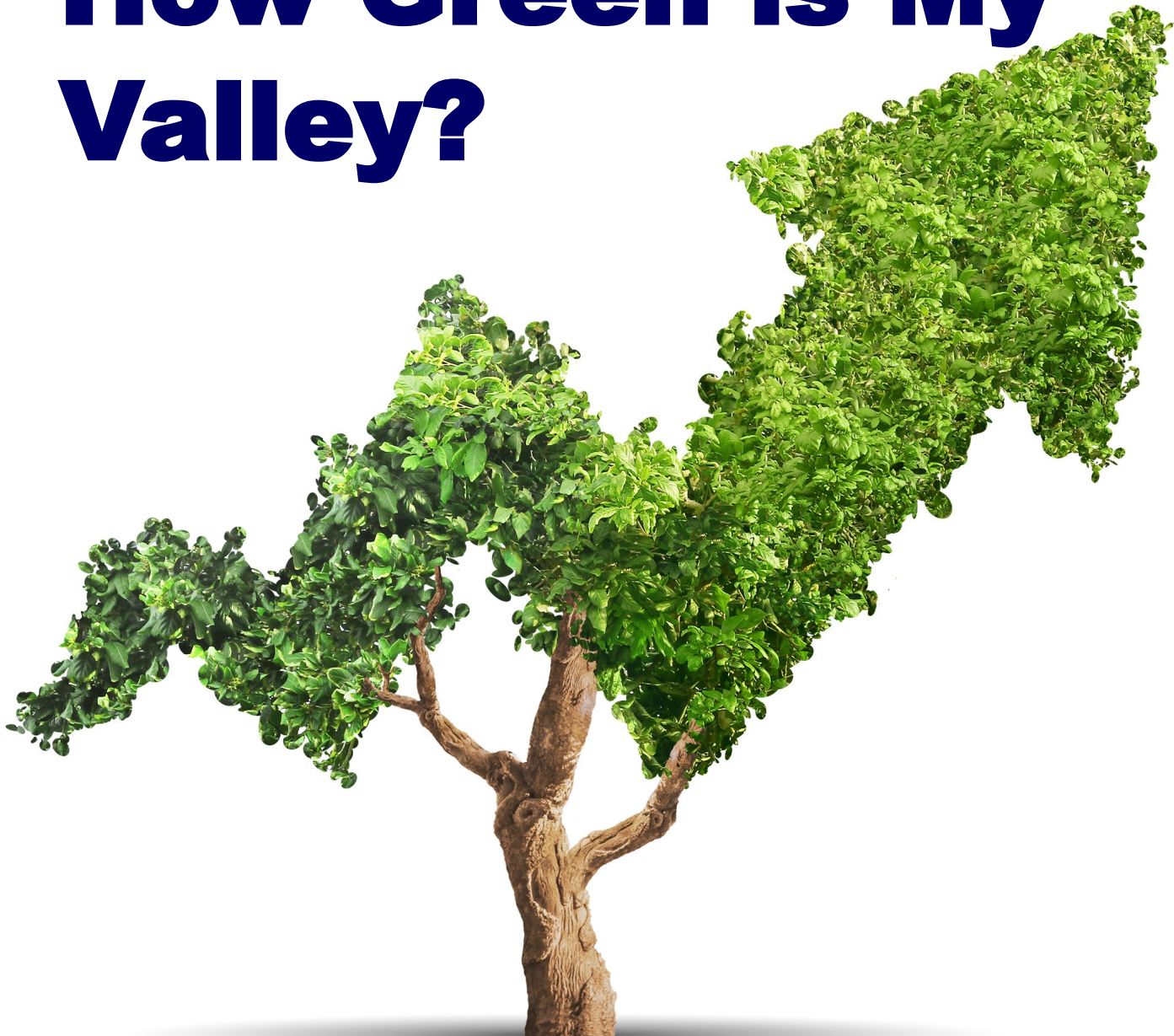
February 2020



The Premier Partnership Limited

Your Family Office

How Green is My Valley?



News
LETTER

Hello, and welcome again to our quarterly update of the things that matter in the world of financial planning. This quarter we will look at the current state of markets and economies, how they are reacting to the global Coronavirus outbreak and what the outlook for the rest of 2020 could be.

We will also be concentrating our articles on ESG (Environmental, Social, Governance) investing, which in an era of much more global awareness of climate change, is gaining momentum amongst private investors in their portfolios. We will also have the Budget delivered on Wednesday 11th March (by the new Chancellor) and we shall be issuing our client update on the areas that affect us, shortly after. We hope you find our Newsletter to be of interest and assistance. Your feedback, good or bad is welcomed.

Markets

The big news on the economic front is of course the potential longer-term effect of the Coronavirus on global economies and stock markets. It is fair to say that the Chinese economy has slowed markedly, and this is affecting many Chinese companies' sales and production as well as those in the global supply chain. However if we look back to the other global virus outbreaks of SARS and HN1 Bird Flu, we can see that the effect of these outbreaks tend to be short lived. If we look at the current performance of the US market, most global investors would seem to agree.

The US economy powers on, a fact confirmed by the recent US payroll data for January, which showed a further 225,000 jobs had been created, not only beating the consensus forecast, but every other forecasting group as well. The claims for unemployment insurance are currently at its lowest level ever! So, it would appear that there is no recession in sight for America, and this is what will power Donald Trump's campaign for re-election. The economic data, an improvement in the status of Coronavirus, and growing corporate profits all point to a stronger stock market in the USA for the rest of this year.

In the UK the decade of the 2010's was not a kind one to investors with the performance of the FTSE All Share UK Index significantly underperforming other major global markets over the decade. One can blame the fact that 40% of the decade was wasted by selfish politicians arguing about Brexit, which caused a form of corporate stasis across the UK generally. Thankfully we have now broken out of that stasis and love him or loathe him, Boris Johnson has a working majority in Parliament, which should be sufficient to get policy makers' decisions back rolling through the statute book. The UK stock market is now undervalued compared to its global peers, and there is a degree of catching up to come over the next 3 to 5 years. No investor likes uncertainty and we've had that in spades over the last 4 years. So call it a Brexit dividend if you like, but the UK economy has been hiding in a shed at the bottom of the garden for the last 4 years, and whilst the garden needs tidying up and got ready for the growth of the Spring, the head gardener has the job for at least the next 5 years, and barring scandal (always a possibility) should revive the UK going forward. We are positive for the UK market as a whole.

Geopolitics generally will remain on the agenda for 2020 with the spotlight switching to rising tensions between the USA and Iran. Previous tensions on trade between the USA and China have eased, given the deliverance of the phase one trade deal. However, we have no control over the passing phases of presidential preferences on all sides, so what we can look at is the overall economic health of global economies, and do what we always do - cut out the noise!

The synchronised global growth slow down during 2019 saw the world's major Central Banks respond with further monetary easing, most notably the Federal Reserve (USA) and the European Central Bank (ECB). This provided investors with positives about the future global growth and stock markets responded accordingly. We do not expect global markets to produce the near + 20% performances finally witnessed in 2019, rather investors will now have to walk a fine line between upside participation and downside protection. Well balanced portfolios will be the key and we would expect more modest growth of such investment for portfolios to be + 8% to 10% for the year. Modest, but still considerably more than the miserly 1% interest offered by banks and building societies, and well above inflation, currently running at 2.3%. We expect more unorthodox monetary policy from Central Banks as they continue to try and stoke global growth with perhaps a move to a coordinated fiscal expansion as well. Witness the UK's decision to go ahead with HS2 as a prime example of a Keynesian fiscal expansion. The summer will bring the Olympics and the Paralympics to Japan, which will also assist the economy there, and possibly avert their pending recession. Digital disruption will continue to transform the world with nearly every sector being challenged. These are all positive trends that will continue, as the race for the White House gets underway. Trump is unchallenged as the incumbent Republican President, and the Democrats are deciding who their challenger will be. We see no other result than a second term for Trump, which will bring a consistency to the next 4 years, even if that consistency maybe a little bit unpredictable at times.

So our view overall is that there are more positives than negatives to look for in 2020 particularly as the UK plays catch up. We look forward to discussing your portfolios with you when we meet during the year.

ESG - Environmental, Social and Governance

Investing to make a difference

For many many years the option of going 'green' with your investment portfolio brought claims of underperformance and lack of investment choice. When the first ethical funds were launched in the UK in the early 1980's, their main objectives were to help and assist investors to align their investments and savings with their personal values, by excluding specific industries and areas of investment such as weapons, animal testing, tobacco and fossil fuels. Fast forward 3 decades and increasingly investors have realised that they have the potential to have a positive impact on the way that companies operate. This is by using share ownership to engage company management, to improve what they do and how they do it, particularly in the areas of employees, suppliers, and their effect on the environment. It is no longer just about ethical (green) investing but also the full impact of environmental, social and governance issues across the globe. By focusing on ESG considerations, professional investment managers have realised they can not only align an investor's values, but also deliver investment performance by specifically identifying companies that are likely to benefit from the developments of solutions to climate change. But also by avoiding those companies whose harmful practices may threaten their long term viability. A business that consciously engages with its stakeholders can also potentially reduce future legal and regulatory costs, and improve the company's brand value. Companies that offer products that investors identify, can offer positive solutions to issues such as climate change, and become incredibly valuable.

How about risk and volatility?

ESG constructed portfolios often have a lower percentage investment in sectors such as oil and gas or pharmaceuticals, but overall the asset allocation of the portfolio would not differ much to a balanced portfolio of equities, bonds, property and cash/alternatives. So no, ESG investing does not carry a higher risk / volatility issue.

Does it affect investment performance?

There is no statistical evidence that ESG investing performs worse than standard investment funds or that this style of investment management under-

performs markets. This is supported by a raft of statistical data now available from such as The Institute of Chartered Financial Analysts.

Does ESG involve higher fees?

ESG sustainable and ethical funds typically have the same costs as any other active funds, but with the introduction of low cost ESG Exchange Traded Funds and passive options, the overall costs of ethical investing generally is falling.

How about regulations?

ESG metrics are not commonly part of mandatory financial reporting for corporations. However companies are increasingly asked by shareholders to make disclosures in their annual reports about sustainability. Numerous institutions such as the Sustainable Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI), are working to form standards and define materiality, to facilitate the incorporation of these factors into standard corporate processes.

There is no one exhaustive list of ESG examples, but these below are generally considered to be appropriate:

Environmental

- Conservation of the natural world
- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Energy efficiency
- Waste management

Social

- Consideration of people and relationships
- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights

Governance

- [Standards for running a company](#)
- [Board Composition](#)
- [Audit Committee Structure](#)
- [Bribery and Compensation](#)
- [Executive Compensation](#)
- [Lobbying](#)
- [Political Contributions](#)
- [Whistleblowing](#)

ESG investing is the natural style successor to Socially Responsible Investment (SRI), as SRI models typically use value judgements and negative screening to decide which companies to invest in. ESG investing and analysis looks for current and future value in companies that adopt ESG considerations, and not merely pay lip service to a set of moral values.

The role of the adviser

As advisers, part of our role is not only to ensure that your portfolio has a chance of meeting your goals and objectives and risk/volatility metrics, but also that it meets with your views. So the question should always be asked about those views, and the discussion had as to what is important to you as an individual. Your portfolio could contain both standard investments alongside funds with the ESG standards embedded within them. Everyone is different. An increasing number of people are demanding more for their money, not just investing for profit but also purpose. No longer are these people happy to hand over their money to investment managers or advisors, and turn a blind eye to the companies invested in. They want to know how their investments are being used to make a difference, or at the very least do no harm.



The future

The rise of sustainable investing has accelerated dramatically over the last 15 years. In 2005 a study that coined the term ESG, considered it to be no more than a niche interest. Now in 2020 the 'Attenborough' effect is being felt globally, and later surveys have concluded that ESG investing is now considered a mainstream investment methodology. Particularly, and unsurprisingly among 25 to 45 year olds, although participation in the age groups 45 to 55 and 55 plus is growing dramatically.

Sustainable investing is becoming mainstream, driven by strong client demand. The future is not only green, it's sustainable.

10 reasons to consider ESG investing

[Good governance of corporations is systematically beneficial](#)

[Public - private partnerships on ESG recognition are expanding](#)

[Climate change is a reality](#)

[Energy sources are shifting](#)

[Technology is changing what we demand and how we consume](#)

[Social media is driving convergence in social norms](#)

[We are all living longer](#)

[Global demographics are changing](#)

[Regulatory changes are providing tailwinds](#)

[Large corporations' value chains are global](#)

Summary

These 10 factors are fuelling the rapid growth of ESG investing, and it's a trend that will continue into the future.

We do of course have a full range of ESG investment options to utilise in client portfolios. Whilst it is not mandatory, and not for everyone, we would be delighted to discuss ESG investing options with you.

Until next time

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