The Investor

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Finding the way forward

How good advice will help you navigate a changing financial landscape

St James's Place

Welcome to *The Investor*.

As this magazine went to press, the contents of Chancellor Rachel Reeves's first Budget were still unknown. But multiple commentators anticipated an increase to many people's tax burden, and as you're reading this, you may be facing some significant changes to your finances.

Such times can often feel destabilising, so having the right support in place is particularly valuable. Our article on page 8 examines why change can be so challenging – and how to steer a clear path through.

The ever-changing nature of our finances is one of the reasons why learning about money isn't just something that happens in childhood. In our article on page 14, we look at how our financial education continues throughout our lives, as we take lessons from family, friends, advisers and even social media.

Elsewhere, we highlight the steps families need to take to ensure loved ones with a learning disability will always be protected financially. We also explore what's been happening with global stock markets – and what that means for your investment portfolio. Plus, there's an explainer on annuities: what they are and whether they're worth considering for your retirement income.

We hope you find the issue insightful and informative. We always love to hear your feedback.

Liz Kelly
Chief Corporate Affairs Officer, St. James's Place

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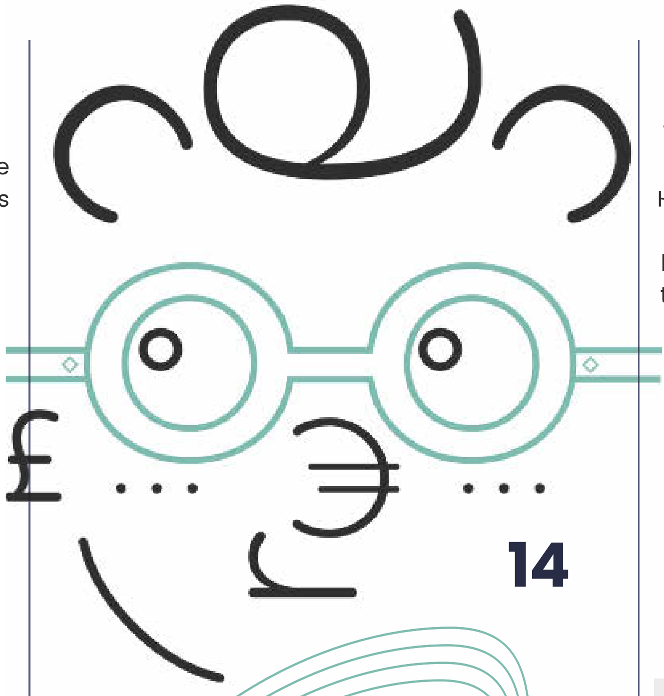

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All facts and statistics in this issue of *The Investor* are correct at the time of going to press.

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Images: Getty Images, Stocksy

In brief

THE ROUND-UP

Empowering young people

St. James's Place makes further strides towards improving children's financial knowledge via education

As one of the UK's largest providers of financial advice, St. James's Place has a responsibility to improve people's financial confidence, whatever their circumstances. And a lot of that confidence comes from good financial education.

In particular, that means building a solid foundation of money-related knowledge from an early age, which is why SJP has been expanding support for financial education in a number of UK schools.

In partnership with Young Enterprise, a financial and enterprise education charity, SJP has now funded 14 schools to become Centres of Excellence for Financial Education, with more to come. Last year, Tonge Moor Primary Academy in Bolton became the first of these to achieve CoE accreditation.

Meanwhile, SJP's Financial Education for Young People programme is a series of workshops designed to help children and young people develop their understanding of personal finances – ultimately giving them the confidence and the skills to make good choices when it comes to earning, managing and growing their money.

In the last academic year, from September 2023 to July 2024, SJP reached 7,638 children and young people.

What's more, offering this kind of support to the next generation really gets results: many of the students who participated in one of SJP's Money Wise sessions for secondary school pupils fed back to say they now felt more confident about managing their money.

Much of this education is enabled by SJP employees and Partners who volunteer their time. Between them, they have delivered 181 financial-education sessions across primary, secondary and higher education.

SJP Partner Laura North, a former teacher, delivered her first financial-education sessions over the summer term. "I love how the sessions create curiosity and great questions from the students. The tools are engaging, which gets them and the parents thinking straightaway," she says. "I feel it's so important to give people the right financial knowledge and foundation. Having the right start and tools in life should be possible for every young person."

• To read more about the importance of lifelong financial education – and how we can support you with this – turn to page 14.

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Money Wise financial-education sessions have been delivered across primary, secondary and higher education.

7,638
young people were reached by SJP's financial education between September 2023 and July 2024.

£80,000
was given by the SJP Charitable Foundation to charity MyBnk to support Money Works, its financial skills programme for young people who are moving into independent living.

Missing out on a good thing

The value of expert financial advice is clear, says SJP's new report – but far too many people in the UK are missing out

Improved mental wellbeing, quality of life and financial resilience are three key benefits of taking professional financial advice or broader financial guidance, according to new research carried out on behalf of St. James's Place[1].

The *Real Life Advice Report* seeks to understand how financial advice and guidance of all forms impacts people across the UK, as well as the perceived barriers.

The survey found that three-quarters of those taking ongoing financial advice have seen an improved quality of life as a result. Meanwhile, more than half (58%) have been able to reach a specific financial goal or tackle a challenge, thanks to advice.

But despite the advantages, perceived barriers – including the belief that advice is simply not for 'people like me' – are preventing up to 11 million adults in the UK from seeking support.

Financial advice can transform lives

"Financial advice and broader guidance can transform lives, but millions are not reaping the benefits because perceived barriers are holding them back," says Mark FitzPatrick, CEO of SJP. "As a result, they're missing out on the improved financial and emotional wellbeing advice can bring. While more advice or greater access to financial guidance won't solve all of the challenges people face today, it can help people from all walks of life to establish a sense of financial control."

Source: 1 Opinium surveyed just under 12,000 UK adults between May and August 2024. Quotas and post-weighting were applied to the sample to make the dataset representative of the UK adult population. Quantitative data referenced is sourced from the first poll, which has a total sample of 7,995 respondents

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In brief

THE ROUND-UP

Budget reaction

This issue of *The Investor* went to press days before Chancellor Rachel Reeves's much-anticipated Budget. However, we know our readers will be keen to understand what the measures may mean for their own financial situation, so head to the News and Insights section of the St. James's Place website (www.sjp.co.uk/news) to read our analysis. And, of course, contact us at any time to discuss how to adapt your financial plans in light of the Budget announcements.

Legacy losses

Financial pressures mean younger generations are increasingly less confident they'll be able to leave an inheritance

Economic pressures are hindering future retirees' ability to pass on their wealth to their loved ones, according to a survey carried out on behalf of St. James's Place[1].

Although two-thirds (68%) of UK adults believe it's important to leave an inheritance, the research has highlighted how housing costs, in particular, are posing significant challenges for the next generation.

For example, more than one in eight (13%) of those approaching retirement anticipate still having to make mortgage payments in later life, compared to 4% of current retirees. Additionally, 16% foresee not owning a property in retirement and continuing to pay rent, reflecting the changing economic conditions faced by different generations.

The financial support that people expect to give to other generations is another source of pressure. More than half (55%) of future retirees believe they will need to do this in retirement, and for nearly one in ten (9%) this will mean reducing how much they pass on in inheritance.

As a result, future retirees are increasingly less confident that they'll be able to implement their inheritance plans. A quarter (26%) don't feel they have the right plans in place, compared to only 14% of current retirees. And while 65% of current retirees expect loved ones to inherit their property, this drops to just 45% among those yet to retire.

"The next generation of retirees are grappling with unique economic circumstances compared to their parents and grandparents," says Claire Trott, Divisional Director for Retirement and Holistic Planning at SJP.

"Our study emphasises the importance of financial planning for future retirees to help them deal with the challenges of these new financial norms. To leave a legacy for loved ones, it's more important than ever to establish a sound financial plan early on. This gives you a greater opportunity to build your wealth over time, without making unnecessary sacrifices along the way."

Source: 1 Research conducted for St. James's Place by Opinium among 4,000 UK adults between 27 February and 8 March 2024. All results are weighted to nationally representative criteria

Contact us now to discuss how you can leave a legacy for your loved ones

Images: Getty Images, Stocksy

"Elections don't affect market performance"

Tune out the rhetoric and noise that surrounds elections and remember why you're investing, says Justin Onuekwusi, Chief Investment Officer at St. James's Place

By the end of this year, more than two billion voters in 50 countries will have gone to the polls to vote in a national election[1]. Perhaps the most globally significant is the 2024 United States presidential election on 5 November, which is dominating the news agenda.

Political news drives sentiment and investor behaviour. We found that four in ten investors planned to make changes to their portfolios after the announcement of the General Election[2].

Increasingly, people have their news sources in the palm of their hand, alongside their investment app, which shows how their portfolio is performing at any time. That means many investors could be monitoring the shorter term and pinning their portfolios too strongly to one-off events.

Experienced investors – those who have been investing for ten or more years – are less likely than novices to make knee-jerk changes. They know that when you look back, even events that seemed big, such as COVID-19 or the outbreak of war in Ukraine, don't tend to impact markets too much over a longer period. Our analysis of UK market-performance data of the past ten UK elections found no clear trends between election outcome and market performance[3]. In the US, you can see a greater impact of politics on corporate earnings, so there's a slight difference.

Image: Getty Images

However, on the topic of how politics affect markets over the medium term, you would be better off looking to two areas that aren't specific to elections. One is central banks and monetary policy. For example, we're likely to see interest rates remain higher for longer.

The other is fiscal policy change, which can also impact markets. Even so, trying to predict outcomes is difficult. Take Donald Trump's election in 2016: although he was unpredictable in his rhetoric, his presidency gave a boost to the stock market owing to him cutting Corporate Tax rates.

Ultimately, all this underscores the importance of staying invested and not following the noise in response to short-term events.

Outside of politics, the most dominant driver over the medium term (three to five years) is valuation. The foundation of everyone's portfolio should be an investment in asset classes that are relatively cheaper now than they have been historically. The UK looks attractive relative to its history, and Japan looks attractive compared to the US. So, it makes sense to lean against the US and into other markets. There's also US concentration risk – the top ten stocks make up around 30% of the S&P 500 index[4].

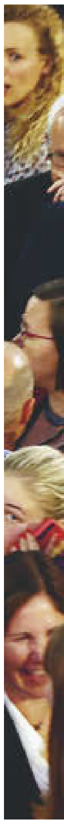
Bonds are back as an asset class, again providing protection against equity markets. That interest rates have started to come down makes a decent environment for fixed income.

The rhetoric from politics will continue, but the best thing you can do is tune out the noise and discuss things with your adviser. Focus on why you're investing and get your asset allocation right, which is the key factor driving your overall outcome.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

Past performance is not indicative of future performance.

Sources: 1 World Economic Forum, '2024 is a record year for elections', Dec 2023 **2** St. James's Place, 'Four in ten UK investors will make changes to their portfolios as a result of the General Election', June 2024 (Survey by Opinium on behalf of SJP, with a sample size of 1,000 adults, 5–11 June) **3** Analysis conducted by SJP on the FTSE All-Share, FE Analytics, June 1982–June 2024 **4** S&P Global, 'S&P 500 top ten companies', accessed Sept 2024



A change for the better

Change is inevitable – but the way you respond to it can have a major impact on your finances. Here's how to remain in control and stay positive, no matter what happens

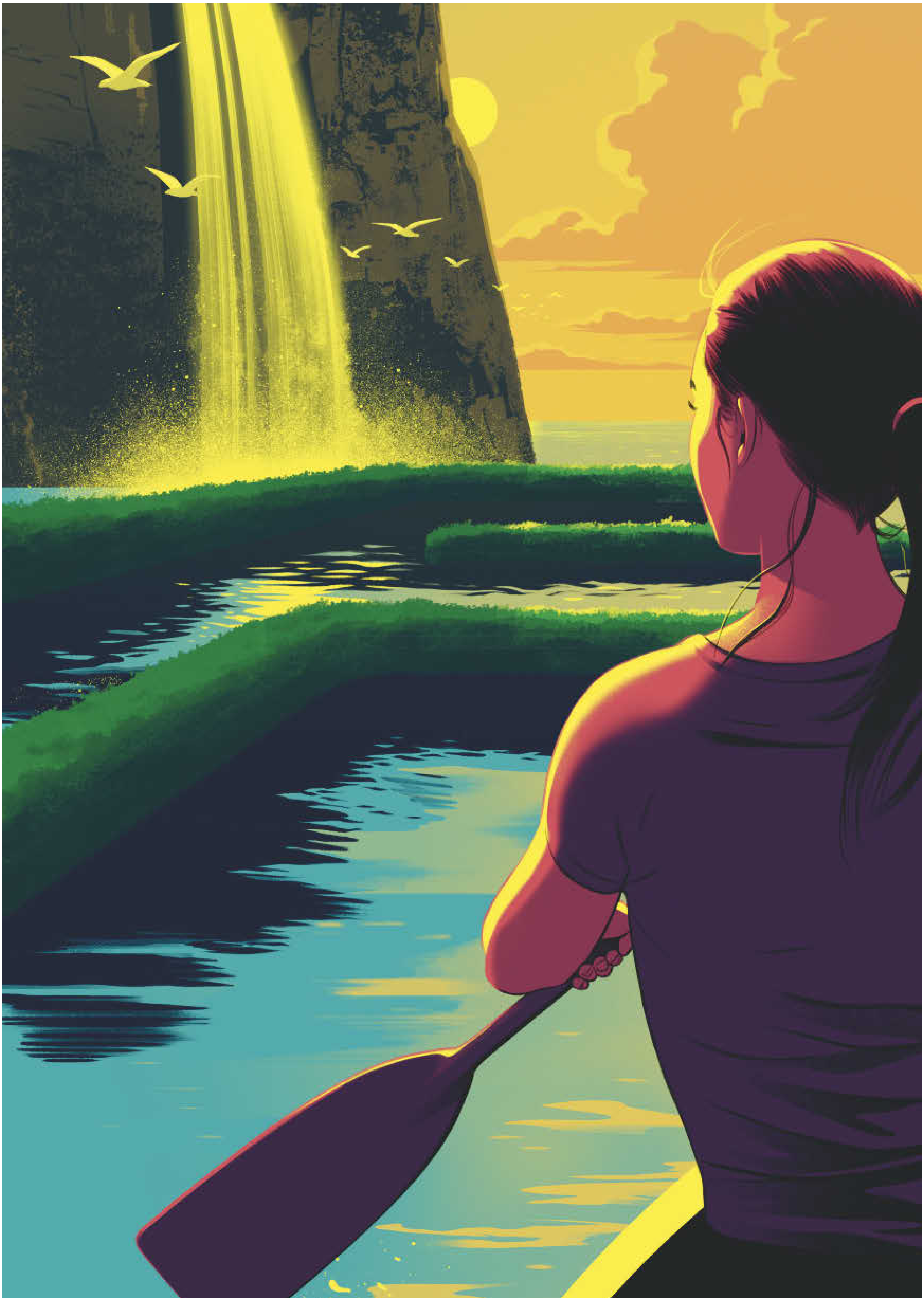
BY JAMES LAWRENCE

Beyond the certainty of death and taxes, there's one more thing we can always bank on in life: change.

Change is ever present. Whether we like it or not, in almost every aspect of the world around us and our own existence, the sands are constantly shifting, frequently in ways that are unexpected, disruptive and beyond our control.

This is something we should learn to accept, says Graeme Carmichael, Divisional Director of Advice Policy at St. James's Place. "Whether it's at a macro level with world events, a national level with what's happening in the economy or politically, or a personal level with what's going on in your own life – family, health, wealth and so on – the future is an uncertain place and things will not remain the same or be predictable."

A current example is the election of the new UK government and its plans for the Autumn Budget. At



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Take a strategic approach, thinking about change well before it happens

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the time of going to press, *The Investor* didn't know what the contents of the Budget would be, although there was plenty of speculation doing the rounds. But we're sure of one thing: there are likely to be measures that will affect the finances of many of our clients and the wider public.

How we react to change

Some people instinctively have a positive reaction to any kind of change, while for others, it can create feelings of deep uncertainty and anxiety.

Although it's important to acknowledge that our individual personalities will affect our responses, it's quite normal to react negatively, says Greg Davies, Head of Behavioural Finance at fintech Oxford Risk. "We're hardwired to fear change," he explains. "And from an evolutionary perspective, that's perfectly reasonable. We become equipped to function effectively in the environment that we're used to – therefore change, by its very nature, comes with unknown dangers and risks."

There are several behavioural biases that are related to the way we handle change, he continues. One is the status-quo effect. "As humans, we have a strong tendency to cleave to where we start from," he explains. "An example in an investment context would be if you had a relative who passed away, leaving a sizeable share portfolio. It would make a massive difference whether that inheritance was passed on to you as a portfolio or was first sold and then passed on to you as a block of cash. Either way, you've inherited the same amount. But a person who has inherited a portfolio is likely to stay invested in that portfolio, while a person who's inherited cash is likely to take many years to get back to full investment."

Another is the endowment effect, where we ascribe greater value to things that we own, simply because we own them. "We're often reluctant to part with assets that are in our portfolio, even if they're no longer sensible things for us to be holding," says Greg. "And that, of course, makes it more emotionally difficult for people to do sensible things that help them adjust to change, such as rebalancing."

Having a systematic strategy for rebalancing your investment portfolio is a pragmatic way of reacting to change, he adds. That might mean, for example, adjusting the balance of assets to ensure it remains diversified and reflects your attitude to risk in response to changing circumstances (see page 20 for more on this). "This requires us to act," says Greg. "But because we have this status-quo effect and endowment effect, we often don't."

Graeme also warns that we tend to have a "fight or flight" reaction to change, which can result in either a lack of action or an unthinking, knee-jerk response – either of which can be damaging.

The latter can also lead to unintended consequences. For example, by "solving" one problem, such as immediately responding to a market downturn by encashing an investment, you could end up creating another, by holding too much in cash that's at risk of losing its value due to inflation. And that's not to mention the unnecessary short-term losses you may suffer.

"It can be a bit like Whac-A-Mole," he says. "You're trying to sort out the mole that's popping up – but do you realise the knock-on effect of what you're doing?"

Dealing with change

Whatever your response to change – and it may frequently be mixed – having clarity about your thought processes can help. "Sometimes, the same person can simultaneously be under-responding in some ways and over-responding in others," says Greg. "So self-knowledge is useful. Once we understand ourselves better, we can carefully craft a set of strategies that are particular to our situation."

When it comes to financial matters, it can be beneficial to plan ahead in anticipation of inevitable change, he says. "Although it's important to react to change as and when it happens, it can also be hugely valuable to take a more strategic approach – thinking about it well before the change happens and taking a longer-term view.

"Do not ignore the fact that change is a reality, and be prepared as far in advance as you can for that reality. For example, we can construct for ourselves, ahead of time, when we're not emotionally wound-up, a set of rules or principles that we can use to govern our behaviour. And the sooner we do this, the more practice we get at doing it and the easier it becomes."

Here, there is much we can learn from the world of business, where transformation is frequently incessant and necessary, and change management is an area of expertise that is prized by many top organisations.

Like a successful company, it's always helpful to plan ahead and be prepared, says Amanda Arrowsmith, People and Transformation Director at the Chartered Institute of Personnel and Development (CIPD), the industry body for HR professionals. "That might be knowing where your resources are, for example," she says. "So if there are changes, you know where to find everything, so you feel informed, which will help you deal with that disruption and anxiety."

Finding the positives

Although many of us find change hard to manage, it's helpful to try to find the positives – often, this can be turned to your advantage from a financial perspective.

Illustrations: Señor Salme

Accept changes are happening and then ask: ‘Where’s the opportunity for me?’

Amanda recommends adopting the concept of the “growth mindset”, where individuals can develop through dedication, hard work and helpful inputs from the right people. “So, in this context, how can you see change as an opportunity?” she asks. “Rather than thinking it’s a negative that’s ‘being done’ to you, ask: ‘Is this a chance for me to learn, to change and to think about things differently?’”

Another strategy that effective businesses deploy when managing transformation is to ensure that everyone understands the reason underpinning the change and communicate that effectively. “Then, on an individual level, you can move towards acceptance and reframing,” suggests Amanda. “Some of the changes may be beyond your sphere of control, so accept that they’re happening and then ask: ‘Where’s the opportunity in that for me?’

“The more we know, the more we can educate ourselves to comprehend what’s coming and what the impact might be, and the more we can feel in control.”

Using approaches such as this can help us to build resilience to change, which is extremely important when it comes to investing, says Greg. “In order to take investment risk, you first need to have set up an emergency savings buffer,” he explains. “That’s what buys you the ticket to take the risk with other assets.”

And the same is true with response to change. “If you’ve managed to hedge your situation or build resilience against the worst effects of change, you can flip it around and start to reframe the change as an opportunity,” he adds. “But it’s only an opportunity if you’ve got that safety net in place.”

The value of advice

When managing change in the context of your financial plans, expert advice can prove invaluable. It can help you build that necessary resilience and also remove the biases and emotion from your decision-making, ensuring any actions you take are entirely rational.

“Sharing the emotional burden of decision-making can make it easier for people to stick with things that are otherwise difficult,” says Greg. “And the more expertise that other person has, the more it removes your tendency to do the wrong thing.”

Graeme adds: “One of the benefits of using an expert adviser is that you’ve got someone working with you who’s dispassionate and can contextualise what’s going on, to help you make the best decisions you can. They’ll take a long-term view, which will be about your own individual circumstances and, most importantly, what you’re trying to achieve.”

An adviser can also help you to build a flexible plan that can be adapted to shifting circumstances, he continues. “Having a plan is great, but it will be knocked out of shape by things such as Budgets, the economy or world events. That’s why it’s important to have regular reviews to take account of things such as this. There will always be something coming up.”

What’s more, many events that cause change are unforeseeable, he adds. “Look back at the past five years, for example. How much of what’s happened could have been predicted? So, plans written five years ago may not be appropriate for now. The value lies in being able to calmly take stock of what’s happened and then determine the right course of action.”

Finally, don’t underestimate the value of people who know more about a particular topic than you do, and have greater experience in it, advises Amanda. “Just as businesses rely on HR experts to manage change, you can do something similar with your finances. So make sure you rely on the experts.”

The value of an investment with St. James’s Place will be directly linked to the performance of the funds selected and may go down as well as up. You may get back less than you invested.

We can help you with your finances in times of change – speak to us today

How small-business owners can manage big changes

In the world of business, change can feel not only relentless, but also like its pace is ever accelerating. And if you're a small-business owner, you can be more exposed to the consequences of change than larger companies. Here are three ways to help reduce your risks:

1. PLAN AHEAD

As with your personal financial life, the more you're prepared for change, the better you'll be able to deal with it when it comes. This doesn't mean anticipating specific changes – none of us has a crystal ball, and guessing incorrectly could be damaging. But ensuring you accept the inevitability of change, and having an agile approach to a range of possible scenarios, can allow your company to move swiftly but sensibly.

"The impact of not preparing can hit your bottom line," says Amanda Arrowsmith, People and Transformation Director at the CIPD. "So while planning ahead may initially seem like a big investment in time, it could actually be helping to secure your business's future."

2. COMMUNICATE WITH YOUR EMPLOYEES

As one of our clients, you may be more financially aware than some of your team. For example, you may have discussed with us the possibility of changes to personal taxation and how you'll adapt. Your people may not have had a similar opportunity – so, without worrying them, make them aware of what future events might affect their financial situation. It's also worth doing what you can to educate them with workshops and training.

This can pay dividends, says Amanda. "The risk is, if you don't consider the human impact of change, you'll end up with reduced engagement and perhaps decreased productivity."

3. TAKE ADVANTAGE OF EXPERT KNOWLEDGE

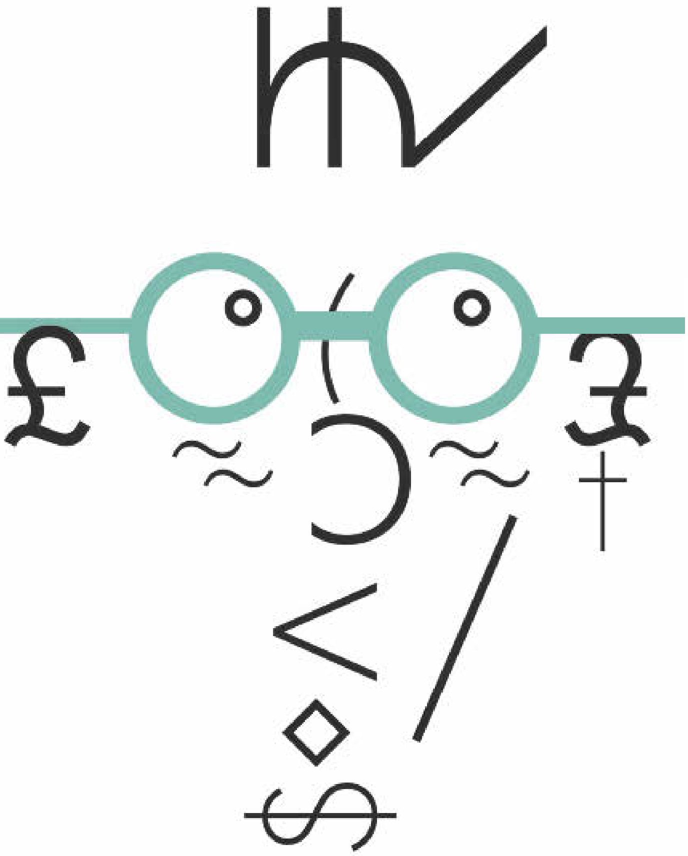
When change happens in a business, it's useful to lean on professional HR support, says Amanda – whether that's internal or by bringing in an external consultant with the right skills.

In a similar way, we have the expertise to help you with your financial plans. We can guide you through the process of managing changes in the best ways to secure your long-term financial goals. We may also be able to offer support and advice to your employees.

Every day’s a school day

Learning about money doesn’t stop when we reach adulthood. Here’s why we need to keep our financial education going all our lives

Financial education is a lifelong process for which schools can help provide a foundation



BY JEFF SALWAY

Some of our biggest life events involve making decisions about money. From leaving home and getting our first pay packet to preparing for retirement, every stage of our existence invariably has a financial dimension.

Yet many of us may not have the confidence, knowledge and tools we need to navigate a complex financial landscape. We're too often ill-equipped to make decisions, to the detriment of our financial and general wellbeing.

In the UK, financial education first became embedded in a school curriculum in 2007, in Northern Ireland. It took until 2014 for policymakers to do the same for secondary schools in England (financial education is still absent from the primary-school agenda). For those who left school before the changes, formal learning may not have covered money matters at all.

In a 2023 study by the Money and Pensions Service (MaPS), just 47% of children said that they received a "meaningful" financial education at home or in school[1]. The organisation estimates that around 5.4 million children lack the money skills they'll need as adults[2].

"Our research shows that, currently, only a third of children recall learning about money in school and finding it useful," says Jackie Spencer, Head of Money and Pensions Policy at MaPS. "Those who do receive a meaningful financial education are more likely to develop positive money skills in adulthood, such as being active savers and confident about managing their money."

But, no matter how much formal financial education we end up receiving, it's important the learning continues in adulthood, when you can go into greater depth. "The education system does a reasonable job of teaching the basics of personal finance," says James Daley, Managing Director of Fairer Finance, a consumer-focused consultancy and research agency. "But realistically, you can't teach children about the complexity of financial products – it's too abstract."

The time for people to learn about the intricacies of car insurance, for example, must be when they buy their first policy, he adds. "We need financial providers to play a bigger part in helping customers understand their products when they buy them – particularly for the first time."

Family values

Our first understanding about finances and how to deal with them comes from family. Research by Cambridge University concluded that much of our approach to money is established by the age of seven, through processes of observation and imitation[3]. We can get into basic money conversations

Illustrations: Fabrizio Festa

with children at a young age, as well as involving them in some of our financial choices, such as buying groceries.

However, this is not without its problems. For one thing, it places the onus on parents or caregivers, who may not have the capabilities themselves. There can also be inconsistencies around money within the family – for instance, grandparents who are generous with cash gifts, while the parents avoid giving the children money without conditions attached.

There's a socio-economic factor at play, too: children from advantaged socio-economic backgrounds were more likely to report that they had been taught skills such as working out change from shopping and saving money, according to research by UCL, conducted for St. James's Place[4].

In addition, as we grow up, we don't just learn money habits; we also absorb the emotions that tend to circle around financial issues, including worry and shame. As adults, many of us remain reluctant to talk about our situation or to question behaviours around money.

That silence can have serious consequences. These include emotional impacts, especially where staying quiet has allowed the problems to escalate. People behind on credit bills are nearly four times as likely to have experienced suicidal thoughts as someone who is up to date on payments, according to research by the Money and Mental Health Policy Institute (MMHPI)[5]. Suppressing emotions such as shame can also amplify stress, which can make it harder to make good decisions and also lead to physical health issues such as heart disease and stroke.

In addition, silence over money troubles can affect relationships and family life, further exacerbating the stress of the situation.

Creating confidence

"Adults in the UK generally aren't confident in managing or talking about money," says Joanna Foster, Head of Responsible Business Consultancy at SJP. "Outside of products such as ISAs or mortgages, the nuances of how to manage money – such as gifting, withdrawal charges on pensions and so on – are often not known about at all."

What's more, given how quickly the financial world changes, even those armed with a decent amount of knowledge can find themselves confused by their options. Those with low financial literacy and who don't have a financial adviser are at a distinct disadvantage.

This means there are big gaps to fill, both in terms of knowledge and access to financial education.

These days, social media helps to bridge some of those gaps. TikTok and Instagram have become important sources of information, particularly for young people. A 2023 Deloitte survey found a quarter of banking customers aged between 18 and 24 use social media for financial guidance, with a fifth making investments based on social-media recommendations, even though a third lacked confidence in their financial knowledge[6].

7 ways to keep improving your financial knowledge

In the world of personal finance, there's so much to learn, and rules and regulations are constantly changing. Educating yourself as much as possible and keeping abreast of events are highly valuable in the long run. There are some relatively easy ways to do this – here are some suggestions.

1 HAVE A BUDGET

Doing some straightforward budgeting will help you pay closer attention to your finances on a regular basis. This will put you into the habit of thinking about money, while helping you feel more confident and in control.

2 GO ONLINE

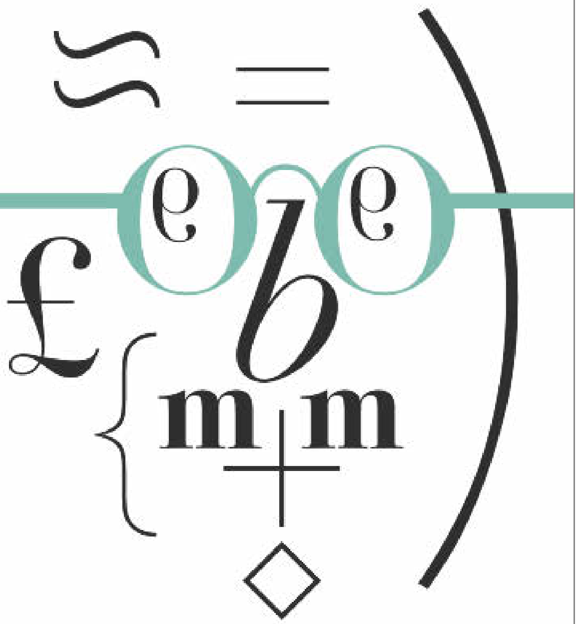
But be careful who you trust. Two particularly reliable sources of information are Martin Lewis's www.moneysavingexpert.com and the government's www.moneyhelper.org.uk. Both are jargon free and will help you learn about everything from insurance to ISAs. Plus, of course, the News and Insights section of www.sjp.co.uk has lots of helpful articles.

Panel words: James Lawrence

Find out more about SJP's financial-education programme for schools on page 4

Financial services companies (including SJP), trade bodies, charities and regulators also use social-media channels to reach younger audiences with messaging and education around money.

But with less-official sources, there are risks. While social media can make financial topics more accessible and engaging, many influencers are unqualified, while scams and unsuitable investments are increasingly widespread.



The Financial Conduct Authority recently took legal action against several influencers for promoting and recommending high-risk investments without being authorised to do so.

Advice from the experts

A financial adviser can play a key role in increasing understanding of specific money issues. If at least one individual has a financial adviser, the whole family can take advantage of the relationship.

"Bringing in other family members helps to normalise financial advice," says Hannah Coffey, SJP's Head of Vulnerability and Client Assistance. This is particularly important when it comes to subjects such as estate planning, where younger generations might be faced with issues they don't fully understand, such as Powers of Attorney.

There are glimpses of positive change when it comes to having financial discussions. More than nine in ten parents surveyed by Legal & General in 2023 said the cost-of-living crisis encouraged them to talk more openly with their children about money[7]. These discussions can help facilitate that ongoing financial education. Older family members can share their tips and experiences with younger generations. And, as more children take finance lessons in school, they can pass that knowledge onto their family. For example, they can involve their parents in their own budgeting and savings plans, such as putting money aside for a shopping trip.

Younger generations growing up as digital natives can introduce older family members to the money-management apps they find helpful, and potentially model the positive financial behaviours they develop through them.

Financial education is a lifelong process for which schools can help provide a foundation. The more we can talk about money in general, the better the financial future for ourselves and our loved ones.

Sources: 1, 2 Money and Pensions Service, 'UK children and young people's financial wellbeing survey: financial foundations', June 2023 (Based on a survey of 4,740 children aged 7-17) **3** Dr David Whitebread and Dr Sue Bingham (University of Cambridge), 'Habit formation and learning in young children', May 2013 **4** Professor John Jerrim et al (UCL), 'Socio-economic inequality in young people's financial capabilities', June 2021 **5** Money and Mental Health Policy Institute, 'Debts and despair', December 2023 (Based on a survey of 2,049 UK adults) **6** Deloitte, 'Young people turn to social media for financial guidance', October 2023 (Based on a survey of 2,507 18-24 year-olds) **7** Legal & General, 'Financial literacy: talking money matters with kids', September 2023 (Based on a survey of 2,000 UK parents)

3 WATCH AND LISTEN

There are some great radio and TV shows and podcasts on finance. These include BBC Radio 4's *Money Box*, ITV's *The Martin Lewis Money Show*, and podcasts *Financial Times' Money Clinic with Claer Barrett* and the BBC's *Money 101* (aimed at younger people).

4 TAKE A FREE COURSE

The Open University's OpenLearn website has several free courses about finances, including the Money Saving Expert Academy of Money (with Martin Lewis again!)

5 ASK YOUR BOSS

Many companies offer free sessions on personal finance, often with an emphasis on pensions. If yours doesn't, ask management if they'd consider setting one up.

6 SPEAK TO US

All SJP Partners have undergone rigorous training as financial advisers and are experts in their field. Part of their job involves explaining financial matters to you in clear terms. They also keep up to date with changes in rules and regulations, so they can make you aware of what may affect you.

7 KEEP READING

Finally, don't forget *The Investor*! By reading this magazine regularly, you're making an important contribution to your financial knowledge.

More for less

Contrary to what many people think, your pension can be taxed. Here's how it may happen and how to make the most of your tax-free allowances

During the 2024 General Election campaign, many politicians talked about "taxing pensioners". However, the State Pension and many other sources of retirement income are already subject to Income Tax. According to the Institute for Fiscal Studies, some 8.5 million over-65s (62%) currently pay Income Tax[1] – a number that has increased dramatically over the past few years, largely due to the freezing of personal tax allowances.

"It therefore makes sense to ensure your income in retirement is tax efficient, to help make your savings go as far as possible," says Claire Trott, Divisional Director of Retirement and Holistic Planning at St. James's Place.

Our chart on the right shows how you might consider doing this, based on receiving an annual income of £31,300 (which provides a "moderate" retirement standard for a single person, according to the Pensions and Lifetime Savings Association[2]).

By using a combination of ISA savings and a pension, alongside the full State Pension, and making the most of your tax-free personal allowance of £12,570, it's possible to achieve this income without paying any Income Tax. (Note that we've rounded some of the figures for simplicity.)

By taking your retirement income in a tax-efficient way like this, you could save a lot in tax every year, meaning your savings are likely to last longer.

This is just one example, and things can quickly get very complicated, so it's always best to seek expert advice from a financial adviser. "But as a general principle, starting to save into different vehicles such as an ISA as well as a pension can mean you won't be taxed on money you could be spending on yourself or saving for your future," says Claire. "The earlier you start, the easier it is to attain this 'all-asset' approach to retirement."

Speak to us to discuss the best way of achieving your target income in later life.

Image: Stocksy

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than you invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

Sources: 1 Institute for Fiscal Studies, 'Policy risks to the fiscal outlook', October 2023 **2** Pensions and Lifetime Savings Association, 'Retirement living standards', accessed September 2024

Total tax to pay
£0

Target annual income for a moderate lifestyle[2]: **£31,300**

Take advantage of tax-free income from your ISA

From ISA savings:
£18,730

Tax-free personal allowance: **£12,570**

Make full use of your personal allowance

From pension savings: £1,030*

Full State Pension

£11,540

(from age 67 after April 2028)

*Assuming this doesn't come from the 25% tax-free lump sum you can withdraw from your pension

Making the most of your tax allowances in retirement

A global balancing act

Image: Getty Images

BY DAVID PROSSER

Why do some stock markets rise when others fall? And what are the risks and opportunities this presents? Here's why successful investing always involves finding the right blend

There's a good reason why financial advisers stress the importance of focusing on the long term when you're investing in stocks and shares. While markets tend to grow over extended periods of time – decades or more – in the short term, they can be volatile. In other words, they can rise and fall by significant amounts over a brief period.

The experience of recent years in markets around the world underlines the point. The huge upheaval caused by unforeseen events, such as the COVID-19 pandemic or war in Ukraine, has impacted stock markets – but often in different ways. Ongoing challenges such as the escalating tensions between China and the West, and the rise of nationalism and populism, are disrupting different markets at different times and to different extents.

Stock-market performance therefore varies enormously. From the beginning of this year to mid-September, the S&P 500 Index in the USA has seen notable gains; by contrast, over the same period, Chinese shares have fallen. Even markets on the same continent can fare very differently. Shares in the German stock market fell slightly during that period, but the markets of the UK and Spain rose[1].

The importance of diversification

The good news is that it's possible to mitigate against such market volatility. With a well-diversified geographical spread of investments in your portfolio, you'll have some protection against the downsides and the opportunity to benefit from the upsides. When markets in one part of the world are struggling, you may have compensation from markets elsewhere that are doing better.

But trying to second-guess short-term stock-market movements is close to impossible. There are multiple factors at play when share prices rise or fall. The economic and political environment in each market is only one part of the story, while investor sentiment is also important. When investors are feeling confident about the future, the consensus may be that an individual share or market is fairly or cheaply priced; when investors are feeling more anxious, the same valuation may feel much too high.

All of this means that sensible investors do everything they can to avoid putting all their eggs in one basket. "It's so important to have a broad portfolio, because when markets move, they very often move quickly," says Peter McLoughlin, Head of Equity Research at Rowan Dartington, part of St. James's Place. "It's our job to focus on the fundamentals and take a view over a number of years ahead – that's how we manage risk effectively."

Balancing strategies

How, then, can a portfolio be effectively diversified? The first point to grasp is that managing risk isn't so much about holding many different investments. Instead, the way to reduce danger – and potentially take advantage of the upsides – is to think about how these investments fit together.

Investment professionals call this 'correlation': they look at data showing how two investments have tended to move in relation to one another in the past. After all, if you're invested in two different stock markets that tend to move up and down in tandem, you're not getting any diversification benefit. Instead, to get more balance in your portfolio, you need uncorrelated assets. The idea is that when the price of one asset is falling, you'll benefit from a rise in the value of other assets, rather than suffering falls there too.

In addition, how you feel about risk and your investment goals should play an important role in a diversification strategy. "A portfolio needs to match your attitude to risk and the amount of time you'd like to invest for," says Annabel Brodie-Smith, a Director of the Association of Investment Companies. "Younger investors with time on their side who are investing for the long term can choose a higher-risk portfolio, whereas someone coming up to retirement may have a lower tolerance for risk. Attitude to risk is personal and depends on your individual circumstances."

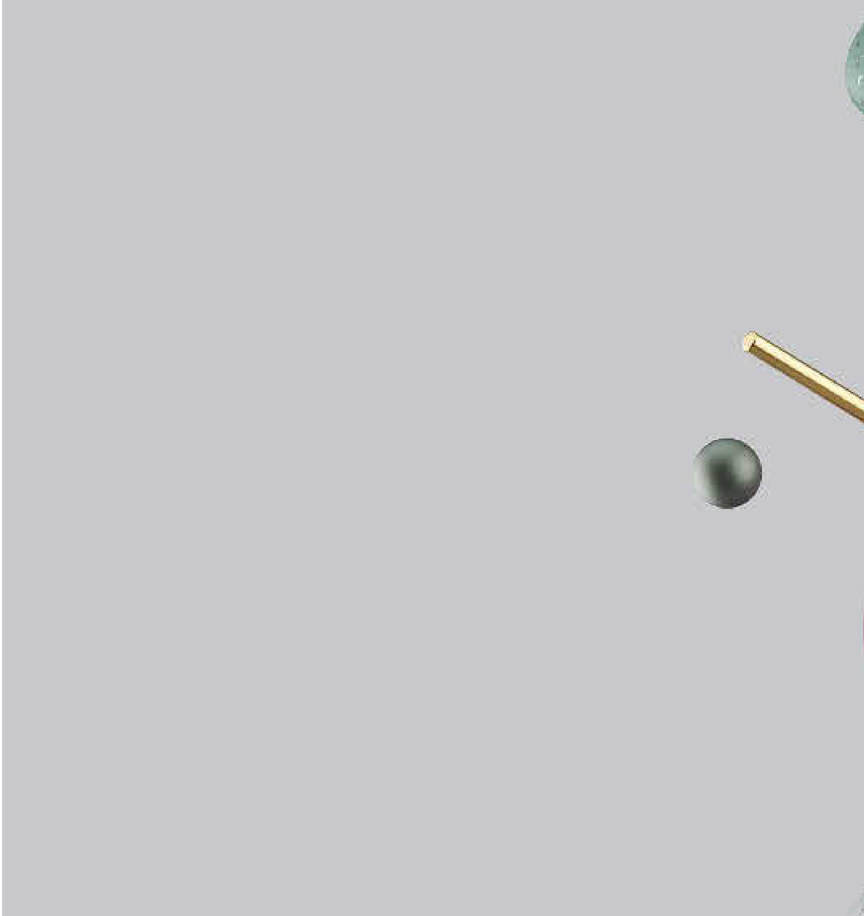
More cautious investors may want to hold a much smaller percentage of their assets in stock-market assets, or they may want to avoid riskier areas of the equities universe – very small companies, perhaps, or the stock markets of emerging economies, where volatility can often be more pronounced.

Equally, even investors willing to take on a higher level of risk over long-term time horizons, and reap the greater rewards that may bring, will want balance in their holdings. That may mean, for example, a mix of domestic and international stocks, as too many investors in the UK routinely put most or all of their money into UK-listed companies, warns Ben Yearsley, a Director at investment specialist Fairview Investing.

"It's natural to stick to home," he says. "But the UK accounts for only around 4% of the value of the global stock markets[2], and while we are good at some things here, other areas are under-represented. Take big tech – there isn't really a UK global champion in that sector."

Beyond geography

However, location diversification is only one consideration. Building a balanced portfolio also means having exposure to companies from different sectors of the market and holding companies at different stages of maturity, from smaller businesses through to blue-chip household names.



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When markets fall sharply, people often want to cut their losses when it would make more sense to hold on

◆

"The other way to diversify is via style," Ben says. At some stages of the stock-market cycle, he points out, investors will see outperformance from shares in growth companies, which have the potential to trade very strongly in the future. At other times, value shares, where investors are buying into the company at attractive prices, may do better. Meanwhile, defensive shares, which generally provide stable returns irrespective of market fluctuations, may be the stars in a tough economic climate.

Bear in mind, too, that diversification isn't a one-off exercise. Over time, your investments will fluctuate in value in different ways. This means your carefully constructed portfolio won't continue to reflect your initial intentions forever; rather, you'll end up with investments that are more weighted to areas of your portfolio that have performed more strongly.

For this reason, investors need to conduct periodic rebalancing exercises – say, once a year – to return their portfolios to the investment mix they were aiming for when they started out, assuming that's still

Image: Getty Images

appropriate. It may be, of course, that your investment goals or your attitude to risk have also changed.

That said, it's also important to remember that even well-diversified investment portfolios fall in value from time to time – during a prolonged bear market, say, or even a short-term financial crisis. Good diversification will help you smooth out volatility over time, but it isn't possible to eradicate risk altogether. If you're not in a position to ride out that volatility – perhaps because you may need to access your money within the next five to ten years or because you're not comfortable with the ups and downs – you should usually steer clear of stock-market investments.

Listen to the experts

With so many complexities and variables to deal with, many investors benefit from expert support with portfolio construction and diversification. Investing through professionally managed collective-investment vehicles can help, says Annabel. "An easy way to get exposure to a variety of countries and asset classes is via a fund, where a professional manager selects and manages a portfolio of investments on your behalf," she says.

That said, you also need to have a good mix of these funds, which is where a financial adviser can provide valuable support. "A good adviser can help you step back and take a breath," says Peter. "Our role is to help investors choose the best investments in areas that are most appropriate to their individual needs and objectives."

In practice, they will be able to help you choose funds offering exposure to as wide a variety of investments as possible – and to identify the specific funds in each area that offer the most attractive opportunities. The goal is to build a balanced portfolio that offers a risk-and-reward profile that is right for your specific circumstances. And that may look very different from someone else's ideal mix.

An adviser can also help you to remain patient, says Peter. "When markets fall sharply, people often panic – they want to cut their losses when it would make more sense to hold on and wait for a recovery that might come quickly," he says. "In fact, reacting to market news is almost never the best thing to do."

The bottom line? Stay focused on the long term – and take comfort from the balance that a well-diversified portfolio can provide.

Past performance is not an indicator of future performance.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

Sources: **1** Business Insider, 'Markets insider', data extracted on 20 September 2024 **2** MSCI, 'MSCI World Index', accessed September 2024

Vulnerable futures, secured

People with learning disabilities may never be able to manage their own affairs fully – a fact that causes their families untold stress and concern, particularly when it comes to planning for the future. Financial advice can offer a vital safeguard

BY DONNA FERGUSON

How will your death affect the people you love? For those who have children or siblings with disabilities, particularly learning disabilities, this question can be too frightening to contemplate.

According to the charity Mencap, there are around 1.5 million people with a learning disability in the UK, including 353,000 aged 17 or under[1]. Many will never be able to live independently or may always need some kind of extra support, often relying informally on their parents, sisters and brothers.

Many people with learning disabilities live into or past their 60s and so may be forced, at some point, to cope with the loss of family members who have cared for them throughout their lives.

Mencap has come across lots of families of people with learning disabilities who feel "terrified" about the future. "It's so, so difficult for parents to think about passing away before their children," says spokesperson Leanne Quirk. "Some children are fully dependent and it's unimaginable, their lives without mum and dad."

Considerations include covering the costs of treatment and care for their son or daughter with learning disabilities, perhaps indefinitely. Plus, there is the question of who will look after their child's welfare and make financial decisions on their behalf.

"If an inheritance is left outright to a person with a learning disability, without the provision of a trust, it can be really dangerous for them," warns Leanne. "If the person lacks capacity, they may not be able to manage a large sum of money – and if they receive means-tested benefits, those could be impacted too."

If a person you name in a Will is deemed not to have sufficient mental capacity to receive an inheritance, the courts will appoint a deputy to manage that person's affairs and have absolute financial control of their legacy. However, this deputy may not be the person you would have chosen.

Plus, appointing a deputy can be a long, costly and onerous bureaucratic process, potentially leaving the person with learning disabilities suffering unnecessary financial hardship in the meantime.

"It could take many months," says Rhiannon Gogh, St. James's Place Chartered Planner of the Year 2023, who specialises in financial planning for families with vulnerable dependants. She is also mother to a severely autistic, non-verbal son.

Rhiannon says that many clients come to her with no idea that bestowing an inheritance on a person with learning disabilities via a conventional Will can cause them huge financial difficulties. "There's a lack of awareness about the problems that can occur."

Other clients are having sleepless nights, worrying about whether they will outlive their relative with learning disabilities and what the future will hold if they don't. "It can feel really overwhelming," says Hannah Coffey, SJP's Head of Vulnerability and Client Assistance. "A financial adviser can break things down for you into small, easy steps – and immediately, that takes a huge weight off your shoulders."

Illustration: Stephen Cheetham

Make a Will and create a trust

"The most practical tool that a family with a child [with learning disabilities] can have is a Will, with a trust that sits in it," says Rhiannon, who has written a book, *Planning with Love: A Guide to Wills and Trusts for Parents of Children with Special Needs*.

She says that creating a trust to receive the inheritance and making the trust the beneficiary of your Will – as well as the beneficiary of any pensions, life insurance and death-in-service benefits your loved one may be eligible for on your death – is the best way to protect that child and their legacy. "It's far and away the most powerful thing a family can do."

Creating a trust and appointing trustees to manage it ensures that your relative with learning disabilities benefits from the money and assets you have left them. But it removes the burden on them to manage their own financial affairs, protecting them from abuse. Trustees could include any other family members or friends, as well as legal professionals.

"Over the years, there have been some really sad stories where, after a person who has a learning disability has been left a large sum outright, long-lost cousins have suddenly appeared from here, there and everywhere," Leanne says.

The latest figures from the Office for National Statistics show that disabled people in the UK were 1.5 times more likely to fall victim to certain types of crime, such as fraud, theft and computer misuse, than those who are not disabled[2].

In one case Mencap came across, a grieving person with learning disabilities was persuaded to marry a "friend", only to lose a large amount of their inheritance soon afterwards in the subsequent divorce. "That's the kind of situation that people can find themselves in if the right provisions aren't put in place," Leanne says.

Means-tested benefits

Another advantage of passing assets on to a loved one via a trust is that it won't impact any means-tested state benefits that person receives, such as Universal Credit.

Without this important protection, there have been 'crisis' cases where, according to Mencap, individuals with learning disabilities have lost the state support they were previously eligible for after inheriting assets on the death of their parents. This leaves them to pay privately for their own care, meaning their money is quickly used up. And when the money runs out, their parents are no longer there to help them regain access to the state support they need, leaving them ultimately far worse off as a result of the inheritance.

Letter of wishes

When you write your Will and set up your trust, it's a good idea to include a letter of wishes.

"The letter of wishes is a really great guidance document for trustees that outlines how that money is to be used for the person with a learning disability," Leanne says. "It can be as simple or as lengthy as the family wants."

> **The most practical tool that a family with a child with learning disabilities can have is a Will, with a trust that sits in it**

A carer's plan, detailing how you would like your loved one to be cared for and the professionals who should be involved in their care, can also be included, says Rhiannon. "It's a private letter to your trustees that says: 'This is what I want you to bear in mind. This is what I want for my child. This is where I think they should live and who they should live with, this is what is important to them, and this is what makes them happy.'"

Although trustees are not legally obliged to take account of the letter of wishes, morally, they are expected to do so, Leanne explains.

It's important that the letter of wishes is clear and does not contradict your Will. Visit Mencap's website (www.mencap.org.uk) for a downloadable guide to writing a letter of wishes.

Common misconceptions and mistakes

A common misconception that some of Rhiannon's clients have is that a trust can be set up after their death. "You have got to do that planning in your lifetime," Rhiannon warns. "It's not something that can be pieced together after the event."

This is particularly important for any extended-family members who might leave something to a beneficiary with a learning disability. Once the individual has inherited that asset, it cannot be put into a trust for their own benefit.

"That's seen as self-deprivation of assets, so it would no longer be ringfenced from means-tested benefits," says David Raeburn, Director of Mencap Trust Company, a not-for-profit subsidiary of the charity that sets up and manages trusts for people with learning disabilities.

Another common mistake parents make is to leave their assets to their other children, or another trusted person, with the intention that they will oversee and

Types of trust

There are two main types of trust that families of people with learning disabilities usually choose: a discretionary trust and a disabled person's trust.

Rhiannon explains: "The discretionary trust is more flexible, generally. So, for example, it could also benefit other siblings, and it can be totally down to trustee discretion who gets what.

"With a disabled person's trust, the primary beneficiary is the disabled person. If it meets some complex eligibility criteria, it qualifies for favourable Inheritance Tax, Income Tax and Capital Gains Tax treatment."

Seek financial advice before deciding on the best type of trust for you, as factors including the value of the inheritance and the type of assets should all be considered.

pay for the care of the child with learning disabilities. "That comes with its own set of risks," says David.

A previously loving relationship may become strained if one sibling is suddenly responsible for telling their brother or sister with learning disabilities yes or no in response to every financial decision they wish to make for themselves. "We sometimes see those relationships fraying," says David.

There are other risks, too. The person who is trusted with the money could get scammed, or get divorced and inadvertently lose the inheritance. There is also no guarantee this individual will be able to care for the person with learning disabilities all their life.

By contrast, David points out, a trust company is there for the long term, with all the know-how required to set up and run your loved one's trust. Appointing a professional trustee means they can take on the onerous legal and financial obligations or support other trustees such as family members.

"It's a huge responsibility, being a trustee, so the input of a professional can be helpful," says Rhiannon.

David hopes that more families will become aware of the advantages of setting up trusts for their relatives with learning disabilities in the future. "Even if it's a relatively modest estate, if you put a trust in place to protect that money, it can help improve the quality of your loved one's life," he says.

Will writing involves referral to a service that is separate and distinct to those offered by St. James's Place. Wills and trusts are not regulated by the Financial Conduct Authority.

Sources: 1 Mencap, 'How common is learning disability?', accessed September 2024 **2** Office for National Statistics, 'Crime in England and Wales, victim characteristics: year ending March 2023', March 2024

5-MINUTE EXPLAINER

Golden years, (guaranteed)

BY LAURA MILLER

With interest rates remaining higher, annuities are back in fashion. Our guide breaks down what you need to know

What are we talking about?
Annuities. They're a way of assuring your income in retirement. You buy an annuity from an annuity provider using some (or all) of your pension pot – so, essentially, you're swapping your retirement fund for a set income. Once you've purchased your annuity, you'll get a guaranteed income for the rest of your life, or for a set period (if you buy a fixed-term annuity), regardless of the state of the economy or the financial markets.

Annuities – I haven't heard that word for a while.
Well, throughout the recent period of very low interest rates, annuities didn't look very attractive. But as interest rates have risen, they're becoming popular again: figures from the Association of British Insurers show that annuity sales were up 46% in 2023[1]. Once you've bought an annuity, any changes in interest rates will have no effect on how much income you receive.

Sounds appealing!
There are lots of benefits – not least the peace of mind. There are different options to consider, and the best one for you will depend on your individual circumstances. Annuities don't have to be an alternative to drawing down an income from your pension pot, either. You could use some of your pension to purchase an annuity and keep some of it invested, giving you a balance between a guaranteed income and the chance to keep your pot growing.

I see. What about inflation: will that affect my income payments?
Inflation linking is one option you can choose, yes. These are called escalating annuities. One thing to bear in mind – and this is where it's crucial to take professional advice – is that you will receive a lower starting income with an escalating annuity compared to other types. An adviser can calculate if an escalating annuity is worth it.

What about my other half? Can we get a joint annuity?
Yes, but a joint life annuity is more expensive than a single life annuity. That's because the annuity firm is essentially underwriting two lives, which is more complicated than for one person, so they reduce the initial income you'd receive.

And if I die, will my annuity income pass to my spouse, like my pension?
It depends on how you set it up (and once you've set it up, there's no changing it). If you buy your annuity on a single basis, the payments will stop on your death. Alternatively, you could include death benefits at the outset so that after you die, your spouse or partner receives the income.

What if I don't live very long after I buy it?
Good question! You can include a guarantee period on an annuity. Say you take out an annuity for life with a guarantee period of ten years, but you die after the first year. The annuity will continue to pay out to your designated beneficiary – often a family member, but whomever you choose, really – for the remaining nine years. Guarantee periods can be as long as 30 or even 40 years.

Image: Eon Productions/Getty Images

Higher interest rates have increased the appeal of annuities

Will my medical conditions affect my annuity rate?
They could work in your favour. Anyone shopping for an annuity should first see if they qualify for an enhanced annuity, where insurers look at every aspect of your health and lifestyle before offering you an income rate. If you're not expected to live as long (because of a medical condition), the amount of annuity income you get could be higher. Buying an annuity is one of the times when it's important to be open about pre-existing conditions.

And do I have to go with my current pension provider?
Absolutely not – shop around for the right rate. It's wise to speak to an adviser, who will be able to look at the best options on the market for you.

And how do I know if an annuity is right for me?
Think about your attitude to risk. How much do you want to entrust your retirement income to financial markets? Your views on this may change as you age, so have regular chats with a financial adviser. It might be that you want more flexibility as a younger retiree – when it makes sense to stay invested and draw down. But as you get older and are doing less, you may want more security, so an annuity might look attractive.

The value of an investment with St. James's Place is directly linked to the performance of the funds selected and may go down as well as up. You may get back less than you invested.

'Income drawdown' will reduce the size of your pension fund and the investment growth may not be sufficient to maintain the level of income you wish to draw. If you withdraw money at a rate greater than the growth achieved by your investments, your remaining fund will reduce in value.

Source: 1 Association of British Insurers, '2023 sets new post-pension freedoms record for annuity sales', February 2024

After the hype

BY JAMES LAWRENCE

Recently, some investors have pulled away from the much-vaunted concept of 'ESG investing' – but is this masking the genuine benefits that companies see by doing good? Our panel of experts share their views

In 2018, Larry Fink, Chief Executive of investment giant BlackRock, wrote in his annual letter to the world's leading CEOs: "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."[1]

This letter had a massive impact on both the business world and investment markets. It catalysed the burgeoning notion that a company's value should be measured not purely by profit, as had been the prevailing orthodoxy in previous decades, but also by environmental, social and governance (ESG) factors. In other words, in order for a company to do well, it needs to do good.

As a consequence, there was a great deal of hype surrounding the concept of responsible investing, and a vast amount of money has been poured into stocks deemed to have positive ESG ratings.

But now, in the opinion of many, the ESG "bubble" may be bursting. In January, global-funds network Calastone reported that ESG equity funds shed $10.2 billion over the course of 2023[2]. This contrasts with an ESG boom over the three previous years, which saw $51.2 billion of inflows (six times more than for equity funds without specific ESG commitments). The "backlash", the report says, "reflects accusations of greenwashing and an increasing realisation that ESG is simply too vague to meet investor concerns".

However, does this negativity around certain aspects of ESG investing tell the full story? Or is the case for ESG more complex and is it possible to find strong performance in companies that have a net positive effect on our world?

What's more, has the hype and subsequent pull-back masked the genuine benefits of what actually underpins the ethos of ESG?

Over the page, three thought leaders explore these questions and provide insights for investors.

Sources: 1 BlackRock, 'A sense of purpose: Larry Fink's 2018 letter to CEOs', accessed September 2024
2 Calastone, 'Global fund flows report', January 2024

Alex Edmans

Professor of Finance, London Business School

OVER A PERIOD OF MANY YEARS, ESG investing will have some good times and some bad times, just like any investment style. Equally, small-stock investing will sometimes outperform; sometimes, it will underperform. Sometimes, value investing does better; other times, it'll be growth investing. Different regions of the world outperform others at different times, and so on. Therefore, above all, it's important not to have a knee-jerk reaction just because certain stocks have done poorly over a couple of years.

There's also the problem that people tend to treat ESG as one huge umbrella, whereas it actually comprises a lot of different things. Saying ESG always works, or never works, is like saying food is always good – which, of course, is nonsense, as some food is healthy and some food is not. So instead of treating ESG as a homogenous concept, we need to look at individual aspects of ESG. Some ESG criteria will lead to successful investments at certain times, while others may not.

For example, my research has shown that high levels of employee satisfaction in companies is linked to strong performance. Also, companies with high customer satisfaction tend to outperform others over a long period of time. But that leads to a key question: is customer satisfaction ESG or not? You could argue that treating customers well is just good business and it doesn't need to be considered as an ESG factor.

I believe, therefore, that we should forget about how we define ESG. All my research has led me to the conclusion that, quite simply, great companies do well. They think long term: they invest in stakeholders such as customers, employees and the environment, but they also invest in capital expenditure, research and development, and brand. Rather than worrying about whether or not an organisation ticks particular ESG boxes, I want to put my money into a company that's fit for the future.

Stephanie Niven

Co-Portfolio Manager of Global Sustainable Equity Strategy, Ninety One

IN MY OPINION, THERE HAVE BEEN two previous waves of ESG investing. The first was about exclusions: don't buy tobacco, don't buy fossil fuels, don't buy alcohol, and so on. The second wave was about metrics and ESG 'scores' – so very data focused and trying to assign companies 'good' or 'bad' labels.

However, focusing purely on specific ESG factors can miss the point, particularly when it comes to long-term value creation. Instead, we must ask: what are companies doing that means you can be confident that, over time, they will deliver greater value to all? It's about buying companies whose products and services tackle sustainability challenges and are delivered in a sustainable way.

We believe this style of investing can also create long-term financial gains as well as genuine sustainability impact.

It's true that many of these approaches have struggled against a backdrop of rising rates and geopolitics driving the sustainable agenda. However, that has also created a lot of investment opportunities with attractive valuations, as we believe the long-term growth dynamics are still in place. For example, we still believe in the path to net zero. We believe that the USA's Inflation Reduction Act (which encourages investment in clean energy) will hold and that there will be massive investments in decarbonisation technologies.

It's also important to consider the rest of the ESG space beyond environmental aspects – areas such as financial inclusion, healthcare impact, access to education and digital inclusion. We're still seeing good growth in these sectors and attractive valuations.

In this context, we have an investment approach that homes in on where ESG and sustainability factors can lead a company to outperformance. It's about building portfolios where your sustainability insights become your investment edge – and that becomes a credible, broad opportunity to invest across regions, sectors and geographies.

• *Ninety One is one of St. James's Place's global network of fund managers.*

Joe Wiggins

Director of Investment Research, St. James's Place

BACK IN JANUARY 2022, I wrote this about the fervour for ESG investing that existed at the time: "What happens when stocks and funds with positive ESG characteristics start to underperform? Investors are likely to move on to the next outperforming trend, particularly as we told them to focus on the performance prospects."

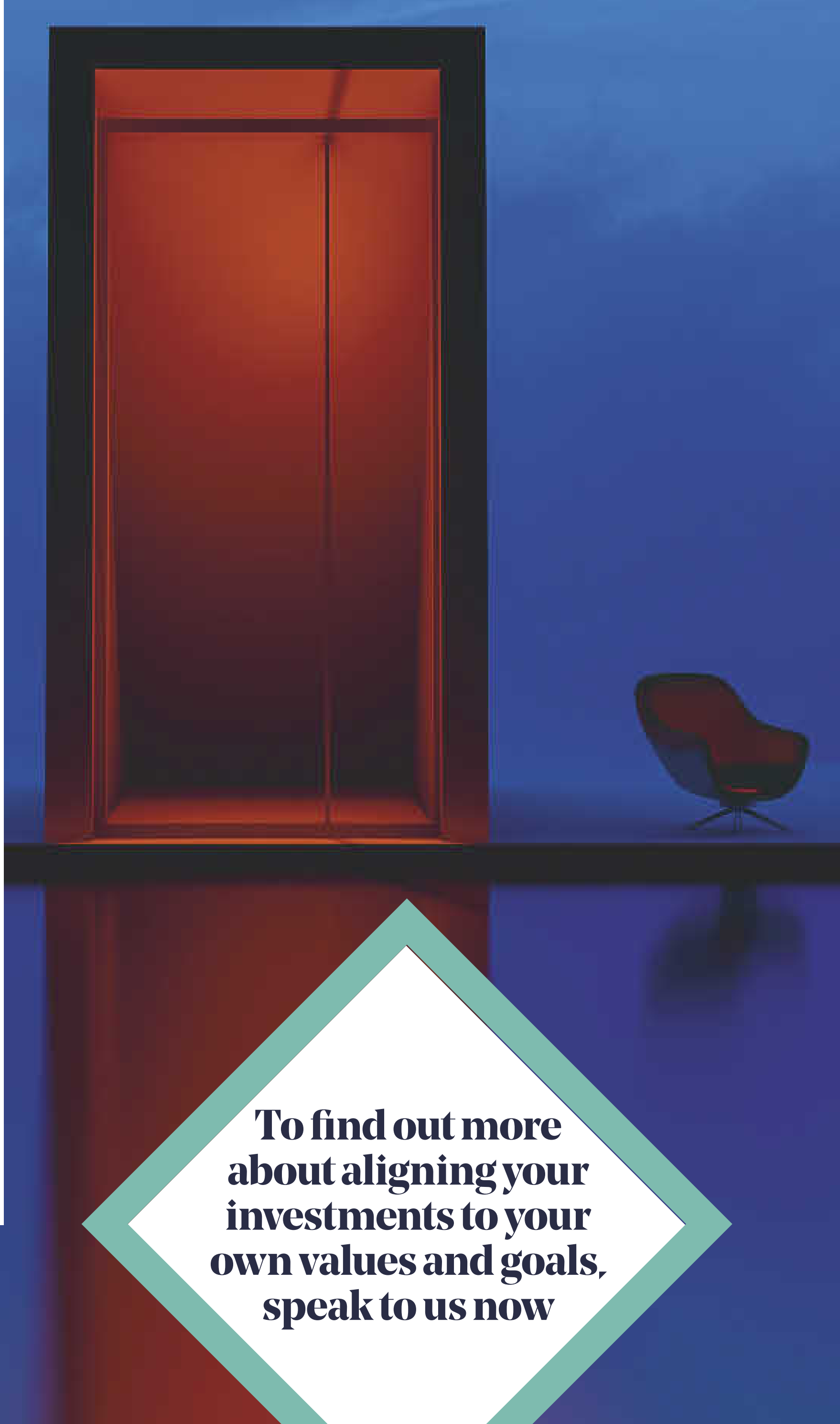
That this scenario has unfolded in the subsequent two-and-a-half years does not reflect some remarkable prescience on my part. It is just the grimly inevitable denouement that occurs after a compelling story is combined with unsustainable performance and ferocious asset-manager marketing to create unrealistic investor expectations. When the industry has its next 'big idea', investor disappointment often follows.

But it's important to bear in mind that this has nothing to do with ESG as a concept. There are plenty of positive and worthwhile elements attached to ESG investing, but unfortunately many of them were forgotten because of the zeal that came to define it. Therefore, the most important question is not about the validity of ESG, but rather why such cycles of investor obsession occur.

Many of the tenets of ESG continue to bring welcome attention to important and neglected areas, and it's perfectly reasonable for an investor to hold an allocation of stocks with those kinds of characteristics as part of a diversified investment portfolio. The problem is when these ideas are taken to extremes. That's when they tend to become ubiquitous, impervious to challenge and saddled with wildly irrational expectations. To make matters worse, any genuine underlying benefits from the initial idea tend to get lost amidst the excitement and inevitable comedown.

The simple truth is that the asset-management industry needs big ideas more than investors do. All most of us need is small, simple ideas, consistently applied – and that's true whether we're talking about ESG or any other class of assets.

The value of an investment with St. James's Place will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.



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When the industry has its next 'big idea', investor disappointment often follows

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To find out more about aligning your investments to your own values and goals, speak to us now

Things I`d known...

The value of understanding your position

St. James`s Place client Blanche Sainsbury tells us how her adviser gave her and husband Mark the confidence to step back from their stressful careers

When Mark and I were younger, we worked very hard, and our lives went by so quickly. We couldn't take a lot of holidays. We had to entertain clients and work long hours, and at times it was stressful. The more stressful it got, the unhealthier we became. It took its toll on us.

We were on that hamster wheel constantly. I wasn't sleeping, so I was exhausted during the day, but I was still working so hard. By the time we'd calculated the money we would be prepared to pay someone to help us cope with our workload, we found ourselves wondering: why are we working?

But retirement initially felt like a pipe dream. I didn't know what the benefits of my [pension] contributions were, because nobody had ever properly explained it to me. It was just money that came out of my wages each month. For more than 30 years, I paid into a pension scheme that I didn't really understand.

Through various local events, we met Danni [a St. James's Place Partner]. I liked her, and I could see that other people liked her, too. The conversation started because Mark suggested I speak to her about my pension, and it went from there.

Danni asked: "What do you want your life to look like when you're in your 60s?" We'd never had a pension adviser ask us that before – it was always: "How much do you want to put in your pension?"

Our priorities were to travel, to leave a legacy for our children and to stay in our home. All my life, I'd assumed our house would be our pension and we would downsize to have enough money to live on. But it is one of our greatest loves – we designed it and built it. We would never have wanted to sell it.

Danni helped us understand what our pensions were worth. Mark had five different schemes, including one worth £45,000 that he didn't know he had. Danni found it just by asking a few questions. She also found that I had a pot worth £60,000. If it wasn't for her, we wouldn't have known that money existed. Having some control over it all was key to us. Once we knew how much we had, Danni worked out a plan that would allow us the lifestyle we wanted without needing to downsize.

One of the best pieces of advice she gave us was to focus on our health, not just our finances. She said she could help us plan financially for the future, but we have to plan our health so we can enjoy that future. Now that we're semi-retired, we have time to take care of ourselves physically. I might do two training sessions in a day, and Mark takes our dogs on a seven-mile walk every morning. We feel physically tired now when we go to bed, not mentally tired, which is so much better.

We've worked hard to put all this money into a pension, and now that pension is working hard to give us the life we imagined. It's wonderful.

Hear more from Blanche and Mark at sjp.co.uk/investor120

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As told to Donna Ferguson. Image: Nick David

To better understand your pension options, get in touch today