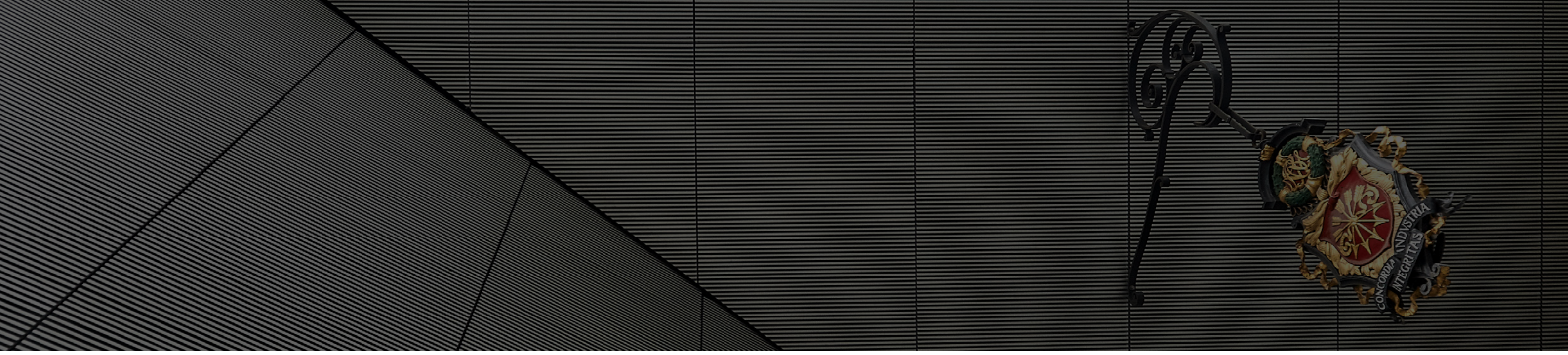
Rothschild & Co Wealth Management Winter Investment Briefing

28 January 2021 – Transcript

Rothschild & Co
Wealth Management



Sophie Kilvert (SK)

Thanks very much Rob. What a year 2020 was. There are points when we look back at that period, just under a year ago, when things felt pretty catastrophic. Unsurprisingly, stock markets reacted accordingly. Economies really felt like they were on the brink of collapse as they were shut down, and we were all told to stay at home to stop the spread of the virus. Let's take a look back.

[video]

SK

Time in video – 01:33

Now, we know that through speaking to you, our clients, over this period, that it was unsettling. And I think a lot of people still have questions about what went on and what impact it might have in the future. So today, I am delighted to be joined by Kevin Gardiner, our Global Investment Strategist, and Rupen Patel, one of our Portfolio Managers, and together we are going to unpick some of the headlines over the last year and the look at the impact they might still have on our future.

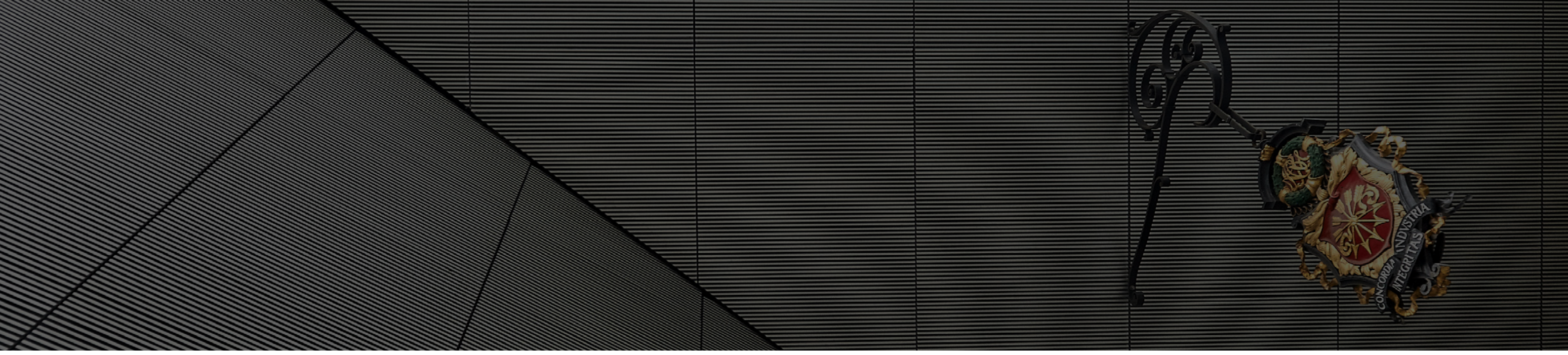
So, Kevin, when we look back into the depths of that period last year, to you, did it feel as though the world economy was collapsing?

Kevin Gardiner (KG)

Well Sophie, it certainly did, because for a while it was. We saw the deepest, fastest decline in global economic activity that any of us had ever seen. And in many other ways it was a record-breaking episode. It was daunting, it was traumatic, and if anyone tells you that they weren't unsettled, they're probably lying. But, with that said, one of the points we tried to keep in mind all the way through from the offset is that the global economy and markets hadn't suddenly broken, what we were seeing instead was a public health emergency with horrible economic consequences, not first and foremost an economic event. And while we were taking that view, the authorities were also injecting lots of fiscal and monetary support, lots of public spending, loan guarantees, wage and job subsidies, low interest rates, lots of liquidity was flowing into markets. And we thought that that meant was that, when it was safe to, we would be able, collectively, to reopen economies, and there was no reason why they shouldn't start to rebound, and that's exactly what they did start to do, very strongly in the second half of the year. So much so that China was very quickly back to, and beyond, its pre-crisis levels of economic activity.

Even in the US were growing pretty healthily right through to the end of the year and is not now a million miles from also regaining its growth. Now of course, there was a second wave of contagion and it's been a case of two-steps-forward-one-step-back but there has been some progress and some recovery already underway.

Finally, the wider mood was pretty grim. And while today we are here talking today about only the narrow economic and financial impact, the human impact of the virus was of course horrible. But that public mood, in that one key respect, is business as usual, that public mood tended to look backwards not forwards. And the classic illustration from me, from that forest of headlines, my favourite is the one that says that "The global economy is collapsing". That dates from mid-April, and in mid-April the economy had already fallen and was actually bottoming out, getting ready to rebound. So with the best will in the world, sometimes public commentary on the episode was looking in the wrong direction, it was looking backwards when perhaps it should have been looking forwards.



SK

Time in video – 04:50

And we’ll touch on that point later as well Kevin. But Rupen, I think in moments like that as we saw in the first quarter of last year, human nature generally in times of uncertainty is to panic. But in fact, our clients are expecting us to do the exact opposite of that. So, how do you and the other portfolio managers approach times like that?

Rupen Patel (RP)

Well, we tend to not to talk too much about the emotional aspect of the portfolio but it’s very important, particularly in times of stress. So, how do we go around and try to stop the panic?

I think the first point is that we were prepared. Now, we’re not saying here that we forecasted COVID and the impact it had on markets. We didn’t, like many other competitors, but we were prepared for some kind of event that could impact equity markets at some point. We didn’t know when and we didn’t know what it would be, but being prepared is part of what we’re trying to do. I think it also helps that many of us on the team have been through previous financial crises. So, we’ve seen the crisis of ’08 and ’09, we’ve gone through the dotcom boom and bust, and I think in Kevin’s case, he’d seen the 1973 and 1974 oil crisis.

KG

Careful Rupen!

RP

Sorry Kevin!

So, we have been through this before as a team. And so, being prepared for whatever eventuality is thrown at us is part of the overall investment approach.

Now it’s all well and good being prepared, but you’ve also got to act. Now I think one of the key considerations within the team is that there are four portfolio managers that are collectively sharing that burden and making those decisions. And that really helped, particularly in March and April, when we’re all stuck at home, away from each other and away from the environment of the office. And it also helps that the four of us have worked together for between 12 years and 20 years, so we know each other pretty well by now. And we know each other’s pros and cons, as I like to say, and that team approach really helped. And I think the other key factor here in trying to avoid panicking, when the screen is all red, is really knowing what we own, and knowing it well. So as the headlines are hitting and our businesses are being impacted at different extents, we can really focus on what matters for those businesses, and gather the relevant information that the team focused on and then decide what to do for each and every case. And so, we can really go beyond the headlines that we’re seeing at that particular point, and go through every individual investment that we hold and decide the next course of action.

Maybe a good example there is a business that we own, which is called Ashtead. This is the equipment rental company, it’s actually domiciled here in the UK and is part of the FTSE 100, but its main business is in the US, that’s the focus of its overall business. Now, we got to know this business mostly in 2019 and bought the shares initially, right at the back of 2019. One of the things we looked at when we thought about first investing in this business is its history.

And if you go back to the financial crisis, equipment rental companies had a torrid time. A lot of these types of businesses were over-levered in too much debt, they went into the crisis with that kind of set up, and so as revenues dried up, as the economies stopped, a number of these businesses went bust, or we certainly saw their share prices decline significantly.

So, the backdrop to these types of businesses is that they didn't have a great '08 / '09. Now the work we did on these businesses before we invested in Ashtead in particular, was really to try and understand how much better these businesses could perform. There had been significant consolidations since that particular period in time and the overall players in the industry are more rational. So, we think that the equipment rental business going into COVID was in far better shape than it was in '09. That didn't mean that our work stopped at that point As COVID hit, we talked to the [Ashtead] management again, we talked to experts, really just to make sure that things were going as we kind of expected, and that the business would be robust in the short term and actually continue to thrive in the long term. So, quite a lot of work done pre-hand, when we first invested, and then as COVID was hitting just to make sure everything was going as expected, or as good as it could be given the situation. Now, what that really leads us to is to have the conviction, that we know our stocks well, that we see the share prices declining significantly because of those headlines. So, as some of our clients may recall, the share prices were hitting around £28 in January of last year. It fell to £17 and that's when we stepped in, so we bought more shares at £17. It did fall further which just shows you the panic that happened, but today, they are back up at £38 so they are at about 120% higher than when we bought them again. I mean broadly, if you have the ability not to panic, stay fairly calm, and then if you can act, you can get some good opportunities when those headlines are pretty negative. And, in our clients' portfolios, we're quite glad to say, benefitted from that in 2020. And hopefully in 2021 and beyond.

SK

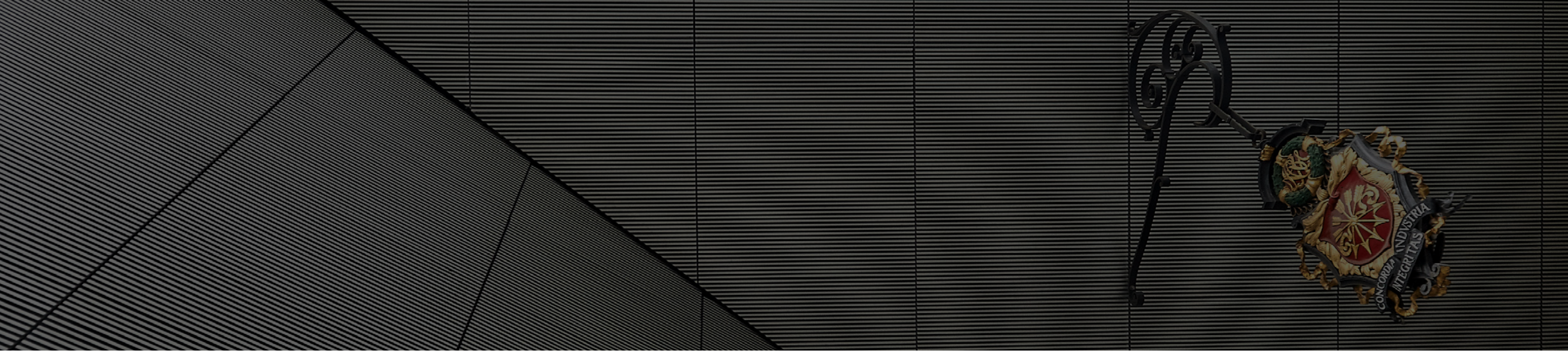
Time in video – 10:50

That's really useful to hear that live example, thanks Rupen. Now, coming back to something Kevin mentioned earlier about the shape of the economic recovery, be that the alphabet soup of v-shaped, l-shaped, or u-shaped, and actually what stock markets have been doing. Now Kevin, you've often talked to us about markets "looking across the valley", looking past the present and into the future, and as you say that has been quite accurate this year, but have they looked too far now? Is there too much of a disconnect between the stock prices and the underlying economies?

KG

Well maybe they have moved a little further and faster even than we might've anticipated, there has been a really striking v-shaped bounce for stock markets in particular. To some extent, we understand why it might be doing this, because it's in the markets' nature to anticipate recovery, to look forwards rather than backwards, to look across the valley as I keep saying I'm afraid. And they've been encouraged to that this time around through really low interest rates and that shifts the attention of markets even further into the future than would otherwise be the case. And for some sectors in particular, its pushed them a very long way and I'm thinking especially about that group of sectors and stocks we categorise as "growth sectors" and "growth investments". Names in those sectors such as technology, social media and the more futuristic ventures, these things have risen a long way. And I think in some cases, investors could be overlooking some of the residual weaknesses in their business plans. For example, in the social media sector, we know that they have been reliant on free information and they have been becoming increasingly dominant in the marketplace. Now, the regulators globally are starting to look at this and the markets may have taken their eye off that. In aggregate two, it's possible that markets maybe taking those low, long-term interest rates a little bit too much for granted because our reading of the economy globally is that it can rebound very quickly, very briskly, and if it does so, we may yet find ourselves seeing a little bit more inflation at some stage and if that's the case, some of those low interest rates are going to have to be reversed and I'm not sure if the market collectively has been thinking about that.

But I must say that the bulk of the rally has had substance, it's not been a big surprise. Perhaps there have been some signs in some sectors in recent weeks that there has been a little bit of froth in some areas.



SK

Time in video – 13:38

And Rupen, is that what you're seeing in the portfolios as well? Would you say that there is froth in our portfolios?

RP

Yeah, I think what Kevin says really does resonate with what we're thinking but it's important to clarify that we don't invest in the "broad stock market". Instead, we only own shares of certain businesses for our clients. So, we're selective, and our selection process includes thinking hard about a price that we're willing to pay for businesses that we wish to own, or the price being offered to us by the market and businesses themselves. So, we're looking for competitively advantaged businesses with good management and being offered at a reasonable price. Now, when we look at our portfolio, we could certainly argue that after a year where some our funds and shares in the US are up over 70%, and our Chinese-focused manager Vanda is up over 50%, that some of their holdings which are in that technology space may be on stretched valuation. And also we'll acknowledge that names such as Moody's and Deere, they've also had a very good run, not just last year but for several years. So there are certainly some areas of our portfolio that are a little bit more richly valued but I wouldn't put them in that froth category. But, when we look at that group as a collective, we did take some action last year and we continue to, where we're just trimming those positions down. We have taken some of those profits in those who have had very good runs where you could argue that things are a little more stretched.

Now I would say though that on the other side, there are certainly areas of the market which we think have been overlooked and that there are attractive investment opportunities. And the UK market is one of those, if you think global allocators have kind of avoided the UK for many years and think it might be iffy post-Brexit. And when we look through, there are some good businesses here in the UK, we certainly think so, run by good management teams, and today we think they are offered at quite attractive prices. And it's not just us who think that, one of our fund managers, Landsdowne, we invested in their fund back in March (quite good timing fortuitously), they now have got more than 50% of their portfolio in UK-listed stocks. So, they also think there are some good opportunities to be had.

So, I think just looking broadly at stock markets and saying they are in bubble territory, or frothy, doesn't really inform the thinking or commentary on our portfolio. And I would just say if we could look back and think of the dotcom boom and bust at that particular time, you had one large sector, maybe two or three sectors merged together, we always thought these were quite overvalued and drove the market higher and then lower, but there a big portion of that market that at that particular time, very cheap, think of consumer staples, and even over the next few years, Unilever back at that time doubled its share price. So, there are always opportunities, even when we make a broad stock market assessment.

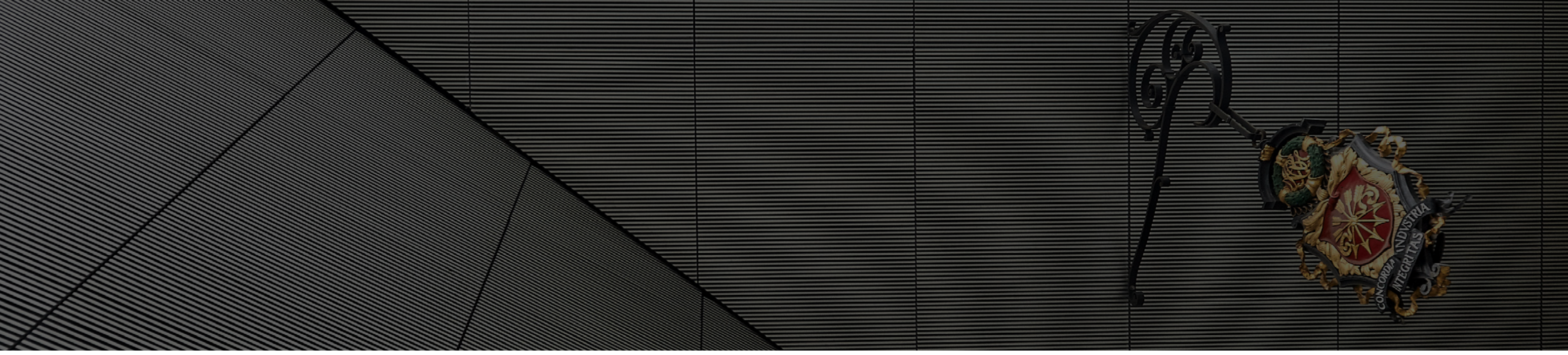
SK

Time in video – 16:58

That's useful, thanks Rupen. And we'll be touching on that dreaded "B-word", Brexit, slightly later on. But in the meantime, I just want to come back to Kevin, you mentioned inflation. Now, we've kindly been sent a lot of questions from clients for this presentation and one of the themes, as it quite often is, is that of inflation. So, Kevin, what do you think of the inflation risk in the years ahead?

KG

Well, taking the big picture view, there is one big question I guess and that is; are economies, going forward, going to be too weak or too strong? Is there going to be too little demand, or too much? And we think it's the latter. We think economies may end up, it sounds a bit strange to be saying this today, but we think economies may end up a little bit too strong for comfort, with too much demand in them rather than too little.



And of the problems, that's not a bad one to be having perhaps because it means that the problem, if it materialises, almost of excess. And it's likely to materialise in the context of labour markets, which I think hopefully will be back at full employment again. It could be a nicer problem to be having but it's still something as investors we have to be focused on because when we look at all that government debt, and those low interest rates, we don't worry so much about default and credit risk, instead we see potential spending power and we can see that in the private sector, a lot of pent up demand already, and if that public sector demand stays in place, that potential spending power stays in place, as private demand begins to revive eventually, we could see as we used to say "too much money chasing too few goods" and that is potentially a recipe for some inflation further down the road.

SK

Time in video – 18:58

And do you get the sense that obviously the government has a lot of debt on its books at the moment, will it allow for a bit of inflation to help inflate away some of that debt and keep interests rates a little bit lower for longer?

KG

I do. But I'm not sure that's really why they're going to do it because at the end of the day it's central banks rather than governments that decide to tolerate inflation. But the central banks themselves have been talking as though they think a little more inflation would be a good thing, and I think that really could be misleading and quite dangerous potentially. History tells us that when inflation gets into the scene, even if it's a little to begin with, it can become chronically ingrained and it can become bigger over time, and the risks are very one-sided. There have been no episodes historically in which economies have collapsed because of deflation. It hasn't happened. There have been plenty of instances in which economies and wider societies have been painfully disrupted because of run away inflation. So, it's not so much governments introducing it, I think central banks may be tolerating, or maybe about to tolerate, a little too much inflation and that's something I think we have to keep a very close eye on as investors.

SK

Time in video – 20:16

And Rupen, as investors keeping an eye on that inflation, how would you prepare portfolios for inflation if we do see it on the horizon?

RP

Yeah, well I think just going back, our objective for all our clients is to beat inflation over the long term. So, that impact that that higher inflation can have is front-and-centre of our investment thoughts and more so at present particularly because of what Kevin has just said. But I would on the other side say though that we kind of have been here before. So again, post the financial crisis we saw interest rates being cut, we saw quantitative easing being introduced, and we worried that inflation would move much higher and that made bonds in our view, a pretty unattractive benchmark. And that clearly wasn't the case. We didn't see much more inflation come through in the last ten years, to our surprise. So broadly, we've got to stay fairly balanced on that debate, not knowing necessarily that inflation will come through, but we've got to be alive to that present threat. And to this extent, clients will actually see new holdings in their portfolio, pretty much at this moment in time if they look through their valuations – it's very imaginatively named the Inflation Focus Fund, so hopefully the title gives it away. Now this is an internally managed fund and what we're trying to do within this fund is buy some investments that we think can give us protection against potentially rising inflation. So we will hold some inflation in bonds, clients will see that they do already own some in the US, we're going to expand that to potentially hold some inflationary bonds issued by other countries, and we're also looking at some other instruments. One is an instrument that just focuses on rising inflation expectations.

So technically it's called a breakeven level, that's an instrument we're looking at to add to that particular fund as we build out ways to protect ourselves against what could be higher inflation coming down the line. So as I said, very much our focal point but we just have to move forward in a balanced way.

SK

Time in video – 22:37

Thank you. So those all-time highs we've been talking about, I think they've certainly been a theme in some of the more sensational headlines that we've seen over the last year. So, let's take a look at some of the more prominent ones.

[videos]

SK

Time in video – 24:37

Now, those highs that we've seen in some assets, they haven't been universal, we certainly haven't seen them in all, but some of the ones that we saw in that video, we had a question from a client Kevin that whether you have concerns about bubbles being created by excess cash chasing new technology, and I'm guessing that by that "new technology" we saw examples of, the likes of Bitcoin or companies like Tesla.

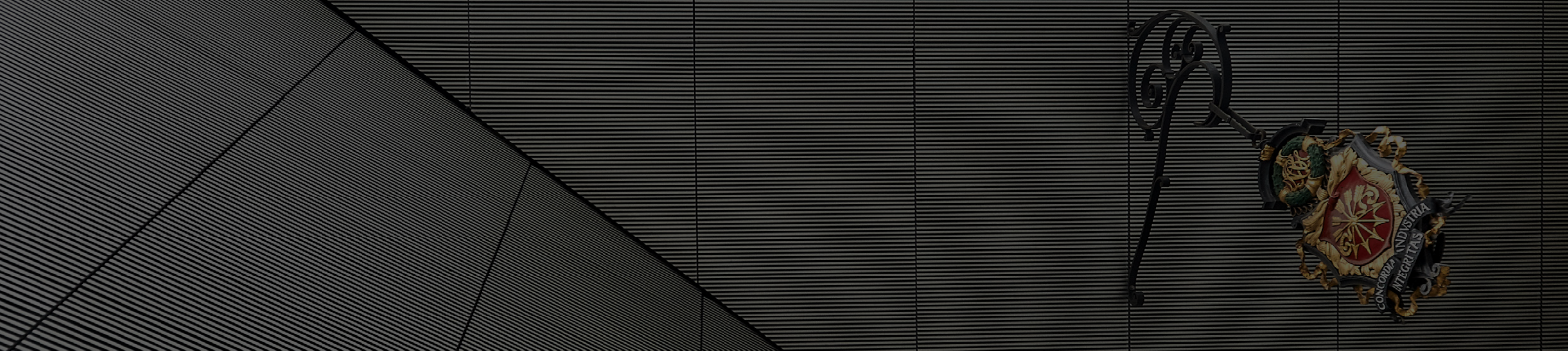
KG

Well, the word bubble, often we use it, we overuse it. Bubble for me implies a drastic and permanent risk of loss, something where you run the risk of losing almost all of your investment permanently. And I certainly wouldn't describe the overall stock or even government bond markets quite in that way. They're expensive but I wouldn't say that the overall markets are in or close to being in a bubble but, as you say there and as we touched on earlier, I think in some individual sectors and assets, perhaps there are signs of a little bit too much froth and things taking on a little bit of a bubble-like appearance. So, for example, in terms of some of the alternative currencies which are quite popular at the moment, we see some inflation risk as I mentioned earlier, but I don't see how a new untested currency actually helps with that. Some of the new currencies that people have been talking about are much more volatile in terms of their spending power, even than the UK currency was back in the 1970s, and that's the most inflationary times that any economy has been experiencing in recent years. So, some of these new currencies are not stable, they're even more volatile than the things they are looking to replace. And, they also seem to have a lot of dodgy environmental and governance footprints and they tend to be dominated by a quite a small group of players. So, some of these new alternative assets, to me, do seem to be taking on some of the characteristics of a bubble. In some sectors too, we've seen valuations rise a long way, and as I mentioned earlier, people perhaps have taken their eye off some of the weaknesses in prospective business plans there. Personally, I'm not thinking quite so much about electric vehicles but, in some other parts of the technology space where dominant market positions and access to free private information, the regulators are increasingly looking into that and as we've got a new administration in the US, which is going to be a little more regulation-minded to begin with, those catalysts for the potential bursting of that froth are perhaps growing. So overall, I don't see things being in a bubble but there are some specific instances that I think we have to be very wary of.

SK

Time in video – 27:40

Now Rupen, Kevin mentioned there the sheer volatility of the likes of Bitcoin, and indeed some of those technology companies, does that preclude them from being included in a sensibly managed private client portfolio?



RP

Well, I hope we've been fairly clear with our clients that we don't buy what we think are speculative assets. For us, and particularly right now, we think Bitcoin falls into that category. We've listened to the cases being made for them by different commentators and people who own them, but broadly we struggle with understanding how we would really value it.

Now, on the other side of that, we quite like the idea of Blockchain and what it can do, and we certainly have to think about it and the impact it has on some of the names that are already in our portfolio, thinking about American Express or MasterCard. So, Blockchain we want to get to know more and understand what it can do, Cryptocurrency is a "no" for us at present. So, it's always trying to think about things we can understand and value, and we really don't follow fashions or fads, so there will be speculative assets out there which may have very good runs. But for us, that's not what we're going to hold in our portfolios for our clients.

Maybe I'll just make a quick comment – Tesla's one that lots of people have talked about and we mentioned it earlier on. Once again, we could argue it's in a bubble, but we could have said that about Amazon many times over the last decade, in fact we probably did do and we were proved to be wrong in many cases. But I do struggle, when you think about the valuation of Tesla at over $800 billion now. It needs to sell a lot more cars than its circa 500,000 it produces per annum and earn a significant profit. And maybe just as a kind of guide to that, Toyota today is the biggest car manufacturer in the world, it manufactures over 10 million cars. It has a market cap today, of around $200 million. So, Toyota produces 20 times more cars and has a quarter of the market globally (31:37). One other little bit of data that I've seen is that you could choose to own the entirety of Tesla at $800 billion, or you can pretty much own all of the 10 largest companies here in the UK. That includes the likes of AstraZeneca, Diageo, BP, HSBC. For us, Tesla may well have a bright future, we're not so sure, but it really has to be a stellar one to justify its current market cap. For us, it's not in client portfolios.

SK

Time in video – 31:50

That makes a lot of sense, thanks Rupen. I want us to broaden our aspect once again and have a look back at the bigger picture. Now, it's only the end of January but 2021 has already been a pretty busy year. So, let's catch up on some of the big stories from last year that we will still be talking about well into this year.

[video]

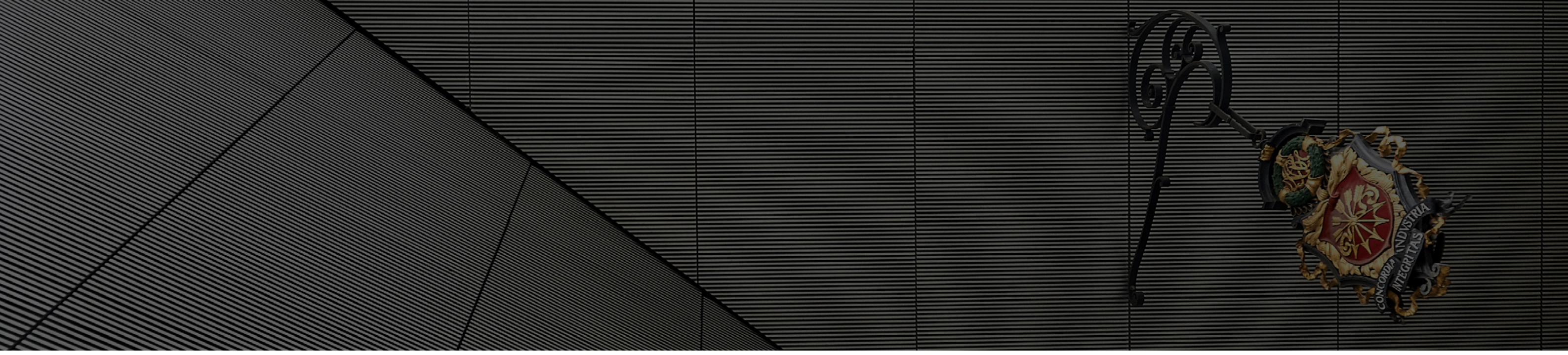
SK

Time in video – 32:24

Now, Kevin mentioned earlier, President Biden, and possibly his interest in regulation. We saw his inauguration last week and he starts out with a Democratic Congress, both Houses with the Democrats in them, although they do have a reasonably slim majority. But Kevin, do you have a sense of what sort of policies he's likely to bring?

KG

Well Sophie, I think the most important thing that you've touched on already is that, for the time being, his majority in the Senate in particular is wafer thin. He's relying on his Vice President's casting vote. So, he's not going to have things all his own way, there is a limit to what he can do but many of the things he said he'd like to do in his campaign I suspect he's just not going to be able to get done. Now that said, the things that he will push through, and we've already seen this, there's going the be more US engagement with the wider world, and with wider issues like environmental concerns, so the US has signed back up to the Paris Climate Accord which I personally think is encouraging. I think he's going to sound a lot more diplomatic on things like trade and international relations generally.



And I think we're going to see some increase in taxes, I don't think the increase in businesses taxes is going to be particularly dramatic, I think it'll take some while for any increase in taxes to come through, but taxes will be a little bit higher under President Biden as they would have been under the old administration. And of course, we're going to see a lot more government spending, and one of the first things he's doing in office is that he's pushing through another fiscal support package which is really quite punchy in scale.

More widely still, we've touched on this already, it's in his nature to be more minded towards regulation and control of the economy than a Republican president might have been. So, all those sorts of things, but subject to the caveat right at the start that people talk about a blue wave, this wasn't a blue wave, it was more like a blue ripple because the majority really is wafer thin.

SK

Time in video – 34:43

Hearing Kevin talk about the implications of a Biden presidency and what he might get up to Rupen, how much does the shape of politics, be it red or blue, in the UK or US or Europe, have an impact on the team's decision making?

RP

To be honest Sophie, not a great deal but clearly, it could impact certain holdings. If you go back and look at some of the businesses we own, they generally have a very long history and they have been through various administrations. If you think of John Deere, it's got over a 100 year history, and it's survived under Republicans, Democrats, wars and many market and financial crises. So, we don't focus too much on shorter term political events. But I have a lot of sympathy for what Kevin said, we've got to keep an eye on regulation, particularly in the context of some of those big technology companies. We don't have a great deal of exposure there but what regulation can do to businesses is certainly something we have to take into consideration when thinking about what to own.

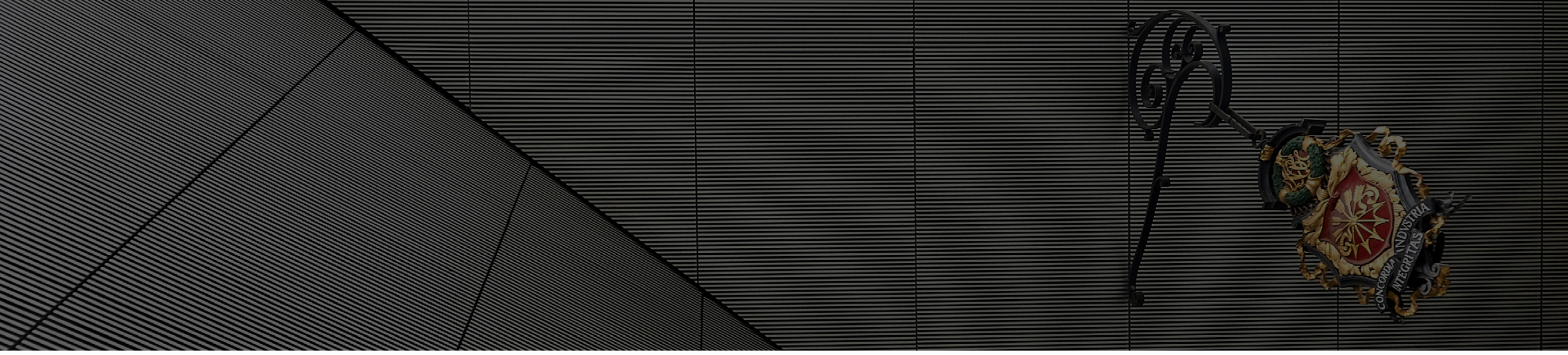
SK

Time in video – 36:00

Kevin, you mentioned that you think President Biden is likely to be more diplomatic on the foreign stage. One question we have had from a client is about that relationship with China. There are expectations that Biden might be a bit more dovish than Trump. In the China-US relationship, who do you think will be the winner in 2021?

KG

Well, this might sound a little bit strange given that we're all focusing on the risk macro-wise from the trade talks, but I think there's a very good chance that both sides will win. And that the world as a whole might win coming out of this. Our view on trade over the last four years, and it's a very difficult point to put across this is not to suggest that we're big fans of his policies generally, but the outgoing US president actually had a point. The biggest and most protected economy in the world by a mile, is China not the United States. And unlike his predecessors, the outgoing president was willing to talk tough and like President Reagan, manage to get his opponents to the negotiating table. In the case of President Reagan, it was the USSR and they managed to negotiate a safer world in terms of disarmament, and we thought it was possible that, maybe more by accident than by design, the outgoing president may somehow have managed to stumbled into an improved economic détente with China, as China knows it's the most protected economy, it also knows that it's in its own best interest to liberalise, and continue to liberalise, its economy going forwards. So we thought that China would remain relatively measured in its responses and now that we've got a more diplomatic president in place, and he's going to still be pretty hawkish towards China, but I think he's going to express that hawkishness with a little bit more sensitivity and tact and the outgoing president did.



I think we're going to see China continuing to recognise that it needs to move forwards by liberalising, not by retreating behind protective walls. So I think we could come out of this with a trading regime globally which is friendlier to business, not more hostile. It does sound strange to be saying this today, because those tariffs are still fresh, we've just gone through Brexit, and no one can travel anyway. But I think that the future will see a revival of globalisation not a further reversal of it.

SK

Time in video – 38:40

You mentioned Brexit there, Rupen mentioned it earlier. The deal was done in the end although there is quite a lot missing and there is quite a lot to still be confirmed. A client pointed out to us in one of the questions that financial services is still a big missing part of that piece. But Kevin, how does Britain go about dealing with the aftermath of Brexit?

KG

Thanks Sophie, sorry I did mention once and I thought I got away with it but, clearly not. It is an issue, and my cards on the table, and I've said this often in the past, I couldn't personally see an economic reason for leaving the EU but, we have left and it's not necessarily the end of the world. People are focusing on the fact that the deal that we've got doesn't include services, and in particular financial services, and yes, that is a worry. But most services are not traded internationally and in the case of the European Union, most of the business we do with the EU is invisible; trade in goods not trade in services. And we've got some sort of contingency plan arranged there. So, it's not necessarily the end of the world here with the fact that it doesn't include services, or the fact that we're leaving.

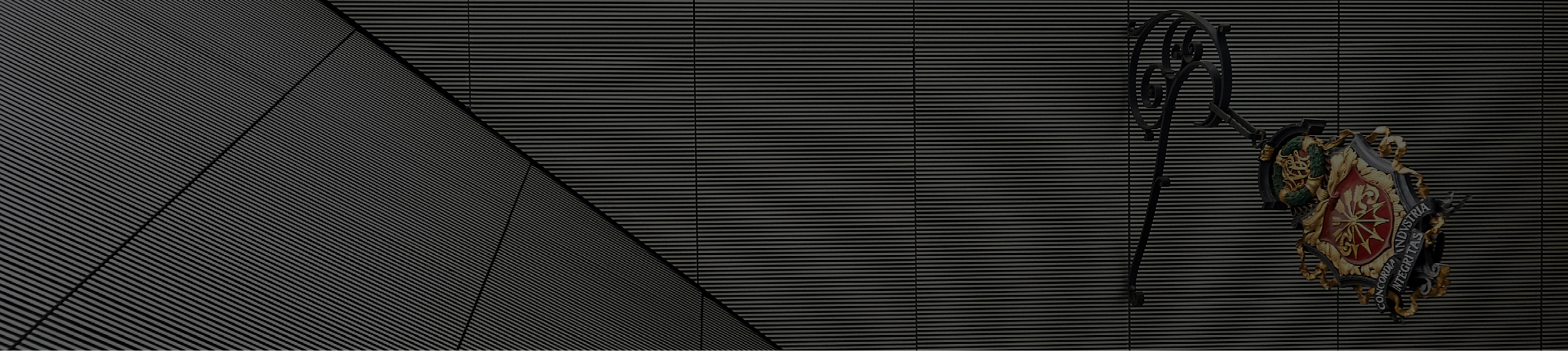
And things to keep in mind I suggest, as far as the UK's prospects are concerned. Even outside the EU, and with less flow of people than there was previously, the UK will still have one of the fastest growing populations in Europe for the foreseeable future. We've got globally competitive clusters in the UK, not just in financial services but we've got some fantastically high-value-added manufacturers in the automotive space, in the aerospace area, in life sciences, and, a little bit of a plug for the South-Wales economy, in compound semi-conductors, but also in consumer goods. So, the UK has a lot going for it in terms of expertise and global competitiveness. Things like the time zone, the language, the common law tradition, flexibility of the labour market, fiscal flexibility and a reasonably competitive currency. All these things stack up and suggest to us that the UK will get through this. It won't be as well off as if we'd stayed in, but my guess is it will be better off in years to come than it is today, and I think that's what's going to count for most observers.

A final thought. The trauma that we've just lived through, and are living through in terms of response to the virus, that was equivalent in scale in the second quarter of last year to four or five times that damage that most economists thought might have been done by a no-deal Brexit. So, in short order we've lived through a much bigger trauma than even the worst Brexit scenario might have anticipated. We've got through it and we're coming out the other side. So that offers a little bit of perspective on this whole Brexit debate I'd like to add.

SK

Time in video – 42:00

That's useful to understand. I think many people are scared of what might happen but actually when you put things together like that Kevin, it makes it a lot easier to appreciate how Britain might do in the future. I think today has proved that there is always plenty to talk about and more so, plenty for our investment team to think about to make sure your portfolios continue to preserve your wealth over the long term. So Rupen, we don't know what lies ahead. As Rob said at the beginning, we don't know which storms are around which corners. But are you happy with the content of the portfolio, that balance that we have of Return Assets on one side, and Diversifying Assets on the other?



RP

Yeah, well I think a bit of context here as well, Rob already mentioned that the last couple of years have been very kind to us and portfolios have returned over 25% and I suspect that the next few years might be a bit more difficult but then again, I would have said that two years ago and been proved completely wrong. We've talked about it today but I think we're starting off with slightly elevated valuations in the equity market. We've got much lower interest rates again with the UK at 0.3% and the US at just over 1% and it's more expensive to buy insurance for our portfolios in the form of portfolio protection. But overall, we still really like the composition of the portfolio, we think that over the long term we can generate returns over-and-above inflation. I think it's worth reiterating that even in more difficult market environments there are always pockets of opportunity and we will continue to look for them, that's the focus of the team and will continue to be so.

But I'm afraid that I just can't promise 25% returns going forward, so apologies to our clients for that. It would be lovely but I'm not sure that's always going to be achievable.

SK

Time in video – 44:06

Don't overpromise and under-deliver, it's always a good thing to remember. But an element of sensibility is what we need for the future. And Kevin, there always comes a time where I ask you to get your crystal ball out. There are still concerns out there, but what is your view on what we should be watching out for?

KG

The two most known unknowns that are in my mind right now is obviously the prospects of further contagion over the very short term. What is going to happen with the second wave and how quickly can we re-open economies further going forwards? I'm a little concerned too about valuations in the short term. They are pretty rich, they're not in bubble territory but they've gone up quite some way. Both of those worries will be deal-able with in the long term but in the short term those are the things to focus on I think.

Then, longer term, as I've said already, even without a vaccine or even if vaccines weren't accessible, although I think they will be (45:27), I think we will adapt to the virus and I think lockdowns will have successively smaller effects as we got better at distancing and treating the illness. So my worry longer term is too much money chasing too few goods. I think we could have too much growth and a little bit of inflation risk to worry about.

SK

Time in video – 45:33

Well thank you very much Rupen and Kevin for your insights today and thank you to everyone who sent in questions to help us in this discussion.

2020 was certainly a year like no other and 2021 is already off to a busy start, particularly as many of us find ourselves in lockdown again. I know that we're probably all anxiously waiting for things to settle down. As we've seen today, much of the news that dominates the headlines is short-term news, however all-encompassing it can feel at the time. Our job as investors is to look at the bigger picture and that's what we're doing on your behalf, particularly our investment team, as Rob mentioned at the beginning. Our focus is, and always will be, on delivering those inflation-beating returns for you, our clients.

Now please do get in touch with us to discuss anything we've talked about today or have any questions at all. We always love talking to you and hearing from you.

Thank you very much for joining us today and all the best for 2021. Let's hope that it might be a slightly quieter year.