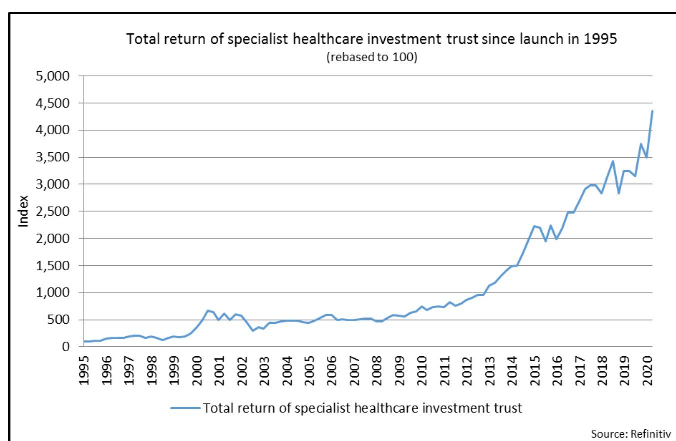
Investment Strategy summary – H2 2020

The Q1 2020 bear market had unusual origins compared with others in history. Typically bear markets have been caused by excesses in the financial sector or broader economy; for instance, the stock market decline during the Global Financial Crisis in 2008 and 2009 was initiated by defaults in the US mortgage market, and the excitements of the TMT boom at the start of this century were then followed by a bust. On this occasion, however, it has been a health issue that provoked the market decline.

Our recommended funds have generally fared well in 2020, and one of the key reasons for this has been a notable allocation to the healthcare sector, which has made new highs in 2020, in part due to the opportunities presented by the pandemic.



Our clients' allocations to the healthcare sector arise in two ways. First, most of our mainstream funds have holdings in established medical businesses, and secondly we recommend a specialist healthcare investment trust, which seeks to identify companies with innovative products or services that offer the prospect of attractive financial returns; the chart shows this trust has delivered strong returns since launch in 1995, with an annualised return of 16.1%. Using the latest published portfolios, our analysis shows that the largest overall underlying stock position in our model portfolios currently is Novo Nordisk; this is a Danish company which specialises in developing drugs to help combat diabetes and other chronic conditions, such as haemophilia and obesity. The company started producing insulin to control diabetes over 90 years ago and has a strong record of new product development. It has delivered attractive financial returns over many years, justifying its inclusion in two of our core funds; in addition the specialist healthcare fund currently has a holding, as its fund managers believe Novo's new product, which enables some patients to take insulin via a pill rather than an injection, should prove to be highly successful.

Political developments in the US have also been a tailwind for the Healthcare sector this year. At the start of 2020, it appeared that two of the leading Democratic candidates involved in the Presidential primaries, with far-reaching plans for the healthcare industry, had a reasonable prospect of winning their party's nomination to stand against Donald Trump. As it transpired, both Bernie Sanders and Elizabeth Warren lost out to Joe Biden, whose ambition is to build on President Obama's Affordable Care Act, an approach which should be evolutionary, rather than revolutionary. This means that whoever wins the Presidential election in November is unlikely to adversely impact the industry. Our confidence in this view has been reinforced by the positive perceptions of the way in which the US healthcare industry has helped to confront COVID-19; the sector has often been a political football in previous elections, but this appears unlikely this time around.

Another sector which has contributed to the success of our funds has been the payments sector. PayPal, Mastercard and Visa are all amongst the twenty largest underlying holdings in our model funds; their share prices have benefited from the increasing demand for their services caused both by a surge in demand for on-line shopping as well as a growing aversion to cash, which some fear could transmit the virus. Contactless card payments are now being encouraged in many countries for hygiene reasons.

Key elements of our investment approach:

- All investment recommendations to clients are carried out in the context of their financial position; we believe **investment and financial planning advice** should be provided concurrently.

- We prefer **simple, straightforward investments** and rarely find hedge funds, absolute return funds or structured products are suitable for our clients. Our model portfolios only hold cash, sovereign bonds and company share funds.

- We take a **global** approach to investment, seek to avoid a home bias to the UK and rarely recommend funds focused on one geographic region.

- We favour a **total return approach**; we avoid a focus on income as this can tilt a portfolio towards unattractive assets.

- We expect **company shares** to outperform other asset classes in the medium and long term and usually recommend a heavy allocation to stock market investments.

- We seek to avoid over-diversification and recommend a highly **focused** list of funds.

- We take a **long-term** approach, and favour funds with **low turnover** run by managers whose aspiration is to keep their portfolio holdings for ever.

- We recommend funds that are dedicated to owning shares in **high quality** businesses.

- Our preference for funds investing in quality companies leads to high allocations to industries which should benefit from **long term structural growth** trends, such as technology, healthcare, and consumer staples; these funds have a negligible weighting to companies in lower quality cyclical sectors such as oil, gas, mining and banks.

- These sector allocations mean that our models have negligible weightings to those industries which are likely to be most challenged by **climate change** matters.

- We respect Environmental, Social and Governance (**ESG**) analysis, but do not normally recommend ESG-focused funds. The managers of our model funds seek to own shares in businesses which can grow sustainably, and naturally consider ESG matters in their research, without it being their primary focus.

- We are cautious about **bonds**, expecting them to generate only modest returns, given yields are near record lows. We believe clients should have the lowest bond allocation appropriate for their circumstances, and regard bonds as insurance against adverse events, rather than a means of making money. We recommend clients seek the highest quality insurance, i.e. sovereign rather than corporate bonds, and we are currently advocating a mix of UK conventional and US government inflation-linked bonds.

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