## Economic and Investment Update Conference Call Transcript – 14 January 2021

**Nick:** Welcome to this morning's call. I'd like to wish everyone a Happy New Year, if it's not too late and I do hope that everyone is well and staying safe.

During the next 40 minutes or so, we plan to discuss the outlook for the economy and issues pertaining to our investment strategy at London Wall Partners before answering some of the questions you have kindly submitted, for which many thanks. We will then close at noon, or just before, and if our discussions provoke further questions or thoughts, do please email, or call and we will be pleased to discuss them with you at a later date.

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Those of you who have become regular listeners, to what is becoming a quarterly call, will be familiar with my two colleagues who are joining me today, but for newer listeners, let me briefly introduce Stuart and Ian.

Ian McCafferty is one of the UK's leading economists, and from 2012 to 2018 he was a member of the Monetary Policy Committee at the Bank of England. His career spans the City, the CBI and BP as well as other institutions. He joined London Wall Partners as a member of the Investment Committee and a Senior Advisor in the spring of 2019 and as well as working with us, he is a visiting professor at King's College London and a Senior Advisor to Oxford Economics.

Good morning Ian, and welcome to this morning's call.

**Ian:** Good Morning Nick.

**Nick**: Stuart is the Investment Director at London Wall Partners. He joined the firm just over five years ago following his role as head of global equities and fund manager selection at the in-house fund manager of the National Grid Pension Fund. He has been a City stalwart for many years, having also worked at HSBC and Kleinwort Benson.

Stuart, welcome.

**Stuart**: Good morning.

**Nick:** Over the course of the autumn, as the pandemic receded and we emerged from the lockdowns, the economic outlook had started to look more hopeful, and financial markets became more optimistic. But as we've gone into winter, things have become more challenging again, with the emergence of new, more infectious variants of the virus, rising pressure on health services across Europe and the US, and the need for further economic restrictions. So perhaps the first question to Ian this morning is: to what extent does this serious second wave of the virus affect the outlook for the world economy, and the much hoped-for recovery?

**Ian:** Well, the data for last autumn showed how quickly things recovered when restrictions were eased in the summer. In Europe and the US, economies recouped between about two thirds and three quarters of their GDP losses of the first part of the year, and for many economies the recovery was faster than anticipated. However, the resurgence of the virus has put a brake on that recovery. In the EU and the UK, it now looks as if the fourth quarter will see further small falls in GDP, as further lockdowns have been imposed. In the US, the third quarter momentum has slowed, but the economy is still

growing. So, what was initially a very "V shaped" recovery is now turning more nuanced.

If we are trying to describe the cycle in single letter terms, you might say it is turning into more of a "W", but I'm not sure that's very helpful, as the two legs are likely to be very different. The falls in GDP this winter, in Europe, are likely to be much smaller than the record-breaking falls of last spring. That is partly because lockdown measures are less stringent, but also because many businesses have adapted to the constraints and are more able to continue to operate.

And of course, when we think about the global economy, we mustn't forget that what is happening in Europe, or America, is not the whole story. In Asia, the virus hit slightly earlier, and was on the whole much better contained, so that although there are some signs of a second wave in Japan and South Korea, Asian economies have already returned to growth, helped by a strong recovery in China. The Chinese economy is already some 6% larger than it was at the end of 2019 and is set to grow by a further 8% in 2021.

**Nick:** So, despite the re-imposition of lockdowns, from what you are saying, the economic picture is in reality much more mixed?

**Ian:** Very much so, I have to say as the pandemic has gone on, I've found it increasingly tricky trying to describe what's going on in the world economy in generalised terms. Countries and regions have had very different experiences with the timing and the incidence of the virus, with the nature of their lockdowns and with the economic support individual governments have offered. So, as we enter 2021, the world economy is in a more divergent position than it has been for some years, with countries faring very differently.

**Nick:** **And Ian, do you see that continuing?**

**Ian:** I don't think so, at least, not for much longer. I think by 2022, the global cycle is likely to have converged again, with all regions showing solid growth.

Now, that re-convergence will be driven by the re-opening of many economies, as the new vaccines are rolled out. And those vaccines, I think, are a real game changer. They offer the first secure route out of the pandemic without having to lockdown the economy in the process. So, we can now see a way out, and the economic outlook is becoming much less uncertain than it has been for some time.

We've now got three vaccines – Pfizer, Moderna and Oxford/AstraZeneca – approved by Western regulators, as well as one from Sinopharm being deployed in China, the Sputnik V vaccine used in Russia and an experimental vaccine called Covax being trialled in India.

The G7 countries, the seven largest economies, have all pre-ordered sufficient of the approved vaccines to be able to inoculate around 40% of their population by the spring, if roll-out goes according to plan. That would protect their more elderly and vulnerable citizens. In the emerging market economies vaccine rollouts will be patchier and generally somewhat slower. But a number of economically important emerging market countries such as India, Argentina and Brazil have either pre-ordered sizeable quantities of vaccine or have held trials in exchange for future vaccine supplies, which will allow them to also inoculate their most vulnerable.

So, in coming months, we are likely to see many of the world's larger economies in a position to protect their most vulnerable people, allowing the economic restrictions to be gradually lifted. And as we saw last autumn, once restrictions are lifted, economies should be able to bounce back quite quickly.

Now, there have been concerns that if the virus mutates further, the vaccines might prove less effective, or even worthless. But the German research scientists that undertook the genetic engineering research to develop the current Pfizer vaccine, have stated that in the event of significant mutation, they should be able to re-engineer the recipe for the vaccine within about six weeks and then restart production. So, a mutation that evaded the vaccines would clearly cause delays, to allow for that testing and manufacture, but I don't think it would derail the process entirely.

And once those restrictions are lifted, the biggest winners amongst the economies look to be those economies that suffered the most severe restrictions in containing Covid-19, and as those restrictions are unwound. That is likely to benefit countries in Europe, as well as those emerging economies that saw major disruption last year.

By contrast, those countries, such as China, South Korea, Taiwan and Vietnam, that succeeded in containing the virus without imposing blunt national restrictions, have already done their bounce back, and are likely to see somewhat more moderate recovery as we move into 2022.

So, economically, I foresee a year of two halves. The first half is likely to be relatively subdued, as restrictions on economic activity persist. But once what is the largest vaccination programme in history is in full flow, the second half should see a marked pick-up in growth, and a rebalancing of regional growth rates that should continue into 2022.

The OECD estimates that by the end of 2021 world GDP should be back to pre-crisis levels, and growth in both 2021 and 2022 of around 4%, that's a significantly higher growth rate than the pre-Covid average of 2013-19.

**Nick:** So, are you suggesting that 2021 and 2022 are likely to be the best growth years for a decade?

**Ian:** In GDP terms, that is likely to be true, although having said that, it would only recoup what we have lost through the pandemic. But that is one of the key reasons why global stock markets, that do like to look up to 18 months or two years ahead, have been so upbeat in recent months.

And, looking ahead, some of the more optimistic commentators are drawing historical parallels with the last global pandemic, the Spanish Flu of almost exactly a century ago. They are suggesting that we might see a repeat of the "Roaring Twenties", those seven years after that pandemic which saw a dramatic rise in prosperity as well as dramatic cultural change.

Now, the Spanish Flu pandemic was much more severe than the current Covid pandemic, it appeared in four waves between 1918 and 1920, and infected some 500 million people, of which between 20 and 50 million died. By comparison, so far, Covid has infected 85 million and the death toll stands at 1.9 million. Of course, in 1920, there were no effective anti-viral treatments that could be deployed.

But some commentators have argued that the intense relief felt at its end contributed to the elated consumer mood that followed, and that this might also be likely once Covid recedes. They point to the build-up in consumer savings over the course of 2020, as consumers have found themselves unable to spend on travel, entertainment, eating out and other consumer services, to suggest that a consumer boom will follow.

Now, I think, we are likely to see some pent-up consumer spending over the next couple of years, but as far as the "Roaring Twenties" goes, I have my doubts. In my view, other factors were more at work in the 1920's: pent-up demand following the First World War, post-war reconstruction, the high rate of consumer innovation in automobiles, plastics, radio and cinema, and the emergence of the United States as the world's dominant manufacturer, I think were probably all more influential.

It's also the case that over the next couple of years, other legacies from the crisis will continue to generate some negative newspaper headlines, and I

think that might dampen consumer over-exuberance. While economic activity, and the GDP numbers, will be recovering, other economic indicators – those on business failures and unemployment – are likely still to be increasing.

In all economic cycles, the true impact of the recession on companies only becomes visible as the economy starts to recover. Most firms in difficulties go bust not in the depths of recession, but as their cashflows become more constrained as the economy gears up again. And it is usually at that point that unemployment rises most swiftly. In this recession, that is likely to be even more true, as the impact on company failure and unemployment is being delayed by the business loans and employment protection schemes offered by governments as support.

So, I think that for many consumers, it may not feel like a really buoyant recovery for quite some time yet.

**Nick:** If the vaccines do offer us a route map out of the pandemic, even if we still have a little way to go, markets will be starting to think about some of the post-pandemic economic issues that will shape the economy in coming years. Now, I know, Ian, that you have been giving some thought to this, so perhaps you could share some of these thoughts about the longer-term outlook for the global economy.

**Ian:** One question that we need to ask ourselves is whether the pandemic has damaged the ability of the world economy to grow – in economist jargon, has it changed the underlying rate of economic potential? After all, the impact on potential growth was one of the key consequences of the Global Financial Crisis a decade ago. Following that crisis and recession, the global economy was beset by a decade of low productivity and sub-par rates of GDP growth,

leading to a debate on whether we had entered an era of "secular stagnation".

But I don't think the pandemic is likely to affect underlying potential in the same way as the Global Financial Crisis did. In that period, two factors were critical in depressing growth rates during the subsequent recovery.

First, the fragility of the banking system after the crisis, and the need to rebuild the banks' capital base, meant that business access to finance was heavily constrained for a number of years. Second, the sheer length of the downturn, and the high level of uncertainty that prevailed, held back business confidence, such that capital investment was depressed for a very long period.

Now, you may ask why I asked this question about economic potential, it may seem somewhat esoteric, but it is important in two ways. In forecasting the nature of the recovery to 2022 and beyond – that is how quickly GDP will bounce back – it is important to understand not only how fast the world economy is able to grow, but also for how long it might grow before inflationary pressures start to develop. Both depend on that rate of potential growth.

**Nick:** On inflation, it is another critical issue for financial markets, as it will determine how the world's Central Banks behave in coming years, and when interest rates may start to move upwards. What are your thoughts?

**Ian:** That's right. Many people are worried that the massive support packages by governments and central banks over the past year, which have led both the money supply and the level of government debt to expand dramatically, will cause inflation to rise sharply. And if the ability of the economy to grow is constrained, if that potential is constrained, that risk becomes even more acute.

But I have to say that, as an ex-central banker, I'm not that worried about a new era of inflation.

I think the impact of the recession itself has been quite disinflationary, due to the fall in demand, weaker employment, and lower wage growth. In all major economies, inflation is currently well below the targets mandated to the central banks. The world economy will be operating at activity levels lower than pre pandemic until we get into 2022, and that will limit inflationary pressures for some time.

Thereafter, as the post-Covid recovery matures, you'd expect some pick-up in inflation, but I'd be surprised if it were enough to become an issue for financial markets. By then, the policy climate will be very different. Most governments will be, by then, into the phase of fiscal tightening, to recoup some of the pandemic-related emergency expenditure, and central banks are likely to be easing away from the level of monetary support that they provided to counter the recession. And I think those two policy shifts should check any inflationary impulse.

**Nick:** From what you have said this morning, it sounds as if you believe that, after the vaccines have been delivered and the recovery can get underway, we are likely to see a relatively quick return to a global economy that we would recognise from before the pandemic. Can that be true? Surely the events of the past year are going to leave a more lasting effect on the world, aren't they?

**Ian:** In the middle of a crisis, people often believe that more change will result than actually turns out to happen. It takes really quite a lot to shift fundamental trends in human behaviour, desires and ambitions, and once the crisis is past, things more often revert to more or less how they were before.

But there are a number of areas where things are changing quite quickly. Let me talk about two this morning, one economic and one more political, although I do think the political one also has economic implications.

The first concerns the role of China in the world economy.

We're all aware, I'm sure, of the rise of China to an economic superpower. Its share of global GDP grew from 3.6% in 2000 to 17.8% in 2019, and late last year, it was announced that China has now eradicated extreme poverty in the country. It is now projected to achieve the status of a high-income country by 2023.

But the pandemic has also brought forward the time when China is projected to become the world's largest economy. In 2020, by clamping down on the virus quickly, it was the only major economy to achieve positive GDP growth, of some 2%. That contrasts with the sharp falls that we saw in the United States and other G7 countries. As a result, China is now expected to become the world's largest economy by 2028, five years earlier than was expected before the pandemic. So, what happens in China, both as an export market and as a source of production, is becoming ever more influential in defining the world economy.

But, and here's the rub, as its economic heft has increased, its relationship with the US and other Western economies has become more confrontational, and that will complicate relations, I think, in coming years.

It has gradually become clearer to western strategists that China is not heading, as was previously hoped, towards liberal democracy and free markets. In recent years, the ruling Communist Party has become less tolerant of dissent and President Xi has changed the constitution to allow him to rule for life. And the pandemic has strengthened the one-party system – the ability of the communist party to mobilise quickly against the disease has increased its standing domestically. Economically, the playing-field for trade remains distinctly unlevel, and China is reducing its dependence on the rest

of the world by developing internal supply chains and high-tech capital goods industries.

In line with all of this, Chinese external relations have become more aggressive, and less tolerant of criticism – what has become known as "wolf-warrior diplomacy". As a result, many US politicians – Donald Trump included – are now viewing China less as a trade partner and more as an adversary. Trade disputes and security-driven embargoes on high-tech commerce have proliferated.

But the problem is, good relations between the world's two largest economies, China and the US, are critical not only for the health of the world economy. They also going to be necessary if we are to make progress on climate change, global health issues and other things. They may also play a part in whether China resorts more to physical conflict in the region, as we've seen with Taiwan, or India.

So how all of this develops is going to be central to the outlook for the global economy and markets. It is most probably the biggest foreign-policy challenge facing the incoming administration in the United States. Joe Biden is, one could say, less capricious than his predecessor, but is also likely to take a tough line with China and trade. So, it will be a critical issue for several of the companies in our portfolio, and we have to be watching it closely, and I am sure we will return to this issue in future client calls.

**Nick:** A couple more points before we start turning our attention towards Stuart and his thoughts. So, mention of President-Elect Biden moves us into the world of politics. You suggested earlier that your second area of change was political. In what ways do you see the political climate changing?

**Ian:** I do think the pandemic is starting to change the allegiances and expectations of voters, and I think this will have some economic as well as political implications.

The most obvious shift is that not all governments have covered themselves with glory in their handling of the pandemic and are thus less likely to be re-elected when the time comes. The first casualty was of course Donald Trump, and the Republican Party in the United States. If we think back to last February, before the pandemic hit America, President Trump was ahead in the polls and expected to win a second term. In the event, his handling of the pandemic was an important influence both on his defeat by Joe Biden, and in the loss of the Republican majority in the Senate. Others – President Macron and Prime Minister Boris Johnson among them – have also seen their popularity plummet this year, or last year.

But more broadly, I believe that we are seeing a shift away from the laissez-faire, small government approach that electorates in the West have generally preferred in recent decades. The pandemic has illustrated not only the importance of health and other public services, but also in many cases the lack of government preparedness and the capacity to deal with such crises. Yes, the ultimate solution to the crisis – the vaccine – was developed in the private sector, but the efficiency of government as a manager of public risk, and as a coordinator of strategic public services has, in many cases, been brought into question.

I think this is likely to lead to increasing public pressure, voter pressure, for an expansion of key public services and a more interventionist approach by the government to public risk issues and to the economy. And more interventionist governments mean higher public spending. So, a political mood would favour left-of-centre political parties, which have been out of favour, primarily, with electorates in many countries for the past decade or more.

America is the first country to move leftwards, with the Biden victory and the Democrats gaining control of the Senate following their wins in Georgia. This will allow the new President to drive through his programme without significant Congressional constraints. But in coming years, I think other governments are likely to follow suit.

**Nick:** Thank you Ian, for both that tour d'horizon of the economic outlook and for your thoughts on those two issues of strategic interest. As usual you have given us much food for thought, which we will digest as we pursue our investment strategy over the next year or so.

Before I do turn to Stuart, we have a question from one of our listeners, that we should consider as part of what you have said.

How will the Biden Presidency likely impact the US economy – are we likely to see increased corporate taxes that would hit the stock market?

**Ian:** It is very early days yet, partly because the Biden administration hasn't had an easy transition and the President is yet to announce many of his new Cabinet. But, Janet Yellen, the new Treasury Secretary is reassuringly centrist, as well as being extremely competent – she has been Chair of the Federal Reserve and has headed the Council of Economic Advisers. In addition, the President has only a wafer-thin majority in the Senate, as he relies on the Vice President to provide a casting vote to break that 50-50 split between Democrats and Republicans. So, I think he is going to have to propose legislation that does not offend the more fiscally conservative of his Senate supporters, even in the democrat party. I think that means, we will see a more comprehensive support and stimulus package in the spring to help the economy recover, and only once the economy is recovered, are we likely to see proposals for modestly higher corporate taxes that will reverse

some of the Trump cuts, and some individual income and capital gains taxes, but that's a little way off yet.

**Nick:** Like I say, Ian, thank you very much indeed for that tour of the globe. I'd now like to turn to Stuart, for his update on the funds we follow and some of the emerging issues pertinent to our investment strategy and perhaps some insights into one or two of the companies that are held within the funds. So, Stuart.

**Stuart:** As we have established a routine with these quarterly calls, I had begun to think of introducing each one by outlining the recent trading activity of our fund managers, much as I did with Tesla three months ago. However, as I started to prepare this time, it became clear this wouldn't work. First, our recommended managers have a long-term quality focus, and they don't tend to change their holdings very much, and that's certainly been the case since our last call in October. Secondly, I realised I might give the impression that we are more interested in the changes in our model funds, rather than the important positions in them. Because 99 times out of 100, it is the large existing positions in portfolios which drive performance – rather than the dealing decisions. So rather than talking about what's new, I thought I would focus on some of the companies from the top ten underlying holdings in our model funds and use them to highlight some elements of our investment approach.

I should probably start by stating, that while the managers do publish their full portfolios occasionally, they each have different release schedules and time lags. So, we're never precisely sure what's held in our model funds on a live basis. Even though our managers typically trade infrequently, they quite rightly believe it is important to be coy about their dealing activity to make sure their investors, and our clients, aren't disadvantaged by market operators spotting what they are doing, and potentially moving prices against

them. Given this, my comments on the underlying positions in our model funds reflect the latest announcements we have, albeit some of which are a few months out of date.

The first company to discuss is Keyence, “key” as in lock, Keyence. This is the fourth largest company on the Tokyo Stock Exchange and is held in three of our model funds. This company produces the sensors and bar code readers which enable automated factories to work, so if you see a video clip of a modern production line, with robot arms whirring around, and products flying down a conveyor belt without a human in sight, it will most probably be Keyence’s products which are working out which items are where, and ensuring the factory runs smoothly. The company has more than 200,000 customers in over 100 countries and given its products enable manufacturers to cut costs and improve quality, it is likely to continue to grow for many years to come. Keyence continues to invest heavily in R&D and product innovation, and this looks set to enable them to continue to charge prices so that it earns industry leading and very attractive margins.

One of the reasons I wanted to highlight Keyence is it gives me the opportunity to talk a bit about Japan. Nine out of the ten company share funds we recommend invest wherever they find the most attractive opportunities, but one focuses solely on Japan. Some of our global funds don’t have an allocation to the country, because they can’t find companies with a long and strong record of financial success and which they believe are run in the interest of shareholders.

However, we believe things are changing, due in large part to the Japanese government’s focus for the last eight years on reinvigorating the corporate sector. Given there are numerous Japanese companies with great products and sound finances, we currently believe it is appropriate to supplement our global funds with a dedicated Japanese trust. This confidence has been reinforced by following the Japanese experience of the pandemic. While the health elements of the crisis have largely been dealt with well, it has exposed a material lack of investment in IT in the country and the new Prime Minister,

who took office in September of last year, has pledged to push hard on digitising the country. This should provide new opportunities for successful stock selection in Japan.

Before the pandemic took hold last March, we had begun tentative planning for another of our client investment lunches with the fund manager of our recommended Japanese investment trust. While he lives in Tokyo, he is British and travels here regularly to see his family and to speak to investors, although Nick also had an update with him when Nick was visiting Japan in 2019. Last spring it seemed like a good idea to hold a Japanese focused lunch during 2020 to mark both the Tokyo Olympics and the then proposed State Visit to the UK by the new Japanese Emperor. Given there are now even more interesting developments in the Japanese economy to talk about, we hope we will be able to revisit these plans in due course.

The second stock to discuss is Microsoft, which is held in two of our model funds. The company obviously offers a broad range of software products, but I want to focus on the way it is benefiting from two important developments in the IT sector which are also proving to be positive for many other software companies in our model funds. These two developments are the growth of software-as-a-service and cloud computing.

To explain the benefits of both I thought it might help to contrast a then-and-now experience when buying a new home PC. In yesteryear I suspect I wasn't the only one who when they chose a new computer, would then get the hard sell to buy the latest set of Microsoft Office disks and/or security software. Not only did this add to the cost, of course, but if you did succumb you then had to spend an age loading them onto the new PC when you got home.

Nowadays, if you use Windows products like Word or Excel at home, you will almost certainly have an annual subscription to Microsoft (which is an example of software-as-a-service), and you may also store your folders on

Microsoft's OneDrive (which saves computer files on Microsoft's own servers and is an example of cloud computing).

Personally, I have found these developments have made changing a computer far easier, as you just move your Windows subscription from one box to another and then access your files from the same place via the Internet. Meanwhile, the economics of this arrangement are very positive for businesses like Microsoft. For instance, they no longer incur the costs of producing the CD Roms containing their Office software on it, nor the distribution costs, including the PC retailers profit margin. In addition, they get a steady cash flow every year from their customers rather than just a sale when a new PC is bought. Finally, the economic and emotional costs of transferring away from using both the software and storage systems are such that the combination of software-as-a-service and cloud computing means that Microsoft's customers are highly unlikely to move away and as more of their customers upgrade to their latest products, profits and cash flow will benefit.

While this story will eventually probably get reflected in share prices, many of the software companies in our model funds appear likely to have several more years of strong profits growth ahead of them as this relatively immature market develops.

The third stock I wanted to highlight is Illumina, which is spelt with the first eight letters of Illumination. The company makes gene sequencing machines, and their equipment was used by the Shanghai Public Health Clinical Centre to sequence the genome of the Covid-19 virus which they published in January 2020, which enabled Biontec, Moderna and Oxford University to start their work on the coronavirus vaccines which Ian has mentioned already.

This stock is held by three of our fund managers, and while it had a strong track record prior to last year as it sold ever more machines, together with the reagents used in them, its sales were predicted to decline in 2020 as

medical research activities overall were disrupted by the pandemic. However, the power of gene sequencing has clearly been demonstrated by the rapid development of Covid vaccines and it seems reasonable to expect demand to recover once the pandemic is under control.

Illumina is just one example of the current burst of medical innovations which is getting the managers of two of our model funds so excited about the prospects for their portfolios.

By now you may be asking yourself why we recommend so many funds if there are numerous stock overlaps between them. Do our models really need as many as ten funds if they tend to invest in the same companies? In the company examples I've given, the overlap actually occurs between a different set of funds and having common stock holdings between funds isn't all that frequent, not least because we try to make sure it isn't. Our model funds have close to 400 companies in aggregate.

However, the stocks which are in more than one fund typically have the highest weightings in our models and therefore they are the most appropriate to highlight. We monitor these overlaps closely but aren't necessarily uncomfortable when they arise, because if two or three managers we respect identify the same attractive opportunity, each from an independent viewpoint, we often find that this can be an encouraging sign.

I am conscious that calls such as these, especially at the turn of a year, traditionally include predictions, but those familiar with our approach will know we don't build our portfolios in the anticipation of certain events or expected news developments, and we don't forecast such matters. I hope the company examples I have just outlined help to illustrate why. If you focus on building portfolios with strong, high quality, global companies with attractive prospects, such as Keyence, Microsoft and Illumina, then developments in macro-economics and geopolitics shouldn't matter much, providing you take a long-term view. We believe we will continue to serve our clients best by seeking to ensure their portfolios are focused on great

businesses which should deliver strong returns over time rather than to anticipate and react to short-term situations.

I am, however, prepared to make one prediction for 2021, and that is that the noise levels on climate change, ESG and Sustainability will remain high. The intense focus on climate change is likely to remain as President Biden re-commits the US to the Paris Agreement and countries, now including China, seemingly compete to achieve ever more ambitious carbon reduction targets. Given the next global UN conference on climate change is to be held in Glasgow in November, we here in the UK are especially likely to hear a lot on the subject.

The investment world is also likely to hear more about sustainability, not least because the EU is expected to introduce legislation requiring financial advisers to discuss the matter with their clients, with the UK expected to follow suit, despite Brexit. We don't believe greater focus on these areas will require us to adjust our recommendations, as our managers' approach of seeking to identify great businesses they can hold for the long term means they have already considered such matters in their research. And addressing Sustainability – just like addressing climate change – is surely just common sense. I was listening to an interview with the Chief Executive of Unilever the other day, which is a top ten holding, held by two model funds, and his views on Sustainability were that it was good for his shareholders.

1. It's good for growth as, in his words, consumers under the age of 40 actively consider a brand's sustainability credentials when buying consumer products.
2. It helps them to cut costs, for instance using less packaging saves them money.
3. It helps to reduce corporate risk – he thinks that if they earn the respect of governments and pressure groups with your day-to-day efforts, they tend not to be so harsh when things go wrong.
4. It helps to attract talent, especially in the graduate market.

As I have noted in previous calls, we believe our clients can be reassured that their funds are being managed responsibly, even though our models don't include funds whose names include labels such as sustainable or ethical. And we continue to believe that our focus on recommending funds which invest in great businesses should prove profitable in the years ahead.

**Nick:** Thank you very much, Stuart. It's very reassuring, I'm sure our listeners will agree, that you've got a handle on the underlying businesses within our funds, which is actually quite unusual over the years, I've found. Perhaps I can now turn to some of the questions we have received. Again, many thanks for sending them to us. We are keen to ensure that these calls really meet your needs, and the interaction from the emailed questions and answers, although not quite as rich as a face-to-face dialogue, does help. As I said earlier, do please send any more in or call us and discuss matters with us.

So, to the first question, there's been a lot in the news lately about bull markets being overdone and what could trigger a reversal and are we in a bubble? Stuart?

**Stuart:** To our eyes, we can still find lots of opportunities, and indeed the fund managers we recommend, can still find lots of attractive opportunities on the stock market so we don't see a bubble. But I think it's worth saying that we are experienced enough to know that we are probably unlikely to see the next bear market coming, and we're probably experienced enough to say that someone out there will say they predicted it at the time. But I think it's more important to reflect that, experience also impacts the way we work because we believe that prudent financial planning together with sensible asset allocation and a focus on quality investments should continue to serve our clients well, just as it has done over the last year, even though we didn't anticipate the pandemic.

**Nick:** Ian, do you have any comments on the bubble and bull markets and reversals?

**Ian:** Well, I must admit I agree with Stuart, I don't see it as a bubble. There are individual stocks that have done well over the course of the pandemic, but they really represent the future. Overall market valuations don't look that extended given the very low level we have for interest rates.

**Nick:** Thank you. I found that often market prices don't reflect the intrinsic values of business very often. The other thing that often comes up, is value over growth stocks. I know, Stuart, you mentioned that we don't really study value and growth assets, we study more value for money. What else do you have to say on that if anything? I know it won't be much!

**Stuart:** As you correctly said, we don't spend our time looking at value and growth factors. Our mental model for stock market investment is to think that we are owning a slice of a business, via the funds that we recommend our clients, and we're not trying to play the stock market, which I think a lot of people who think about value and growth are effectively doing. I have to say, when I look at others who spend a lot of time looking at value and growth factors, they don't often make great decisions based on that.

**Nick:** I should emphasise these are value and growth matters in the short term. Clearly, we're looking for secular trends that will provide wonderful growth for businesses and clearly, we want to make sure we're investing in them with good value. And that's what I mean about good value for money. Moving onto healthcare, has the healthcare trust we recommend benefited from any of the Covid-19 vaccination advances? Which I thought was a good question.

**Stuart:** I think in the first call we did about nine months ago, we highlighted the trust had benefited from a holding called CanSino Biologics, which is a Chinese company that announced very early on that it was developing a vaccine and that made money for the healthcare trust. As I said, we don't always know every detail in the fund, but we don't believe the trust has ever owned Biontec or Moderna. It did have a holding once in Pfizer, which worked with Biontec on developing their vaccine, but Pfizer is a very large company, and I think the vaccine itself is unlikely to make much of a difference to Pfizer overall. So, not much.

**Nick:** Thank you. Bitcoin! I've had a question that says Bitcoin appears to be gaining respectability as a potential investment. That's maybe been because there have been points in the news about certain investment managers getting into them. Should London Wall Partners consider adding Bitcoin to its list of investments as a hedge against inflation? Ian?

**Ian:** I would say not. I don't think Bitcoin is money, which would require it to be a stable store of value, a unit of account, and a medium of exchange – the definition of money. If you try to think of it as an asset, as an alternative to money, it really has no fundamental worth, as it is not backed by anything, and that makes it inherently unstable and impossible to value. You can't do much with it, and its price is purely dependent on finding someone else willing to pay you for it. So, it strikes me as being a very risky investment and not one we could claim to understand.

**Nick:** If one can call it an investment. What about you, Stuart?

**Stuart:** That was the point I was going to make; I wouldn't have Bitcoin and investment in the same sentence. It's basically an unregulated, speculative

instrument. One swipe of a regulators' pen and it's worthless. I think it's completely appropriate the FCA has reminded everyone this week, that anyone who gambles on a cryptocurrency, should plan or have the working assumption that they could lose all their money, so full marks to the FCA for raising that point very early on. I think the thing with Bitcoin that people forget is that if you're interested in climate change, Bitcoin is an absolutely appalling situation. It uses a technology called blockchain to keep the ledger of supposedly who owns it and it's very, very energy intensive. So, Bitcoin is estimated to consume as much electricity as a quarter of the whole of the UK every year, and it's got the same carbon emissions as New Zealand. So, from a sustainable, environmental point of view, it's also not good.

**Nick:** With the comments you were making earlier about the increase in activity and level of exposure on ESG, sounds that it could be short lived. But let's see how things develop. It doesn't seem London Wall Partners will be recommending Bitcoin and I couldn't agree more. So, one thing we haven't talked about today is Brexit. It's surprising how such a big issue ceases to be top of the list of concerns, but Ian or Stuart, do you have any thoughts now that the trade deal has been concluded and as we enter the new era, Ian?

**Ian**: Most of the economic arguments about leaving the EU are well-rehearsed, I don't really want to go over them again, and it will take time to see quite how things pan out in practice. In one sense, although the government has hailed the Free Trade Agreement as the conclusion of Brexit, there is still a lot that needs to be done. The Deal concluded at the end of December covers only a few industry sectors, with one of the most important from the UK side, financial services was left in limbo. So, I do think it is likely that we will see renewed, but lower-key negotiations on financial services, security issues and data flows and possibly other things too. That will all have to happen, before

we can fully assess where the UK truly stands in its new relationship with the EU.

**Nick:** Stuart, anything to add?

**Stuart:** Not really, with the companies held in our model funds, we have very few exposed to the UK economy. There's clearly going to be some supply issues for various segments of society in the coming months, but that doesn't affect our portfolios I believe.

**Nick:** Thank you, Ian and thank you, Stuart for your helpful thoughts, which are much appreciated. In my previous closing remarks in last years' updates, I highlighted our focus on recommending quality assets, how we should never let the market should be our guide and how we must plan, allocate and invest, in that order, to have a good chance of achieving optimal outcomes.

I used the analogy of if we're building a house, the first place we go is to develop some plans, before we start building it and buying the materials. And that's the same situation when it comes to our personal financial planning. I also spoke about why we need cash not income and the dangers of investing for dividends, how wisdom and prudence dwell together and are much needed when investing, and how successful investing is not about the absence of challenges; it is about having the wisdom to manage them and keep moving forward.

Well, 2020 has not been absent its challenges when investing our savings and reserves, the heightened uncertainty has only served to highlight the critical importance of constructing a proper, well-thought through, comprehensive financial planning strategy and ensuring the maintenance of personal financial stability by being positioned to withstand the unexpected. Dr Mark Carney, former Governor of the Bank of England, and one of Ian's former

colleagues, referred to the concept in one of his four recent Reith Lectures, which I've been listening to and are fascinating and I would highly recommend anybody to listen to them if you haven't already done so.

He talked about creating anti-fragile systems, ensuring we can withstand the risks we can see and those we don't. That's as relevant a concept to us as individuals as to the G20 authorities and policymakers to whom Dr Carney was referring. Another matter Dr Carney referred to in his lectures, which resonated with me as being absolutely fundamental, was that if the Credit Crisis and Covid have taught the world anything, it is humility. Pride and luck are excluded from our firm's vocabulary and have been for many years; there is simply no room for us to be self-congratulatory or to rely purely on chance.

Indeed, quite the contrary; a large part of our job in helping our clients, is to be constantly looking forward and being "on watch"; prepared that something might be lurking around the corner waiting to bite. We believe this is a sensible and prudent approach, along with all the other "Principles of Responsible Investing" set out by the United Nations and other respected organisations, and we like to work with fund and business managers who share the same philosophy. We believe the aim for net zero is entirely consistent with our aim to deliver absolute and positive real returns over the long term within an appropriate plan tailored to each family we serve.

Thank you to everyone who has dialled in to our call this morning. And thank you, again, to Ian and Stuart. We plan to hold our next client update on market and investment issues at 11.00 a.m. on Thursday 22 April, and I do hope you will be able to join us then – interestingly it's five years since the Paris Agreement was signed. In the meantime, enjoy the rest of your day and do let us know if you have any questions or believe there are people to whom you think we should be speaking. Thank you so much. Good afternoon.

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