



Weekly Digest

Week ending **07 August 2016**

Rethinking retirement

Yesterday's FT contains an article asserting that Britain has lost "nearly one-fifth of its dollar billionaires last year". There are now a mere 106 dollar billionaires in the UK, with 68 resident in London. What may be of great concern to those that have dipped into mere multi-millionaire territory is that last week the FT informed us that now is the "worst time ever" to retire.

The traditional approach to defined contribution retirement provision was saving up until retirement and then using the aggregated assets to buy an annuity. While there is no direct linkage between prevailing annuity rates and the BoE's base rate, it is likely that last week's 25bps cut will put further pressure on annuity rates. This would make the purchase of an annuity at retirement yet more expensive and while there are benefits to the guaranteed income stream from an annuity there are also some drawbacks which many investors find harder to overlook as interest rates fall. As a result many investors are looking at other investment options because the traditional norms of retirement are arguably less relevant today. For example, the classical retirement case of the past saw an individual purchase an annuity 'at retirement' which would then fund a reasonable lifestyle, but buying an annuity with a sufficient level of income to fund retirement requires a huge pot of assets. As a result of this, many individuals are unwilling (or unable) to lock in a low interest rate today and are instead looking for alternative homes for their investments in the short term.

We are, collectively, significantly under saved for retirement. There are a number of reasons why this may be the case such as people living in the moment and convincing themselves that retirement is so far off that they can worry about it at a future date. Yet we all know that there is no substitute for time in the market and, if anything, the public should be making difficult decisions in terms of their spending from an early age which would

help themselves in the long run. This requires increased education and an increased awareness of the difficulty that those without sufficient funding will face in retirement. Given our ageing population, there is surely no chance that the government will materially increase retirement provisions meaning that, if anything, the need to self-fund retirement will likely increase with time. Another reason that people may be in denial about their retirement is that to date there have not been widespread stories of penniless pensioners. Perhaps this is because those retiring today are the last vestiges of the defined benefit generation or perhaps it is because those retiring today benefitted from the substantial appreciation of property over the last 30 years to give them ample equity to extract by downsizing their homes to fund retirement. Looking forward from here, the days of defined benefit pensions are numbered and given the cost of accommodation in the UK and the increase in usage of rental property there is no guarantee that today's practices will be replicable in the future.

Predicaments such as these are exactly why the managers of our core portfolios focus on delivering Outcomes Based Solutions (OBS). They believe that in coming years people will focus more on their financial needs in and around retirement and that they will look to them to provide investment solutions that both target a return outcome and make the journey to that outcome as straightforward as possible. It is this focus on whether they should be providing the investment solution as opposed to simply focusing on whether they can and they think this will be a key differentiator for their OBS in the coming decades. Traditional benchmark-centric investment approaches will not, in their opinion, offer the correct balance between investor risk and return requirements to fill the gap left by expensive annuities. Clearly this is not a concern for the UK's remaining 106 dollar billionaires, but for the 99.99% of the population not in that category, sensible, early planning for retirement is an absolute must.



The Marketplace

- Bank of England cuts rates and adds to QE
- US sees continued job creation
- Bank of Japan announces fresh stimulus
- JGBs sell off; gilts rally
- Oil rebounds midweek

Market Focus

Global

- Global equities returned -0.3% last week, while emerging markets fared better, adding 1.4%. Global bonds fell by 0.7% although UK gilts and corporate bonds returned 0.8% and 1.7% respectively.

UK

- The Bank of England (BoE) eased policy last week after severely downgrading its growth forecasts for 2017, from 2.3% to 0.8%.
- The Bank cut interest rates by 0.25 percentage points to an all-time low of 0.25%. The cut was widely expected, but the Bank's decision to expand its quantitative easing programme by GBP 70 billion was more of a surprise. The additional purchases include a decision to buy GBP 10 billion in corporate bonds. A so-called Term Lending Scheme was also introduced, freeing up an additional GBP 100 billion of central bank reserves for the banking sector to lend out.
- Mark Carney, Governor of the BoE, also indicated that a further cut is likely this year, but continued to voice his scepticism towards negative interest rates.

US

- In the US, the latest payrolls number printed above expectations, with 255,000 new jobs added to the economy versus 108,000 expected.

Japan

- In Japan, government bond yields rose last week, as expectations that the Bank of Japan would take interest rates further into negative territory waned. The ten-year JGB posted its largest four-day loss since 2003 last week.
- Stimulus measures announced by the Prime Minister, Shinzo Abe, also underwhelmed despite Japan becoming the first major economy to formally announce a fiscal stimulus programme aimed at stimulating domestic demand. Of the JPY 28 trillion committed, JPY 4.6 trillion has been earmarked for 2016.

Commodities

- Oil rallied by 4.3% as Brent crude recovered strongly from falls earlier in the week. At the time of writing, Brent is trading at circa USD 44 per barrel.

James Klempster, CFA & Scott Gordon

Asset Class/Region	Currency	Currency returns			
		Week ending 05 August 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	0.5%	0.5%	7.8%	5.6%
United Kingdom	GBP	1.2%	1.2%	11.9%	4.7%
Continental Europe	EUR	-0.4%	-0.4%	-4.7%	-12.8%
Japan	JPY	-3.2%	-3.2%	-16.3%	-21.5%
Asia Pacific (ex Japan)	USD	0.8%	0.8%	8.9%	1.2%
Australia	AUD	-1.2%	-1.2%	6.2%	1.6%
Global	USD	-0.3%	-0.3%	4.6%	-0.6%
Emerging Market Equities					
Emerging Europe	USD	1.1%	1.1%	12.4%	-2.3%
Emerging Asia	USD	1.7%	1.7%	9.0%	1.4%
Emerging Latin America	USD	1.3%	1.3%	34.1%	10.8%
BRICs	USD	1.5%	1.5%	11.1%	-2.4%
MENA countries	USD	-0.5%	-0.5%	0.4%	-16.2%
South Africa	USD	-0.2%	-0.2%	25.7%	-2.7%
India	USD	0.4%	0.4%	9.4%	-2.1%
Global Emerging Markets	USD	1.4%	1.4%	13.4%	1.7%
Bonds					
US Treasuries	USD	-0.7%	-0.7%	5.4%	5.8%
US Treasuries (inflation protected)	USD	-0.3%	-0.3%	6.8%	5.4%
US Corporate (investment grade)	USD	-0.8%	-0.8%	8.4%	8.3%
US High Yield	USD	0.4%	0.4%	12.4%	5.6%
UK Gilts	GBP	0.8%	0.8%	15.4%	16.3%
UK Corporate (investment grade)	GBP	1.7%	1.7%	13.6%	14.1%
Euro Government Bonds	EUR	-0.2%	-0.2%	6.3%	7.8%
Euro Corporate (investment grade)	EUR	-0.1%	-0.1%	5.8%	5.8%
Euro High Yield	EUR	0.3%	0.3%	6.3%	4.7%
Japanese Government	JPY	-0.9%	-0.9%	5.7%	7.5%
Australian Government	AUD	0.0%	0.0%	7.1%	8.0%
Global Government Bonds	USD	-0.8%	-0.8%	10.3%	11.7%
Global Bonds	USD	-0.7%	-0.7%	8.5%	9.3%
Global Convertible Bonds	USD	-0.2%	-0.2%	1.8%	0.8%
Emerging Market Bonds	USD	0.5%	0.5%	13.8%	14.4%



Asset Class/Region	Currency	Currency returns			
		Week ending 05 August 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	-2.3%	-2.3%	14.8%	19.0%
Australian Property Securities	AUD	-1.9%	-1.9%	17.4%	16.4%
Asia Property Securities	USD	-0.6%	-0.6%	7.3%	0.7%
Global Property Securities	USD	-1.4%	-1.4%	12.5%	11.6%
Currencies					
Euro	USD	-0.8%	-0.8%	2.1%	1.7%
UK Pound Sterling	USD	-1.2%	-1.2%	-11.3%	-16.2%
Japanese Yen	USD	0.2%	0.2%	18.1%	22.6%
Australian Dollar	USD	0.3%	0.3%	4.6%	3.6%
South African Rand	USD	1.3%	1.3%	12.8%	-6.8%
Swiss Franc	USD	-1.2%	-1.2%	2.2%	-0.2%
Chinese Yuan	USD	-0.2%	-0.2%	-2.4%	-6.7%
Commodities & Alternatives					
Commodities	USD	0.1%	0.1%	5.6%	-9.4%
Agricultural Commodities	USD	0.3%	0.3%	2.5%	-2.6%
Oil	USD	4.3%	4.3%	18.8%	-10.7%
Gold	USD	-1.1%	-1.1%	25.8%	23.1%
Hedge funds	USD	-0.1%	-0.1%	0.4%	-4.2%

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