# Investment Viewpoint

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**Developed vs emerging markets**
Investors typically fall into one of these two categories, but what's the difference?

**Savers in the dark about their pension**
How to plan for a more comfortable retirement.

**The search for a reliable retirement income**
Generating investment income in a low interest environment.

# Developed vs emerging markets

The most popular markets among investors typically fall into one of two categories – developed or emerging. There's no universal definition for either category, but MSCI, a research firm which provides many of the indices used by investment funds as benchmarks, classifies countries according to three main criteria: economic development, liquidity and market accessibility.

To put this into context, developed markets are economically advanced and have active and easily accessible capital markets. On the other hand, emerging markets (EMs) tend to experience fast growth, but their capital markets are less mature and may be harder to access.

MSCI classifies the US and Canada, most Western European and Scandinavian countries alongside Australia, New Zealand, Japan, Hong Kong and Singapore as developed markets. There are too many EMs to list individually, although the BRICS – Brazil, Russia, India, China and South Africa – rank among the fastest growing. It might come as a surprise to see China and India listed as emerging considering the size of their economies, but they started from a lower base than developed markets.

## A new dawn

Traditionally, EMs have been associated with commodities such as oil and precious metals, but these days they are home to global leaders in several industries. Companies like Tencent and Alibaba are not household names yet, but they are the Chinese equivalent of the West's big tech players, and they serve a growing consumer sector in China's middle class.

In fact, demographics are working in favour of EMs as a whole. According to the Organisation for Economic Cooperation and Development (OECD), most of the global growth in the middle class over the next 12 years will come in EMs. An expanding middle class leads to greater consumption and domestic demand; two of the key driving forces behind economic development.

*It is also worth noting that many EMs are undertaking structural reforms which should help to stabilise their economies. For instance, in 2016 India removed from circulation its two highest denominated currency notes to reduce tax evasion.*

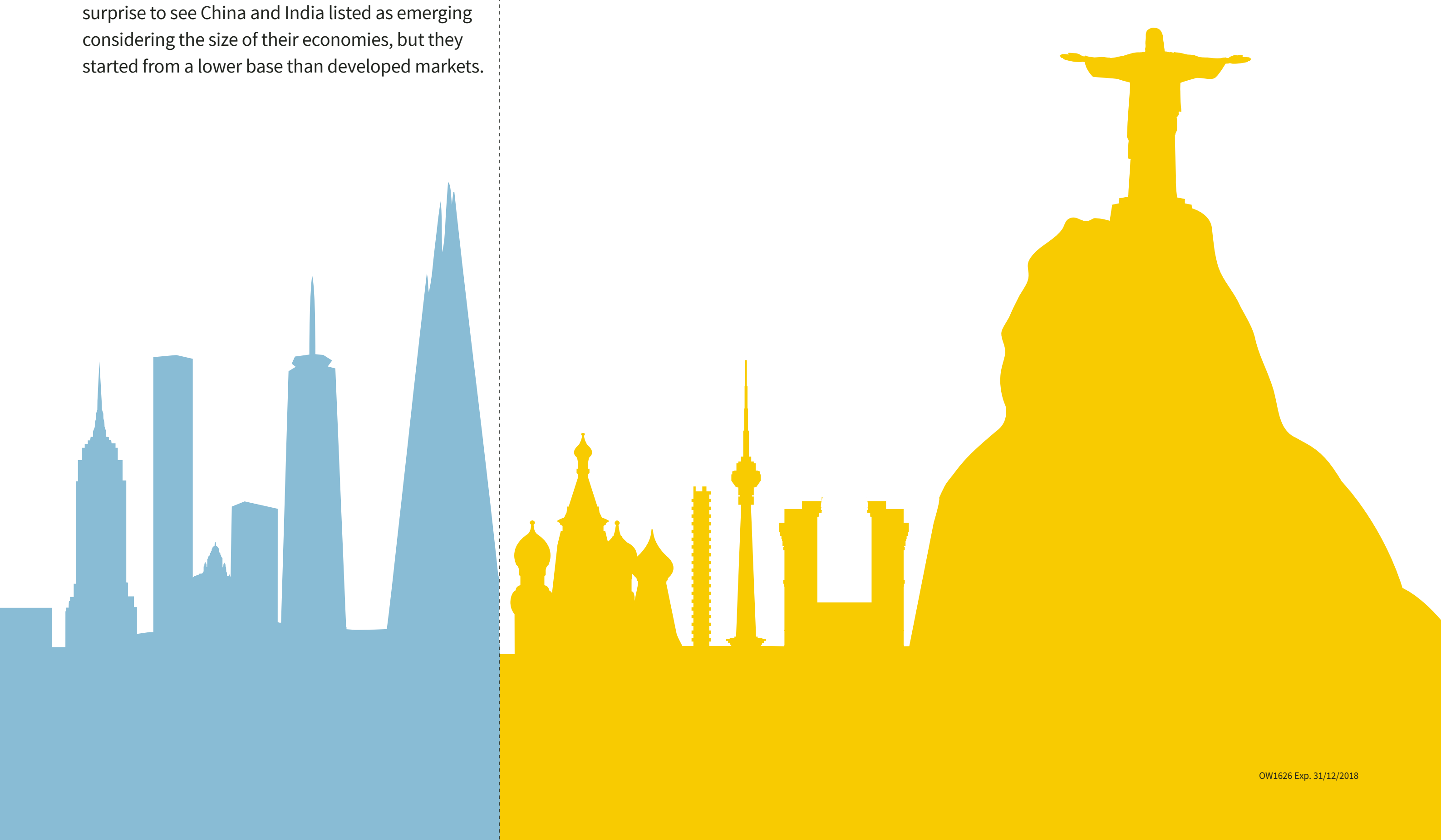
## Should you invest in EMs?

When deciding whether to invest in developed or emerging markets, investors must weigh up risk against reward. The risk of investing in EMs tends to be higher, due to geopolitical instability and less transparent capital markets, but so are the potential returns that could be earned in rapidly-expanding countries.

In general, EMs are suitable for long-term investors who can cope with occasional market turbulence. This principle is reflected in our investment propositions; the auto-rebalancing Graphene model portfolios and our actively-managed Omnis Managed Portfolio Service. In both cases, EM assets account for roughly 15% of the adventurous portfolios and 10% of the balanced portfolios, while the cautious portfolios hold little or none.

**For guidance on which type of portfolio matches your needs, please get in touch.**

*Remember, the value of your investment can fall as well as rise, no matter where you invest. You may not get back the amount you originally invested. The returns on overseas investments may also be affected by currency fluctuations.*



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# Savers in the dark about their pension

Are you among the 30.4 million working-age people who don't know if their pension pot will be big enough to afford a comfortable lifestyle in retirement?

According to a report by the Pension and Lifetime Savings Association (PLSA), some of the blame for this worrying statistic could be down to simply not knowing how much retirement income is needed. Perhaps unsurprisingly then, 70% of those questioned said they would save more if they had a target to aim for.

## So how do you go about finding the income target that's right for you?

We could look to Australia, where savers have defined income goals depending on whether they want a 'modest', or 'comfortable' standard of living in retirement. Here in the UK, if the study by Which? is anything to go by, every household needs a pension pot of at least £370,000 to feel comfortable in retirement.

## Take control of your spending – and saving

Of course, everyday living expenses and the cost of renting or buying a home will take priority with your finances. And if you have a dependent family those 'everyday' costs will demand a bigger slice of your available income. But at the same time, it is extremely important to start saving as early as possible.

Worryingly though, current savers could be hugely underestimating how much they would need to set aside for retirement, with the average Brit saving just 12% of their annual income, something that would create a significant shortfall in disposable income once they reduce, or stop working.

**We can help you set clear investment goals and plan for a comfortable retirement. Please get in touch to find out how.**

**While the PLSA is lobbying the government and the pension sector to introduce targets for savers, there are steps you can take to get to grips with your own financial situation and plan for the retirement you want:**

1. Take control of your spending
2. Create a long-term financial plan
3. Explore ways to boost your pension pot
4. Monitor the progress of your plan
5. When the time comes, know when, and how best, to convert your pension savings into income

*The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.*

# The search for a reliable retirement income

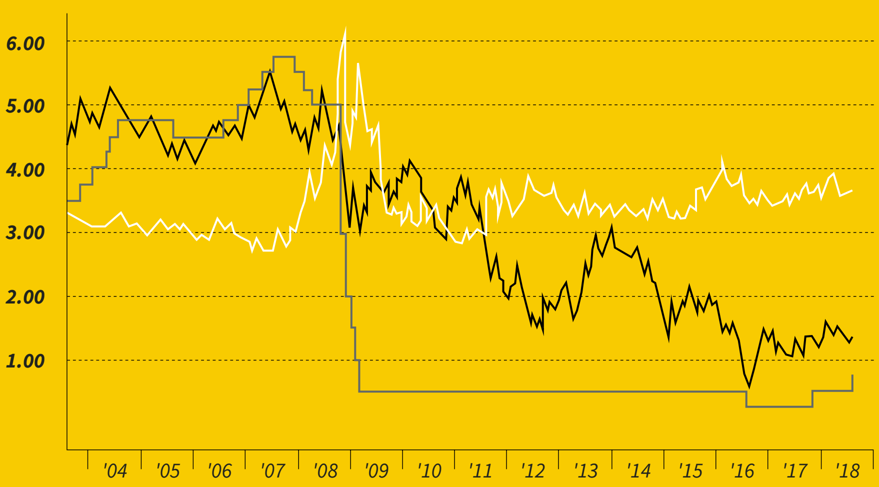
**To find out more about the investment and income solutions we can offer, please get in touch.**

It's been over three years since the April 2015 pensions changes which scrapped compulsory annuities and gave pensioners greater choice over how to take their retirement income.

This historic change to UK pension legislation opened up a range of investment opportunities for pensioners. With increased control of their pension, investors can seek to position their portfolios to deliver the income required, while retaining – and perhaps even growing – their invested capital.

***UK interest rates, gilt yields and dividend yields (%)***

*10-Year Gilt Yield* *BoE Bank Rate* *FTSE All-Share Dividend Yield*




***Source:*** *Bloomberg Finance L.P*

*You should not use past performance as a reliable indicator of future performance. It should not be the main or sole reason for making an investment decision. The value of investments and any income from them can fall as well as rise. You may not get back the amount you originally invested.*

## Generating income in a low interest rate environment

While the changes offer many opportunities, generating investment income remains difficult – particularly in view of low interest rates.

As the chart shows, the Bank of England's target interest rate had been stuck at 0.5% for more than eight years. It was cut to 0.25% in August 2016, then increased to 0.5% in November 2017, then 0.75% in August 2018. Meanwhile, the income that can be earned through holding UK government bonds – a traditional staple instrument of low-risk, income-focused investment portfolios – has shrunk from over 5% before the 2008 financial crisis, to 1.3% in August 2018.

## Equity markets risk income stability

The chart also shows that the dividend income available on UK equities has risen somewhat, making them an attractive proposition for many investors.

However, income-seekers should be wary of rushing headlong into equities in search of the returns that have been eroded in other asset classes. Investing in equities comes with a degree of risk, particularly for those relying on their investment portfolio for their means of living.

Should equity markets suffer a setback, retirees may find their pension fund reduced in size and incapable of generating the necessary income.

## Taking a diversified approach

A robust income strategy should not be overly reliant on a single asset class. But making a decision on which asset class to hold is tricky – the top performer changes regularly and the returns can be volatile.

Investors who are over-committed to one asset class run the risk of disproportionate losses should that asset class underperform.

An alternative approach is to take a much wider view and consider other potential sources of income from a broader range of asset classes and capital structures, across many different countries and regions.

Taking a more diversified approach means that a drop in the value of one asset may then be offset by increases in other asset classes, leading to smoother overall performance – and a potentially more stable source of retirement income.

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