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UK remains in crisis mode

Despite a fast vaccine rollout, PGIM Fixed Income's Katharine Neiss says the recent Budget highlighted the UK's continued fragility (page 2)

Renowned fund manager Tony Yarrow to retire

Tony Yarrow, the founder of Wise Funds, will retire at the end of June.

One of the UK's longest-serving fund managers, Yarrow's career as an adviser and investor spans almost four decades. He will stay on as a trustee of the employee-owned company and remains an investor in Wise's Multi-Asset Growth and Multi-Asset Income funds.

Yarrow commenced his career as a financial adviser in 1984 and began managing funds in 1988. His seasoned co-portfolio managers at Wise, Vincent Ropers and Philip Matthews, will continue to co-manage the two strategies. Both managers share Yarrow's value-orientated style of investing.

"We have been working on a succession plan for the last five years. I am lucky to be able to leave the funds I launched in the hands of two talented and experienced managers," Yarrow says.

"More than ever before, investors need to be able to rely on excellent active managers who combine a rational and patient approach with the tactical ability to see and take advantage of opportunities as they arise in the market – as well as the courage to identify herd behaviour and avoid it. Vincent and Philip are two such managers and I wish them, and all our investors, every success for the future."

The UK remains in crisis mode

Katharine Neiss
PGIM Fixed Income

"It seems to be a case of once bitten, twice shy for the Conservatives"

The Budget earlier this month confirmed the UK remains in crisis mode – despite the vaccine rollout.

As in Rishi Sunak's first Budget last year, the focus remained firmly on support measures, which have been extended to mirror the path towards herd immunity and the easing of restrictions later this year.

During this 'bridging phase', a key objective is to ensure households and businesses remain supported and prevent a fiscal cliff edge, which would result in sharply rising unemployment and a wave of bankruptcies. But beyond the immediate crisis, the chancellor also offered a compass to the UK's post-Brexit future.

The chancellor stood out among G7 peers for his hawkish tone, burnishing credentials for fiscal discipline. But it seems to be a case of once bitten, twice shy for the Conservatives. Balancing the books will not happen through cuts in public spending, as in the years following the financial crisis under former Chancellor George Osborne, but through higher corporate taxes and the freezing of income tax thresholds. However, higher taxes may impact the willingness of consumers to splash recently accumulated savings. So, while there is no denying the UK's generosity of support through the pandemic, there is little indication of a fiscal stimulus 'big bang'.

Despite this, the Budget was not short on vision, setting out a framework for encouraging the 'new economy' in science, innovation, and technology. The chancellor announced a radical tax reduction for firms that invest, with the aim of boosting aggregate investment – an area where the UK has been a notable laggard in the post financial crisis and prolonged Brexit-uncertainty period. Special economic zones will also be created to boost exports, as the UK strikes out on its own to sign new trade deals.

Finally, the Budget reaffirmed the UK's leadership in addressing the climate challenge, with the establishment of a National Infrastructure Bank aimed at financing the green transition, and an updated remit for the Bank of England – making it the first major central bank to have climate change incorporated in its mandate.

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Stephens adds senior banker to team in Frankfurt

Stephens, an independent and family-owned investment bank, has expanded its European capabilities with the addition of healthcare sector specialist Lars Friemann.

With consolidation in the US healthcare space currently well ahead of that in Europe, Friemann will harness the insights and strength of Stephens' US healthcare platform to help unlock the significant opportunities available in Europe.

Founded in the US in 1933, privately-held Stephens established an investment banking presence in Europe in 2014 – opening offices in London and Frankfurt. Its growing European team now consists of more than 40 investment banking professionals.

Brad Eichler, executive vice president and head of Stephens' Investment Banking group, comments: "The addition of a highly regarded professional such as Lars to our Frankfurt-based team further demonstrates our long-term ambitions for Stephens in Europe. Consolidation in the European healthcare sector has only just begun, and the combination of Stephens' powerful platform and Lars' intimate on-the-ground knowledge of this space will be essential in capitalising on the numerous opportunities on offer in the years ahead."

The rise of China's middle class

Chris Kushlis
T. Rowe Price

It is no secret the Chinese economy faces a number of headwinds.

These include slowing growth, a high debt-to-GDP ratio, an ageing population, US trade war tariffs that are still in place, and lower potential growth as resources shift into lower-productivity services. We may also see exports suffer from improved work resumption in other economies as the pandemic is gradually controlled.

However, the long-term drivers for China remain. Urbanisation, infrastructure, and a rising middle class provide pillars for future growth. There also may be a misconception that urbanisation is largely about people moving from rural China to towns and cities. Instead, we believe its main feature is the upgrading of living space and amenities.

Some commentators perceive, incorrectly, that urbanisation is purely about expanding numbers. We see it as expanding spending, as existing urban households upgrade from dilapidated state apartments to modern and often much larger apartments or houses.

The rise of the middle class should also help power China in a different direction. This comes with a rise in disposable income, with household income having grown at about 10% annually. This increased income will likely engender greater spending and subsequently help drive the domestic element of economic growth upward.

"This increased income will likely engender greater spending"

Alongside household consumption, fixed-asset investment will also remain a major theme. The large growth in urban housing space and vehicle numbers will need infrastructure. At the same time, China is finding answers to its ageing population problem in pharmaceutical developments, with this industry already the second largest globally, fuelled by government initiatives.

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Multi-boutique BennBridge adds trio to team

BennBridge, the multi-boutique investment business, has bolstered its senior leadership team with the appointment of Naureen Khan and Dicken Watson.

Khan, who joins from Acadian Asset Management, will lead BennBridge's business development and client relations across the EMEA region. Watson, who assumes the role of chief business officer and general counsel, has joined from OppenheimerFunds.

In addition, Charles Oldmeadow has joined BennBridge to further enhance its distribution efforts across the UK and European intermediary market.

"The key to our business is partnering with the right boutiques, which provides our clients the diversification to navigate different markets and stages of the economic cycle," Doug Stewart, CEO of BennBridge, comments.

"This has been particularly important in the last year, and has led to increased demand across the business, highlighting the strength of our multi-boutique model.

"I look forward to working with Naureen, Dicken and Charles as we continue our efforts to grow our increasingly popular multi-boutique partnership model, widen client access to our world-class investment talent, and further enhance our client offering."

David Osfield
EdenTree

US green energy revival

The new US administration under President Biden is sending a message – environmental issues are back at the top of the agenda after four years of neglect.

The cornerstone of this renewed focus is a ~$2trn plan to decarbonise the US in just 15 years. This will play a key role in the broader global push towards net-zero by 2050.

Since Biden's victory, clean energy has rallied. Hopes of a 'Green New Deal', combined with the increasing appetite for ESG within investing, have helped push up the stock prices of clean energy companies globally, and enabled record amounts to be raised in support of the sector.

As responsible and sustainable investors, we see these two tailwinds as propelling us nearer to a vital and irreversible move towards embracing clean energy.

In America's absence, Europe has forged ahead in clean energy initiatives, establishing an early leadership position. For example, Norway is seen to be well ahead in terms of carbon capture and storage technology. Additionally, Europe is also leading in green hydrogen solutions.

However, with the Biden administration pledging to go green, the US is now poised to step back into a global leadership role in the pursuit of clean energy. With a history of innovation and an unrivalled technology sector – along with policy incentives laid down by the new administration – the US is about to catch up to Europe's lead.

"Since Biden's victory, clean energy has rallied"

Eli Salzmann
Neuberger Berman

The value opportunity

There are portfolio managers working today who have never seen persistent outperformance by US value stocks.

After a 13-year hiatus, value sectors – such as financials, materials, energy and industrials – are back. With economic growth accelerating and rising rates, the stage is set for a multi-year value recovery.

A 13-year break is remarkable for a style that had exhibited systematic outperformance for decades, according to scores of academic studies. Favouring stocks trading at relatively low multiples of earnings has often been held up as the essence of prudent investing.

So, why do we think the tide may be turning at last? The main reasons are expectations for growth, as well as expectations for inflation and interest rates.

An environment of rising rates and steepening yield curves is a major headwind for highly interest rate-sensitive growth stocks, but much less so for value stocks. Moreover, there is one value sector, financials, where the 'borrow short and lend long' model positively benefits from these conditions.

Rising growth, inflation and interest rate expectations are not the only reasons investors should remember the place of value investing in portfolios. After 13 years of outperformance, growth stocks are relatively expensive and may dominate portfolio exposures more than many appreciate.

"The stage is set for a multi-year value recovery"

KL Conversations: Rob Gardner

Rob Gardner
St. James's Place

"We need to shift away from this Milton Friedman belief that the sole purpose of a company is profit"

Entrepreneur Rob Gardner joined our KL Conversations series this month, sharing numerous insights into the state of the investment management industry – particularly the role of ESG.

"At the heart of it, it is simply about making businesses better. We need to shift away from this Milton Friedman belief that the sole purpose of a company is profit, to the much more balanced view that while profit is good – it creates jobs and economic growth – we must be mindful of its impact on people and the planet," Gardner explained.

"We put enormous value on things like crypto, but what if we thought about putting true value on the biodiversity of the planet? There is countless intellectual property locked up in the natural world. What if we applied our financial know-how to unlock the true financial value that exists in our ecosystems? This would create a truly win-win world. I think if we can figure that out collectively as an industry, that will be a game-changer."

In 2006, Gardner co-founded the pensions consultancy Redington. He has since become the director of investments at FTSE 100 wealth management group St. James's Place, while continuing to sit on the board at Redington.

One of his primary focuses at St. James's Place has been to fully integrate ESG into the company's culture and investment processes. "ESG is at the heart of everything we do," Gardner said.

"St. James's Place had been doing ESG since 2014, but it was on the side. What we wanted to do was integrate it into our investment beliefs so we could have more bite."

St. James's Place has become a signatory to the United Nations Principles for Responsible Investment and the UK Stewardship Code – at an A+ rating – among other commitments.

At a time when accusations of greenwashing are rife, Gardner warned of the dangers of not truly incorporating ESG.

"You can tell the difference between a company that authentically walks the walk, versus one that has opportunistically jumped on the bandwagon," he said. "When I ask asset managers about what they are doing at the top level, you wonder is this just an opportunistic fund launch, or is it something where you cut the company in half and you can see ESG throughout?"

Gardner – who in 2016 published a book called Save Your Acorns, aimed at educating children on the importance of making good financial decisions – also highlighted the need for the industry to improve its communications.

"Another thing we can do as an industry is start using plain English on our websites and communications," he added. "We need to separate the regulatory need to drown people in a PhD thesis of rubbish that nobody reads, and have a clear and concise explanation that says: if you invest in this, this is what it means."