BULLETIN

YOUR ESSENTIAL FINANCIAL BRIEFING

ISSUE FOUR

Welcome to this series of topical articles to help you navigate your financial world

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Corcillium
WEALTH MANAGEMENT

Many people are increasingly concerned about global warming and other environmental, social and governance (ESG) issues when it comes to choosing where to put their money. The good news is that investor action on these is increasingly effective. What's more, St. James's Place is at the forefront of efforts to tackle key ESG concerns and is ramping up engagement with fund managers and companies to make a positive difference.

The essence of this is that, as a shareholder, you own a part of each business you invest in. And companies must keep their shareholders happy, especially if there is strong collective pressure.

With more than £140 billion under management and 830,000 clients, St. James's Place is able to exert a powerful influence on companies to set environmental targets, such as net-zero carbon emissions, on your behalf. St. James's Place then makes sure the firms meet these targets through engagement activities such as site visits, investor meetings, setting out recommendations and expectations, and voting at annual general meetings.

STRENGTHENED APPROACH

St. James's Place also amplifies this pressure through membership of the Climate Action 100+ group of investors, which manages $54 trillion of assets and engages with 167 top companies to move them towards net zero. Some 52% of these have set a net-zero emissions target so far. St. James's Place are also members of the Institutional Investors Group on Climate Change (IIGCC).

But there is more to be done. According to ShareAction, other asset managers handling $36 trillion are still neglecting the social and ecological harms of their investments.[1]

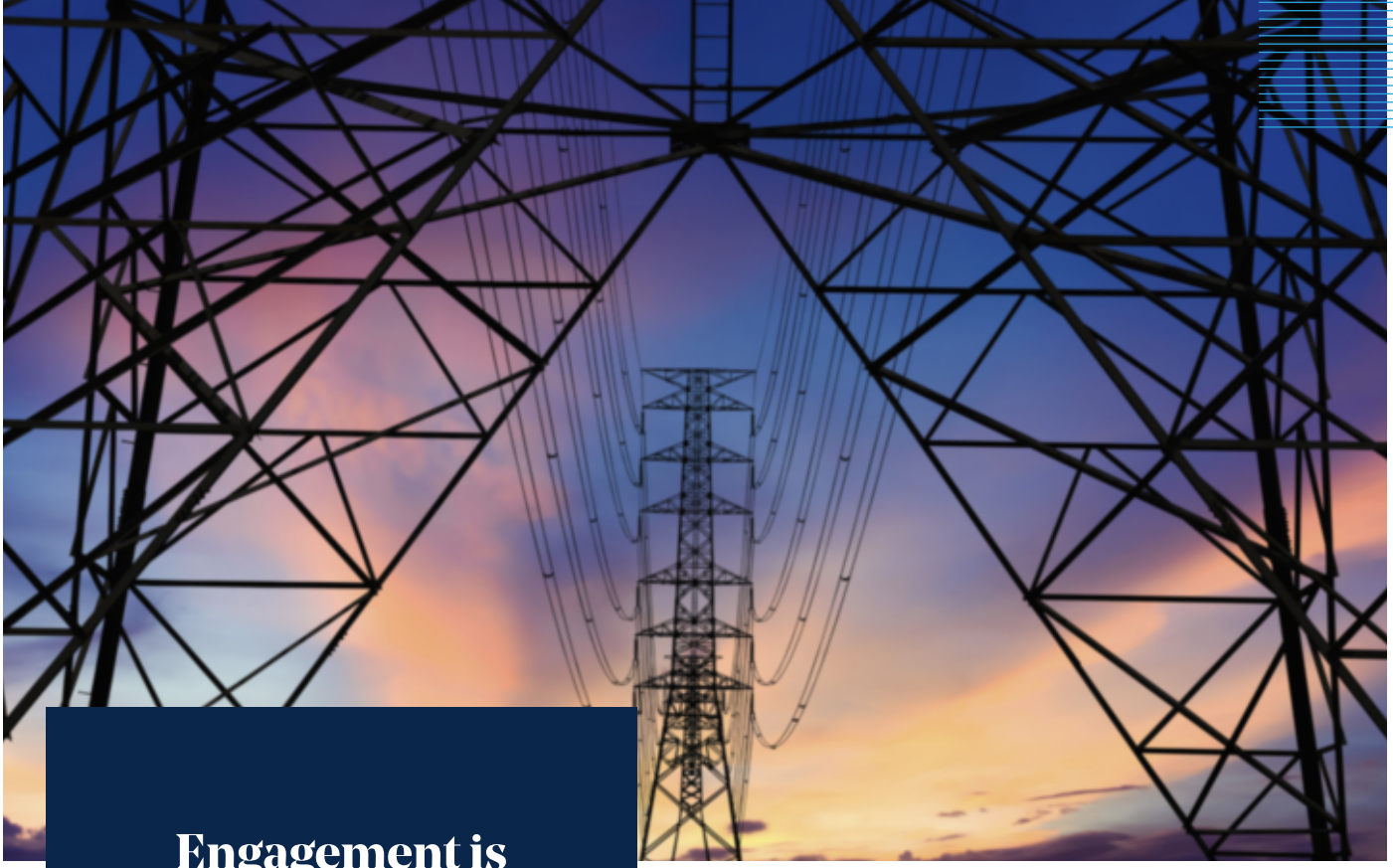
To further strengthen its approach, St. James's Place has joined forces with Robeco to engage directly on ESG issues with companies, which will complement fund managers' existing activities in this area.

Robeco has a successful track record in responsible investing, with over 20 years' experience in engagement. For example, in 2020, it engaged with 222 companies and conducted 941 engagement activities.

"We already talk with fund managers about their approach to investing responsibly a lot," says Petra Lee, Responsible

Why engagement works on tackling climate change

St. James's Place is committed to ensuring investments are used as a force for good. Engagement is a powerful way to maximise our influence over companies and push for change



Engagement is the best way to help our clients invest in a world worth living in

Investment Consultant at St. James's Place. "By working with Robeco we can double down our engagement efforts, encouraging companies to do more and act faster. Robeco will help us use our size and scale to make money a force for good."

THE EVIDENCE FOR ENGAGEMENT

Engagement is one of the most powerful ways investors can tackle ESG issues – and identify related risks and opportunities to support long-term investment performance. They have seen the success of this approach in changing corporate behaviour over the past decade, and are increasingly raising concerns both publicly and in private meetings.

For example, in May 2021, ShareAction reported that HSBC was committing to phasing out finance for the coal industry by 2030 in the OECD, and 2040 worldwide.[2] This came after pressure from a $2.4 trillion group of shareholders. In the same month, Tesco committed to increasing sales of healthier food and drink products after months of engagement with shareholders on the issue.

Engagement has also been effective in encouraging oil companies such as BP and Shell to commit to final and interim net-zero targets.

WHY ST. JAMES'S PLACE CHOOSES ENGAGEMENT

"Fossil-fuel companies have such a bad reputation that many investors who are concerned about climate change previously avoided them completely", says Lee. However, she adds, "We chose a different approach."

"We feel it's more effective for oil and gas companies to transition their businesses to renewable energy sources than for a start-up to provide all our future energy needs. Start-up companies do not have the necessary access to the capital, experience and infrastructure, that the larger energy producers already possess." she says. "We want to move forward more collaboratively. We want to encourage and invest in change, rather than just turn away from it, in this way we can be part of the solution."

St. James's Place therefore supports a greener world through its rigour in selecting and interviewing fund managers and through its work with Robeco.

One key goal is for all of St. James's Place's portfolios to be net-zero by 2050 or sooner, with interim targets.

"Environmental and social change is coming," Lee says. "And we want to be at the forefront. You either embrace it and benefit from the opportunities it creates, or deny it and suffer the consequences. Engagement is the best way to help our clients invest in a world worth living in."

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

Sources:

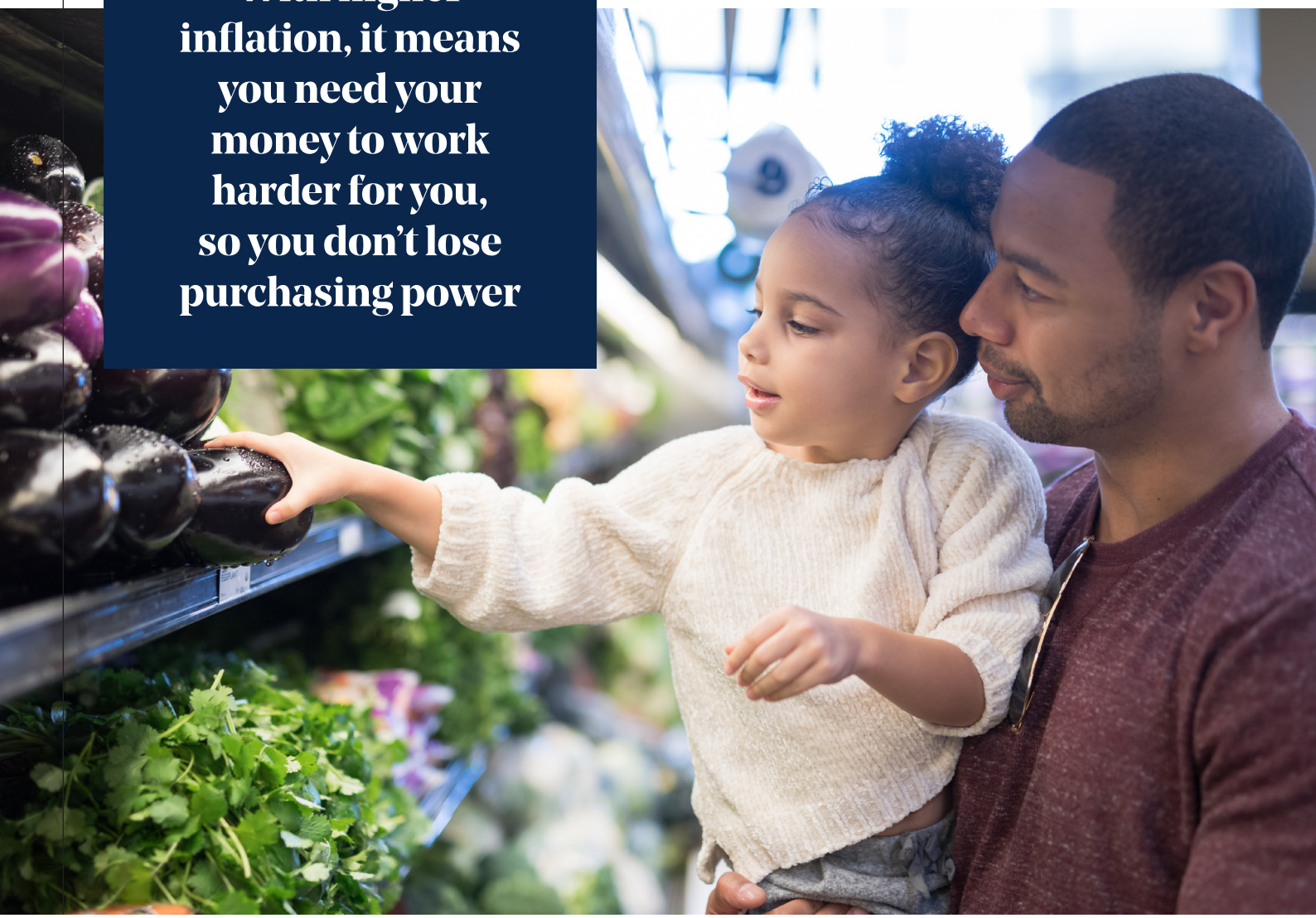
[1] ShareAction, Point of No Returns, March 2020

[2] ShareAction, HSBC coal phase-out passes but the battle is not won yet, May 2021

Understanding inflation

As prices creep up after COVID-19 lockdowns, how should investors think about it?

With higher inflation, it means you need your money to work harder for you, so you don't lose purchasing power



As the COVID-19 restrictions have gradually eased, and consumers have been able to leave their homes and spend their savings, 'inflation' has become an increasingly common sight in the financial news. But what is causing this increase, and is it a cause for concern?

WHAT IS INFLATION?

Inflation measures the change in price levels, and results in money losing its purchasing power over time. In the UK, the Office for National Statistics measures inflation, collecting 180,000 prices of 700 items as part of a sample 'basket of goods', measuring price changes over time. These items include clothing and footwear, food and drink, transport and restaurants.

Governments and central banks want a certain level of inflation to help the economy grow. If prices are gradually increasing, it encourages people to spend now rather than later, to avoid future price rises. It also allows companies to increase their prices and wages, to grow, and to pay down their debt.

On the other hand, the effects of runaway inflation are well known. It can wipe out purchasing power – as the value of a currency falls faster than people can spend their salary, leading to concrete assets being hoarded – and result in a 'capital flight', as people try to take their money out of the country in search of stability.

Therefore, central banks and governments try to keep inflation at a low, reasonable level. In the UK, the US, and many other developed economies, the target is 2%.

WHAT'S HAPPENING TO INFLATION NOW?

The past year has seen a dramatic economic slump. Supply chains were severely disrupted, and many consumers were forced to stay at home – often saving. At the same time, governments added liquidity to the system through low interest rates and various loans and payments to companies and individuals.

As we have moved out of the pandemic, consumers have returned, eager to spend. However, in some cases, supply chains have taken longer to recover, causing prices to increase. A classic example of this is with cars. While demand for used cars has dramatically increased as the lockdown has eased, the stock of used cars remains low, leading to increasing prices.

As inflation is commonly reported as a comparison to 12 months earlier, the result is that inflation for Q2 2021 is compared to Q2 2020 – when prices were suppressed by the first lockdown, and oil prices had collapsed in the face of an OPEC stand-off.

All this has combined to see inflation increase across much of the Western world.

One of the ways inflation can be controlled is through increasing interest rates. By increasing the cost of borrowing, consumers and business will have less to spend, thereby also reducing the amount by which businesses can increase the costs of their products. Higher interest rates also make saving cash a more attractive solution.

Rates are currently at historic lows, hovering just above 0% in many Western economies. With inflation creeping up above the 2% target, some investors are expecting a rate rise in the future. For now though, both the Bank of England and US federal government have described current inflationary trends as "transitory", so are unlikely to make any rash decisions.

WHAT DOES INFLATION MEAN FOR SAVINGS?

With higher inflation, it means you need your money to work harder for you, so you don't lose purchasing power. Due to the low interest rates, increasing inflation may pose a problem for those with large amounts in cash, so long as interest rates remain below inflation, although cash may still have a place in a portfolio thanks to its flexibility, liquidity and security.

For those with investments in equities, inflation isn't necessarily a bad thing. On the one hand, it does mean you need your money to work a bit harder and earn slightly higher returns to generate a return above inflation. And for some companies, it might reduce profits if they are not able to pass on price increases to their customers.

On the other hand, higher inflation often helps to improve a company's debt situation, and many companies are able to pass on increased costs straight to the consumer – for example in mobile phones, insurance and utilities.

This is one of the reasons diversification is so important. No one sector will be the best-performing sector forever, and as inflation increases, some investments may perform better while others may require some adjustment.

Investing in a broad range of assets and companies has the potential to offer protection against the damaging effects of inflation over the longer term.

It's also important to keep in mind that inflation isn't new. It's a constant background factor that fund managers have always considered in their strategies. It is also just one in a matrix of considerations fund managers keep track of and respond to over the long term.

Please get in touch to learn more about this topic and how our fund managers can position your investments for the future.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and the value may therefore fall as well as rise. You may get back less than you invested.

An investment in equities does not provide the security of capital associated with a deposit account with a bank or building society, as the value & income may fall as well as rise.

The importance of an annual tax review

Taking the time to check your tax situation could reward you financially and bring you peace of mind

Tax is dull, unquestionably so. Most of us would rather clear out the loft or scrub the bathroom than settle down to an afternoon reviewing our tax situation.

It's all too easy to be apathetic, but just as a yearly MOT for your car can save you from an expensive breakdown, so sparing an hour or two to review your tax position can potentially leave you substantially better off – and also give you surprising peace of mind.

Without careful monitoring, it's possible to end up paying too much tax or, in some cases, not paying enough, which could see you landed with a fine.

WHEN MIGHT YOU NEED A TAX HEALTH CHECK?

As much as you might dread reviewing your tax status, it may not be as bad as you anticipate. We can go through everything with you in an hour or so, from reviewing your tax code and checking you're making the most of any Stocks & Shares ISAs to maximising tax relief on your pension contributions.

If you're already drawing on your pension or contemplating dipping into it, we can help guide you through accessing your cash in the most tax-efficient way, taking all your finances into account. The last thing you want to do is risk a big tax bill by taking a lump sum out of your pension when you could have taken it tax free from another pot.

Similarly, if you're concerned about leaving your loved ones with a large Inheritance Tax bill, we can help you work through steps to mitigate it.

Tax breaks and allowances let you save and grow your wealth, and advice can help make sure you use them to your full advantage – whether you want to build a nest egg to support a child or grandchild as they face the financial challenges of adulthood or feather your own nest and grow your retirement savings.

It's impossible to say how much money an annual tax review could save you – that depends on your own financial situation. However, when we talk to clients, the value of a proper tax review goes beyond simple financial gain. It's also about the sense of calm that it can bring, leaving you safe in the knowledge that you won't be hit by a surprise tax bill or be caught on the back foot. It's about feeling in control of your money and not letting it control you.

To stay in charge of your situation, it's important to keep the conversation going with us throughout the year and not store up everything for your annual review. Going back to our

car analogy – you wouldn't wait for your MOT or service if the engine was making a funny noise.

What we've learned from the pandemic and remote working is that it has never been easier to stay in touch, with most of us able to slot in quick 20-minute catch-ups over the phone or on Zoom relatively easily.

This can be crucial if your circumstances have changed in some way or there has been any upheaval in your life. It might be that you've changed jobs, been made redundant or become self-employed. Or you may have had a pay rise. All these things could mean you need to manage your finances slightly differently to make sure everything is running as tax efficiently as possible.

It may even be a minor niggle causing you irritation – for example, a new company car or adding a child to your medical insurance has played with your tax code. Talk to us and you may find a quick and easy resolution.

Even if you don't make any changes to your financial plans, catch-ups and regular communication with us always make sense – the more we understand what is going on in your life, the more we will be able to help.

If you would like help identifying simple but effective tax-saving opportunities, please get in touch about completing a Tax Health Check.

Without careful monitoring, it's possible to end up paying too much tax or, in some cases, not paying enough

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

Should I wait to access my pension?

For people who can afford not to dip into their retirement savings, keeping your pension invested for longer could be a wise move

There's a whole range of options when it comes to mapping out your finances for retirement, but one question looms large over everything else. None of us can say how long we are going to live for. So while you can know which savings, assets and sources of income you have to rely on, it's impossible to gauge whether those life savings will need to last twenty years, thirty-five years or even much longer.

We do know, however, that life expectancy has been trending upwards. A man aged 55 today can expect to reach 84 years old, while having a 25% chance of living to 92 years old and a one-in-ten chance of reaching 97, according to the Office for National Statistics (ONS.)[1]

The same ONS data reveals that women tend to have longer lifespans than men, with the average female aged 55 today projected to live to 87. A quarter of those her age will live to be 94 years old, one-in-ten will reach the age of 98 and six per cent will see their 100th birthday. That's nearly double the figure for men.[2]

THE START OF RETIREMENT

As experts in retirement planning, we also know that people aren't retiring in the same way that previous generations did. More people are choosing to work on past the age of 55 – the point at which savers with defined contribution pensions become eligible to start withdrawing their savings. Semi-retirement is becoming more common, where people step back into part-time work or maybe take a couple of years off before returning to their profession or retraining.

Approaching the age of 55 is becoming more like the 'start' of retirement and people are increasingly turning to us and asking 'should I leave my pension where it is?'

Here are the key points to think through:

If you plan to keep working or have other income streams – such as property, for example – leaving your pension invested gives it an opportunity to potentially grow. This means that when you decide to take the tax-free lump sum that savers are entitled to (currently 25% of your total pension savings), it could be a larger amount.
Be aware that any investment can fall in value.

In addition, one strategy in retirement is to live off the dividend income and interest from investments, rather than withdrawing the capital saved. The larger your pension, the more potential income it may generate.

This needs to be tempered with ensuring that the

investment strategy for your pension has been adapted appropriately. This is because the best way of investing when accumulating savings is very different to the optimal way of investing for later life, when there needs to be a careful balance between preserving your savings while also using them.

You can keep contributing to a pension and receive tax relief until the age of 75, boosting your savings to help provide a comfortable 'full' retirement when you get there. (Tax relief is the government top-up to your savings that's based on your income tax band).

However, people can get caught out by a little-known clause called the 'money purchase annual allowance' (MPAA). The rules around this are quite complex and it's vital to get expert advice, especially if you haven't properly 'retired' yet and plan to carry on working and paying into your pension.

The MPAA is a restriction on the amount that an individual can keep saving into their pension and still receive tax relief, which is £4,000 for the 2021/22 tax year. It is often triggered by withdrawing more than the permitted tax-free lump sum, and can clearly have major detrimental effects on your retirement plans.

There needs to be a careful balance between preserving your savings while also using them

It can be difficult to figure out what you need to save for retirement and the targets you might want to reach to be comfortable financially on your own. We can help with this by using sophisticated cashflow planning software to factor in what might happen to your retirement if there were slumps in investment markets and what the financial implications of gradual retirement may be. Please contact us for more information.

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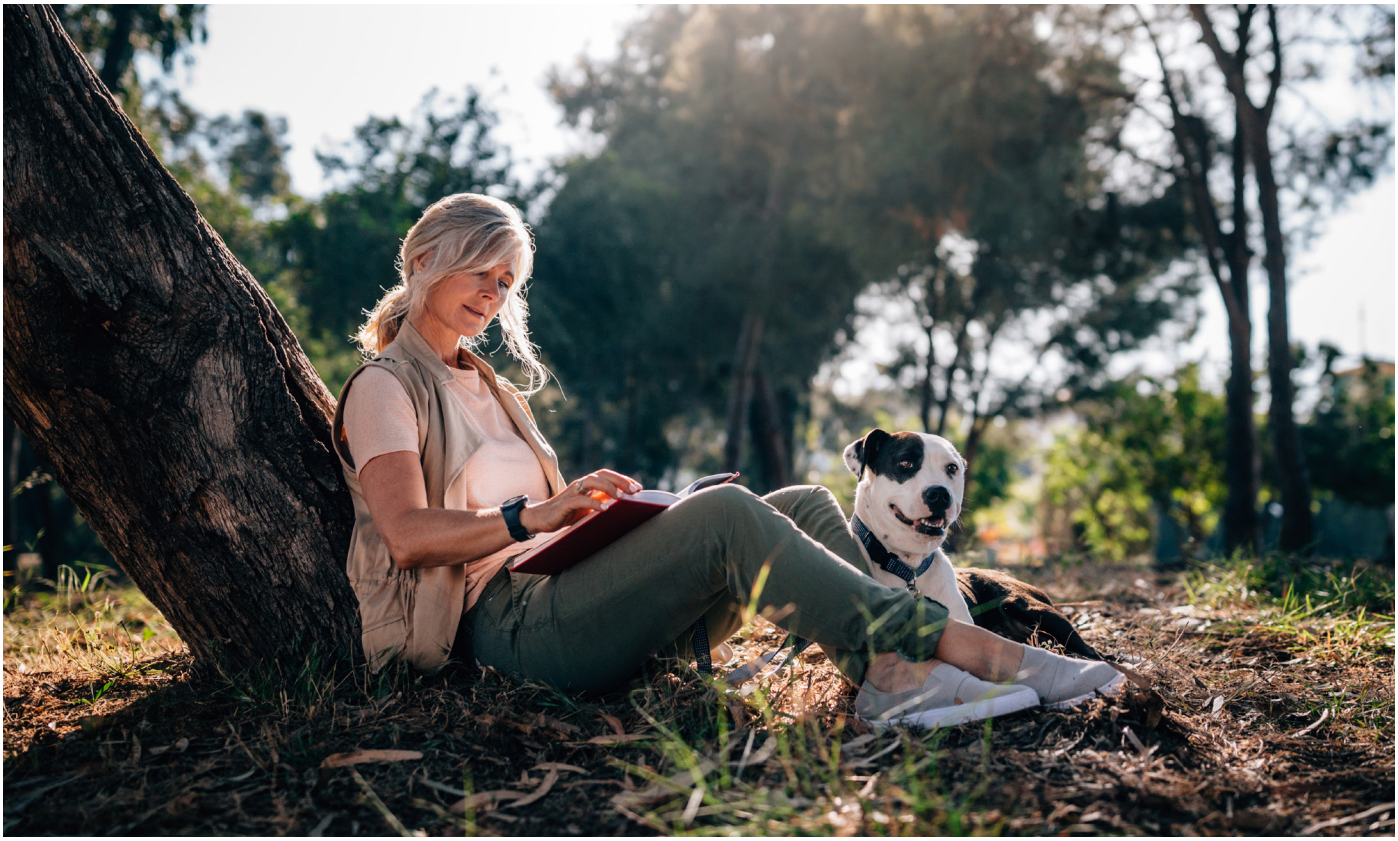
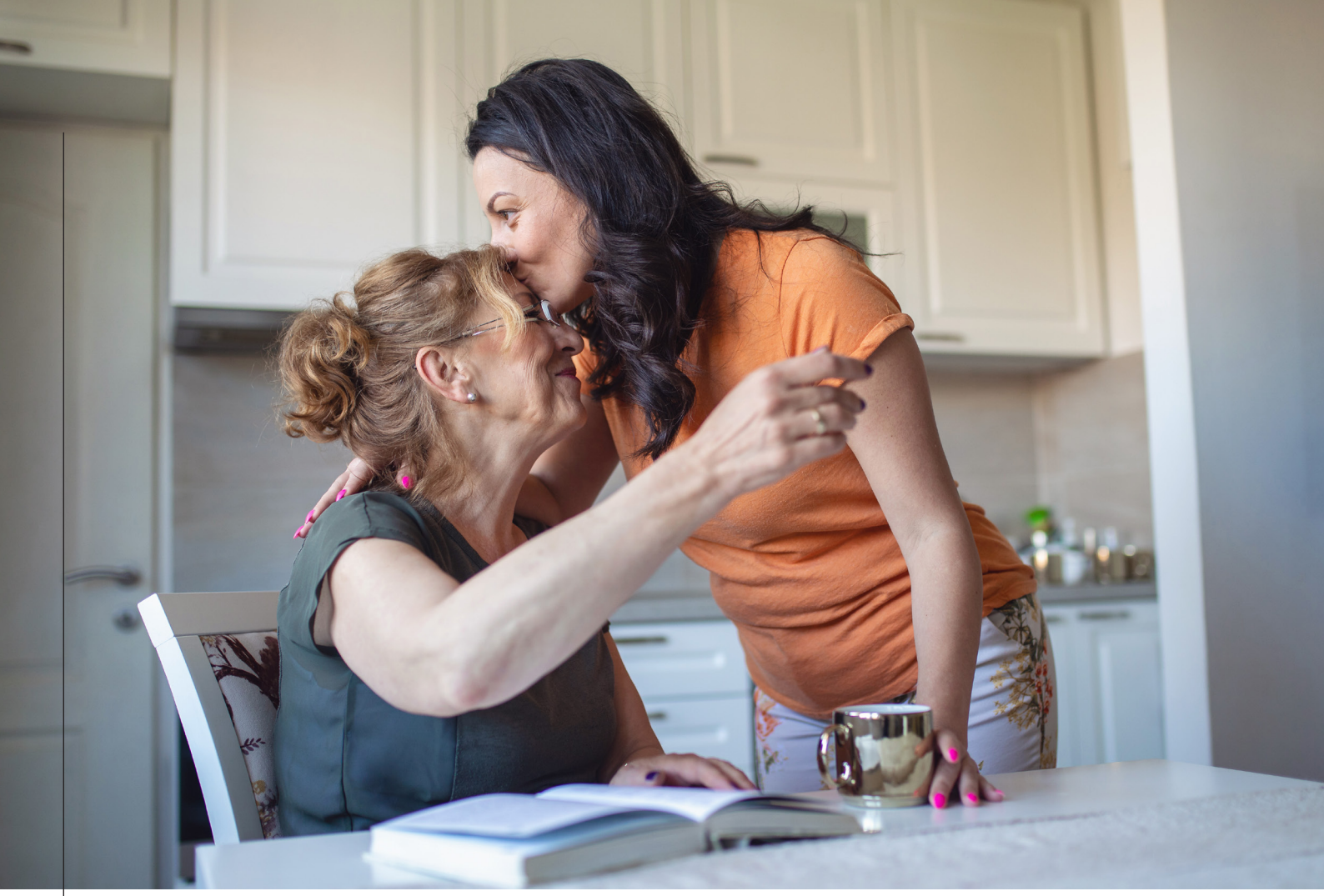
The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief is generally dependent on individual circumstances.

Sources:
[1,2] Office for National Statistics, Life expectancy calculator, dataset released on 2 December 2019





What should I do if one of my parents needs care?

If you're concerned about arranging and paying for care for an elderly relative, having a step-by-step plan in place – and seeking financial advice – can help to take the stress out of the situation

If you have a parent who might need some form of long-term care, the chances are you won't be sure where to turn for guidance, while at the same time you'll be feeling a wide range of emotions," says Ros Clarke, a Long-Term Care Consultant at St. James's Place.

The best way to manage the situation, she says, is to acknowledge it as early as possible and then have a step-by-step plan in place. Here's what Ros and her colleague, Tony Clark, Senior Propositions Manager at St. James's Place, recommend:

Step 1: identify the need for care

This can often be a difficult conversation to have with your parent, says Tony, and the problem can be heightened as many people are shocked to find out that state funding for long-term social care is extremely limited.

"If you can recognise a need for care as soon as possible, the journey is usually so much easier," says Ros. "You'll have the time to make choices and investigate your options without too much pressure."

Step 2: assess your parent's needs

The best way to do this is to have a care-needs assessment, which is carried out by the social-services department of your local council. The main purpose is to establish exactly what support your parent needs, which then allows you to choose the right kind of care.

"A lot of people who will be funding their own care skip this step," says Ros. "But it's always helpful so you really understand the care needs your parent has."

Needing care doesn't always mean moving to a care home

Step 3: understand the care options available

Needing care doesn't always mean moving to a care home, Tony explains, as a lot of people are able to receive support in their own home, allowing them to stay put. This minimises upheaval, and if your parent is funding their own support, the cost of in-home care can be significantly lower than the cost of residential care.

It's also important to think about how your parent's needs might change in the future and what the financial implications of that may be. "For example, you might decide to start with care in your parent's own home for a few hours a day," says Tony. "But you might also recognise that in a few years' time, they may need to move to a residential home, which will ramp up the cost. That kind of thinking helps you to plan ahead and hopefully avoid a financial shock."

Step 4: find the right kind of care

Once you are clear on your parent's needs and options, you can start to find the right solution for them.

The Care Concierge service from Care Sourcer, available through St. James's Place, can be particularly helpful with this step (as well as the previous ones), says Ros. "You can talk to them about the options available and what will be best for your parent. They can also help with access to local-authority services and do things like liaising with hospital discharge teams, which can be complex and hard work if you don't understand the system properly. This can really help to take the pressure off at a stressful time."

Step 5: paying for care

What your local authority will pay towards your parent's care is calculated by a means test.

If your parent has more than £23,250 in savings and assets in England and Northern Ireland, more than £28,750 in Scotland or more than £50,000 in Wales, and they don't qualify for any NHS support, they will not be entitled to any financial help in paying for their care. What's more, if they are moving to residential care, the value of their house will be included in the assessment (unless a spouse or dependant will remain in their property).

As these threshold figures are very low, most people need to fund some or all of their care costs.

"Financial advice is vital at this point," says Tony. "You're likely to be very emotionally involved, but trying to make big decisions about things like this is difficult at the best of times. An adviser will be one step removed and can take the emotion out of it. They'll be able to look at the bigger picture for the whole family and help you assess your options."

ARRANGE A POWER OF ATTORNEY

At the earliest possible stage it's a good idea to set up a power of attorney (PoA). This allows someone you trust to make financial and healthcare decisions on your behalf if you're not able to. If you don't have a PoA in place, things can get very complicated, stressful and expensive if your parent becomes incapable of managing their own affairs. Again, we can help with this.

FINALLY, REMEMBER YOU'RE NOT ALONE

"Throughout this difficult time, anxiety levels can go through the roof, and you can feel very lonely," says Tony. "It's important to talk to the people who are there to help you. Help is out there, so make sure you use it."

The services provided by Care Sourcer are separate and distinct to those offered by St. James's Place.

Powers of Attorney involve the referral to a service that is separate and distinct to those offered by St. James's Place. Powers of Attorney are not regulated by the Financial Conduct Authority.

ST. JAMES'S PLACE
WEALTH MANAGEMENT

Bring your goals a step closer.

Putting together a plan as early in the tax year as possible to utilise the savings allowances and exemptions available can have a big impact towards achieving your long-term goals. When it comes to investing, you might want to take action now to give your money longer to grow – or set up a regular savings plan to invest a little each month. The key is to plan ahead and take advantage of the tax breaks available.

So, whether it's making best use of your ISA allowance, topping up your pension or giving younger generations a helping hand, we can help you head in the right direction.

Why wait?

Contact your St. James's Place Partner today.

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SJP12432b V4 (08/21)