

# Weekly Digest

Week ending 05 March 2017

## Outcome-based investing: a tool for pensions

Last week Momentum UK published the second UK Household Financial Wellness Index. The data provided some interesting insights into how people think about retirement and served to remind us of how under-saved the population is in terms of pension provisions. The research highlighted that while 78% of the population are confident in their long term financial situation only 15% agree that they have “adequate provision for retirement”.

With the age of generous final salary pensions now slowly coming to an end, we believe that it's more important than ever that people are given investment options with clearly-defined outcomes to help them prepare for the future. One of the biggest issues faced by people trying to invest for later life is a lack of understanding of how much money they will need to achieve a certain standard of living - and how they are going to get there. This being said, the Financial Wellness Index also reveals the UK's appetite for savings and investments has increased 6% year-on-year and that 74% of the population keep track of their daily expenses “very closely”. This demonstrates that the desire and habits associated with positive financial management are already installed into the nations psyche.

That is why we believe it is imperative for savers to start thinking in terms of their long term Financial Wellness<sup>TM</sup> and finding investments that fit snugly with that approach to managing their finances. For advisors, it illustrates the need to be able to offer investment solutions that provide meaningful returns that work to complement the Financial Wellness journey of their clients.

Arguably, what most investors seek is something that lies neatly between traditional market investing and the guaranteed returns experience provided by something like a pension annuity. Outcomes-based investing bears some of the hallmarks of both approaches. For example, the performance outcome targeted is a return in excess of

inflation through the cycle. Additionally, it focuses on making the journey to the outcome as palatable as possible. This provides a number of benefits such as reducing sequencing risk (the impact of poor performance on wealth, especially when the assets are at their largest) and perhaps more pertinently, the smoother the journey to the outcome, the greater confidence felt by investors - which helps to stay the distance to achieve their necessary investment goal.

Outcomes-based investing also goes hand in hand with risk-ratings. This helps investors to understand from the outset and on a continuous basis the ‘riskiness’ of their fund and compare that to their risk appetite. An investor's needs must always come first and although they loosely fall into one of three categories - the essential need to survive, the lifestyle wants and the future legacy aspirations - they always differ enormously from person to person. The outcome-based journey enables planning which is tailored to each and every investor, detailing everything from the time it will take to achieve their goal to the milestones they will meet along the way.

The current generation of workers have extremely challenging times ahead and the majority will need to make sound financial decisions to achieve the quality of life they're hoping for in their later years. The Financial Wellness Index highlights that despite incorporating commendable short term financial management tactics, we as a nation are expecting to fall short of meeting the costs of the future. Central to meeting these costs should be the adoption of outcomes-based jargon-free investment options and there's also no reason why the same approach cannot be applied to all aspects of managing one's finances. Whether it's mastering everyday spending or a creating a long-term investment strategy, all actions should follow the same route to achieving specific financial goals and ever improving continued Financial Wellness.

## Weekly Digest

Week ending **05 March 2017**

### The Marketplace

- Fed rate hike probability soars
- US equities rise for sixth straight week
- French election: Fillon placed under formal investigation
- Sterling down as Brexit bill blocked in House of Lords
- Eurozone inflation reaches 2% target

### Market Focus

#### US

- Expectations of a US base interest rate rise in March surged over the week amid increasingly hawkish comments from Federal Reserve governors coupled with supportive US data.
- Bloomberg's rate rise probability calculator rose from 50% at the start of the week to 96% as of this morning, indicating that markets have nearly fully priced in the consequences of a March hike.
- US Treasuries sold off as a consequence, falling 0.6% over the week. Two-year Treasuries underperformed in particular, with yields, which move inversely to prices, rising by 16.2 basis points to 1.3%; their biggest weekly move since February 2015.
- Significant data releases included strong readings for ISM manufacturing and non-manufacturing surveys, which rose by 1.7 and 1.1 points respectively to multi-year highs of 57.7 and 57.6, as well as the Conference Board Consumer Confidence Index rising to 114.8 for February; a 15 year high for the index.
- The main beneficiaries of the above were US equities, whose 0.8% weekly return brought their year-to-date gain to 6.7%, and the US dollar index, which rose 0.5% over the week.

#### Continental Europe

- On Tuesday the centre-right party candidate for the French Presidential election, Francois Fillon, was

formally placed under investigation surrounding reports of fraudulent payments to members of his family using taxpayer funds.

- Polls currently indicate that if Fillon were to step down, his likely successor, Alain Juppe, would stand a better chance in the elections. However, Juppe's announcement this morning that he would not stand under any circumstances seemingly solidifies the base case scenario of a Macron versus Le Pen second round head-to-head.
- The French CAC 40 equity index is down 0.4% at time of writing following Juppe's announcement. Although this follows a positive week which saw the CAC index and Continental European equities as a whole rise 3.1% and 1.2% respectively.
- Also of note was Eurozone inflation data which surprised to the upside: the preliminary Consumer Price Index showed prices 2.0% higher in February this year compared to February 2016. This matches the European Central Bank's 2% inflation target, and has increased attention towards the ECB's monetary policy meeting later this week.

#### UK

- The Brexit Bill that would allow Theresa May's government to Trigger Article 50 hit a roadblock on Wednesday after the House of Lords voted by a majority of 358 - 256 to amend the bill in order to further protect rights of EU nationals already living in the UK.
- The bill will now return to the Commons, were it was previously passed, for further consideration.
- Sterling depreciated by 0.7% versus the US dollar on Wednesday and by 1.4% over the week, closing at USD 1.23; although this appeared to be supportive for UK equities, which rose 1.5% for the week.

*James Klempster (CFA) & Oliver Bickley*

Weekly Digest

Week ending 05 March 2017

Asset Class/Region	Currency	Currency returns			
		Week ending 02 Mar 2017	Month to date	YTD 2017	12 months
Developed Market Equities					
United States	USD	0.8%	0.8%	6.7%	21.7%
United Kingdom	GBP	1.5%	1.6%	4.3%	25.1%
Continental Europe	EUR	1.2%	1.7%	4.3%	14.7%
Japan	JPY	0.6%	1.9%	3.1%	18.5%
Asia Pacific (ex Japan)	USD	-1.0%	0.0%	9.5%	22.9%
Australia	AUD	0.2%	1.4%	2.8%	20.0%
Global	USD	0.2%	0.6%	5.9%	18.8%
Emerging Market Equities					
Emerging Europe	USD	-3.1%	1.1%	0.8%	26.2%
Emerging Asia	USD	-1.1%	-0.1%	9.6%	22.4%
Emerging Latin America	USD	-3.1%	-0.6%	10.8%	39.2%
BRICs	USD	-2.3%	-0.3%	9.4%	32.1%
MENA countries	USD	-0.7%	0.4%	1.8%	17.0%
South Africa	USD	-2.6%	1.4%	6.1%	23.4%
India	USD	-0.7%	0.0%	10.7%	23.4%
Global Emerging Markets	USD	-1.6%	0.0%	8.7%	24.6%
Bonds					
US Treasuries	USD	-0.6%	-0.8%	0.0%	-1.5%
US Treasuries (inflation protected)	USD	-0.9%	-1.0%	0.4%	2.7%
US Corporate (investment grade)	USD	-0.4%	-0.7%	0.7%	5.9%
US High Yield	USD	0.5%	0.2%	3.2%	20.3%
UK Gilts	GBP	0.4%	-0.7%	0.6%	6.5%
UK Corporate (investment grade)	GBP	0.5%	-0.4%	1.2%	11.2%
Euro Government Bonds	EUR	0.2%	-0.4%	-1.3%	-0.5%
Euro Corporate (investment grade)	EUR	-0.3%	-0.4%	0.2%	3.9%
Euro High Yield	EUR	0.3%	0.1%	2.0%	12.2%
Japanese Government	JPY	0.0%	-0.4%	-0.7%	-0.9%
Australian Government	AUD	0.1%	-0.3%	0.4%	0.5%
Global Government Bonds	USD	-0.9%	-1.4%	-0.1%	-2.2%
Global Bonds	USD	-0.7%	-1.2%	0.1%	-0.6%
Global Convertible Bonds	USD	-0.3%	-0.2%	2.8%	7.1%
Emerging Market Bonds	USD	-0.5%	-0.4%	3.1%	9.6%

Weekly Digest

Week ending 05 March 2017

Asset Class/Region	Currency	Currency returns			
		Week ending 02 Mar 2017	Month to date	YTD 2017	12 months
Property					
US Property Securities	USD	-0.6%	-0.9%	2.4%	10.3%
Australian Property Securities	AUD	0.2%	0.2%	-1.5%	1.8%
Asia Property Securities	USD	-1.3%	-0.4%	7.9%	13.1%
Global Property Securities	USD	-1.0%	-0.8%	3.6%	10.0%
Currencies					
Euro	USD	-0.6%	-1.0%	-0.1%	-3.3%
UK Pound Sterling	USD	-2.2%	-1.2%	-0.7%	-12.9%
Japanese Yen	USD	-1.5%	-2.2%	2.2%	-0.9%
Australian Dollar	USD	-2.0%	-1.5%	5.1%	3.7%
South African Rand	USD	-2.0%	-0.3%	4.1%	18.3%
Swiss Franc	USD	-0.6%	-1.0%	0.5%	-1.7%
Chinese Yuan	USD	-0.2%	-0.4%	0.9%	-4.9%
Commodities & Alternatives					
Commodities	USD	-0.9%	-1.0%	0.2%	19.5%
Agricultural Commodities	USD	0.6%	0.9%	4.0%	11.5%
Oil	USD	-2.7%	-0.9%	-3.1%	49.1%
Gold	USD	-1.3%	-1.8%	7.1%	-0.5%
Hedge funds	USD	0.3%	0.4%	2.1%	7.4%

## Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

*Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB*

*Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.*

© Momentum Global Investment Management Limited 2017