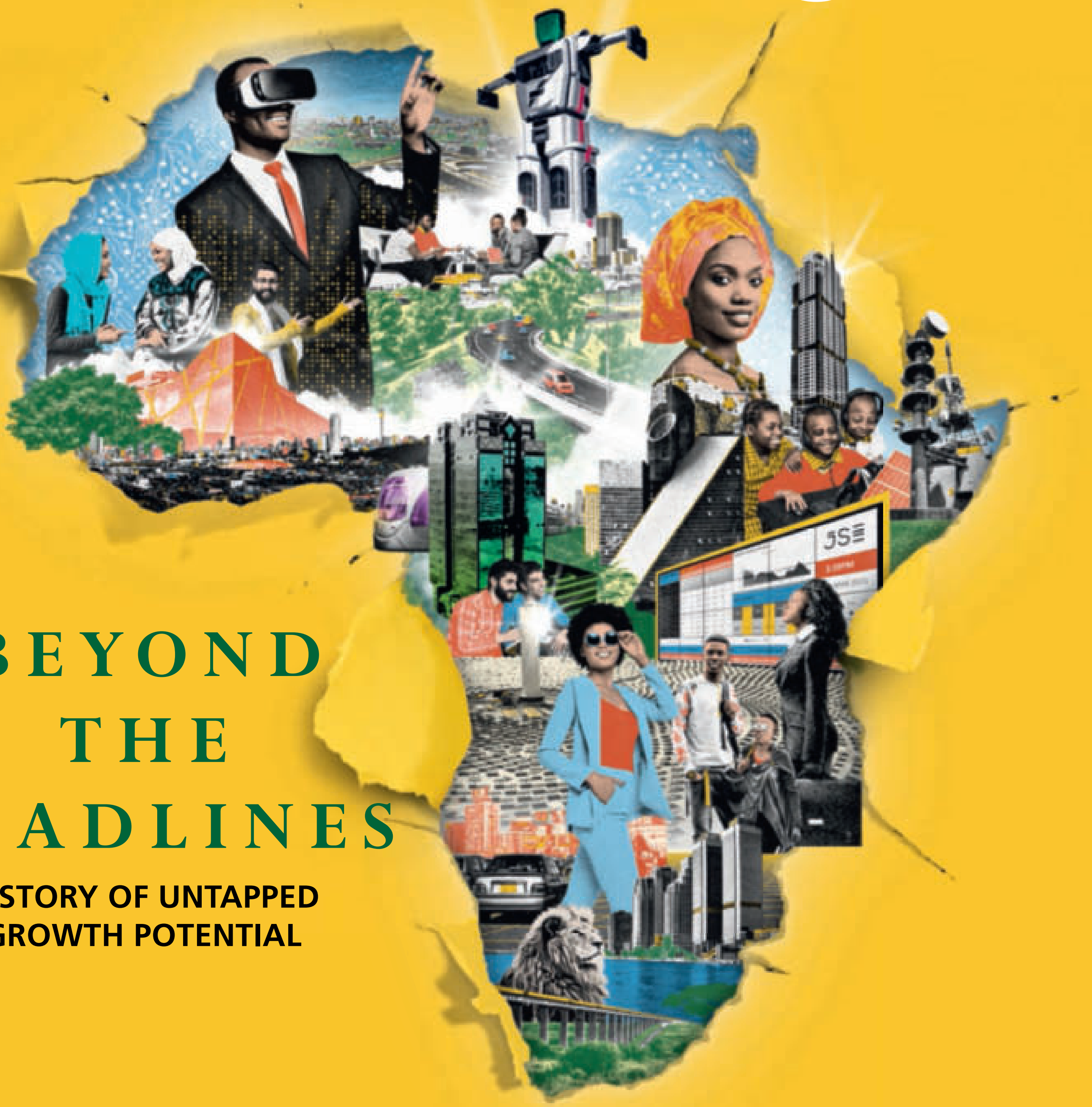
ST. JAMES'S PLACE
WEALTH MANAGEMENT

THE INVESTOR

ISSUE 106 | SUMMER/AUTUMN 2020

AFRICA



BEYOND THE HEADLINES

A STORY OF UNTAPPED GROWTH POTENTIAL

ST. JAMES'S PLACE
WEALTH MANAGEMENT

WELCOME

Welcome to the latest issue of *The Investor* magazine. As the coronavirus continues to touch all aspects of our lives, the articles inside reflect this tumultuous time.

In our look at global supply chains, we explore the weaknesses the pandemic has exposed, and what changes we might begin to see in the future.

Economist Roger Bootle explains how the Bank of England is supporting the UK economy, as well as its limitations. We also highlight the ways small businesses – with the help of professional advice – have used their agility and ingenuity to find opportunities to thrive despite the crisis.

Then Africa – a continent which has exceptional growth potential – takes centre stage. Meanwhile, Professor Diane Coyle tackles the issue of unpaid work and suggests there should be a formal measure of economic activity to cement its value.

We also address the UK's ethnicity pension gap and, separately, consider how countries around the world are coping with their ageing populations. Finally, more effective charitable giving is on the agenda – including how people can fit it into their overall financial plans.

I do hope the articles will be of interest to you. As always, if you have any queries, please do not hesitate to get in touch.

GILES HENMAN
RNF No. HGJ300070329
Principal

1 Raffles Place
#15-61 One Raffles Place (Tower 2)
Singapore 048616
Telephone: +65 6536 0121
Mobile: +65 9239 1720
Email: giles.henman@sjpp.asia
Website: www.sjpp.asia/henmanwealth

This magazine is 100% recyclable and produced using materials that have been sourced using FSC accredited paper and suppliers.

SUMMER/AUTUMN 2020

Contents

The information contained within this issue of *The Investor* does not constitute investment advice. It is not intended to state, indicate or imply that current or past results are indicative of future results or expectations. Full advice should be taken to evaluate the risks, consequences and suitability of any prospective fund or investment.

Where the opinions of third parties are offered, these may not necessarily reflect those of St. James's Place.

All facts and statistics in this issue of *The Investor* are correct at the time of going to press. Images: Cover – Ryan Olbrysh; Contents – Stocksy, Magictorch, Adobe Stock

News

Foundation responds to COVID-19 crisis

More than £2 million in grants awarded thus far

The St. James's Place Charitable Foundation, the philanthropic arm of St. James's Place Wealth Management, has awarded just over £2 million in grants in response to the coronavirus crisis.

Grants issued to date include: £200,000 to the National Emergencies Trust; £50,000 to The Trussell Trust (on top of £100,000 from St. James's Place); £250,000 to OnSide Youth Zones; £20,000 to Young Gloucestershire; and £19,000 to Variety, the Children's Charity.

The Trussell Trust is working to meet the surge in demand for food banks around the UK

In addition to supporting existing grant partners, the Foundation launched an appeal to the St. James's Place community to raise additional funds for the National Emergencies Trust and NHS Charities Together, raising in excess of £550,000. This was supported by the Executive and Non-Executive Boards, with members waiving 20% of their salary and fees over a three-month period. The appeal was supported by a pound-for-pound matching scheme by St. James's Place Wealth Management.

The Foundation has been supporting those in need since 1992 and reached a key milestone as we went to press in August, having now raised £100 million since its inception.

Grants from the Foundation are focused on children and young people who are disadvantaged or have additional needs; the hospice movement; cancer support charities; and people having difficulties with their mental health. It also prioritises support to small grass-roots charities.

For more information, visit www.sjpfoundation.co.uk

Supporting the community and employees

In addition to supporting the Foundation's emergency appeal, St. James's Place Wealth Management has:

- Made an additional £100,000 donation to The Trussell Trust to help the charity train and deploy volunteers and set up a new delivery infrastructure to meet increased demand.
- Expanded its volunteering initiative, which now encourages all employees to take unlimited time out of work to support those in their communities, rather than the usual two days.
- Rethought the traditional way of working to support employee wellbeing during the pandemic. In addition to reassuring employees about fundamental questions around their employment, a number of initiatives identified vulnerable groups, lone workers and those needing specific support.

John Summers, a regular St John Ambulance volunteer, took paid time out of work to assist the NHS

Corporate responsibility at St. James's Place is well established. In 2019, 4.4% of profit before tax was invested in supporting communities and good causes.

Image: © Trussell Trust/Smart

St. James's Place introduces new 'InRetirement' funds

Funds designed to meet the needs of those seeking to create a lasting income throughout retirement

The market volatility caused by COVID-19 over the past few months has proven challenging for many people who are either thinking about entering retirement, or indeed are already retired.

Managing your capital and income requirements can be a delicate balancing act, and given the current uncertainty we are living through, it's understandable that many clients are worried what the future might hold, and whether they may need to rethink their retirement plans.

St. James's Place understands the complexity of the choices that face today's retirees, and also why ongoing advice is now more crucial than ever to ensure you achieve the retirement you want.

In recognition of this, we are proud to announce the creation of three new investment funds, designed specifically for those people in retirement.

Generating an income in retirement that lasts for your lifetime is one of the many challenges people face, and so one of the principal aims of the InRetirement funds is to focus on the sustainability of regular withdrawals.

The new funds have been purpose-built for clients in the decumulation phase of their investment journey, investing predominantly in actively managed St. James's Place funds.

The funds will be available across a range of our products, including ISAs and unit trusts, pensions and bonds, ensuring that you are able to create a withdrawal strategy from different sources in the most tax-efficient way.

If you would like to know more about the InRetirement funds, please speak to your St. James's Place Partner.

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.

Road map for recovery

St. James's Place partners with The Centre for Social Justice on COVID-19 report

St. James's Place is collaborating with The Centre for Social Justice (CSJ) on a major new report highlighting the importance of supporting the most vulnerable in society as the UK exits the COVID-19 lockdown and reboots the economy.

The CSJ, an independent think tank that conducts research into social problems, hopes the report provides the UK government with a policy blueprint to prioritise the most disadvantaged individuals in a post-coronavirus world.

St. James's Place has provided insight into how the pandemic has impacted local communities and the volunteers, community groups and small charities that support them.

"Our values are closely aligned with those of the CSJ, both through the St. James's Place Charitable Foundation's work with small charities and the wider corporate responsibility activities of St. James's Place Wealth Management," said Catherine Ind, Head of the Foundation.

CSJ Political Director Frank Young said: "This is a critical piece of work. An economic recovery will go hand-in-hand with a social reboot, so we need new ideas to turn into action as quickly as possible. This is exactly what this report will seek to do."

To read the full report when it becomes available, visit www.centreforsocialjustice.org.uk

> "An economic recovery will go hand-in-hand with a social reboot, so we need new ideas to turn into action"

News

Results from our latest client survey

At St. James's Place, we are always looking to improve the service we provide. Earlier this year, we checked in with our clients and received 3,524 responses to an online survey.[1]

We conduct the survey to understand clients' perceptions of St. James's Place products and services, and to identify what is working well and where improvements need to be focused. Here's what we found...

FUTURE FOCUS

AS A RESULT OF CLIENT FEEDBACK, WE WANT TO DO SOME WORK TO:

- Better understand what clients expect from St. James's Place digital services in order to improve client views
- Improve how clients perceive value for money
- Ensure Partners are having conversations on the topics that clients find most important

CLIENT SATISFACTION

87%
Were satisfied with the support they received through their St. James's Place Partner

89%
Agree that taking advice has had a positive impact on their future wealth

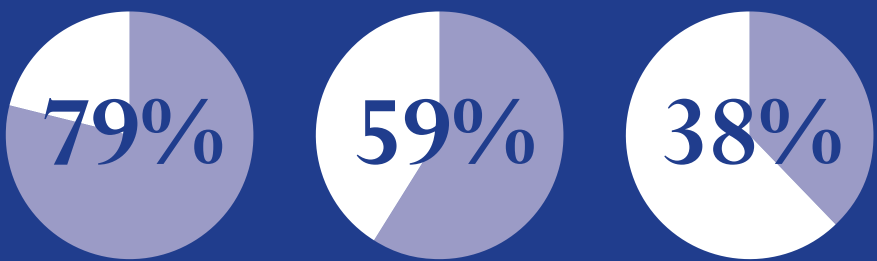
86%
Were satisfied with their overall relationship with St. James's Place

88%
Found value in meetings with their St. James's Place Partner

87%
Would recommend St. James's Place to others

WHAT'S MOST IMPORTANT?

TOP 3 AREAS CLIENTS HAVE DISCUSSED WITH THEIR PARTNER OR TAKEN ADVICE ON



Retirement planning and pensions | Core investments | Trust and estate planning

START THE CONVERSATION

Half of clients see **responsible investing** as an important issue that they have not yet sought advice on

More than a third (35%) of clients view **protection** matters as important

Sources: [1] St. James's Place received 3,524 client responses to an online survey conducted between 22 January and 23 March 2020.

Philanthropy: give better, not just more

The traditional model of charitable giving is changing, with donors looking to solve problems and make a real impact

By Emma Beeston

Those searching for a silver lining amid the coronavirus pandemic might find it in the response of philanthropic donors large and small: Twitter co-founder Jack Dorsey pledged $1 billion, Martin Lewis of MoneySavingExpert has distributed £3.4 million through a newly created emergency fund, and more than 1.5 million people supported Captain Tom Moore in raising £30 million plus for NHS charities.

The urge to help through charitable giving is as old as the need to fight off disease. Dutch philanthropy scholars René Bekkers and Pamala Wiepking set out eight key drivers of giving, all of which have been triggered by the current crisis: awareness of need, solicitation, costs and benefits, altruism, reputation, psychological benefits, values and efficacy.[1]

Donors feel better and more in control for taking some positive action during the crisis, and companies have gained valuable recognition for stepping up to help. Add to these drivers a sense of urgency – which always works to increase donations – and the result is an impressive collective expression of philanthropy.

In response to such generosity, it might seem churlish to question it

Image: Stocksy. Sources: [1] "A Literature Review of Empirical Studies of Philanthropy," *Nonprofit and Voluntary Sector Quarterly*, 2010 rather than just applaud. However, even the best intentions can have negative consequences or be implemented poorly. In Rhodri Davies' book *Public Good by Private Means*, he identifies potentially negative aspects of philanthropy – namely, those efforts that are:

- **Ineffective**: not of sufficient scale to solve anything
- **Inefficient**: funds just sitting there not doing any good
- **Conventional**: risk-averse, funding the usual and traditional
- **Patronising**: addressing symptoms not causes
- **Self-indulgent**: a pleasant hobby or self-serving

Contemporary concerns highlighted by Rob Reich, Professor of Political Science at Stanford University, author Anand Giridharadas and others include that the wealthy don't give as much as they can or should; that major donors are a threat to democracy as they use their wealth to gain influence and status; and that the wealthy are too far removed from those they wish to help.

MORE MEANINGFUL GIVING

When it comes to giving better, 'better' is a loaded term. It begs the question: better than what and better for whom? Some would argue that 'better' philanthropy acknowledges the power dynamics and inequalities in society and seeks to address these with approaches such as 'trust-based' and 'participatory' philanthropy.

These methods start from the belief that those on the ground know best what their community needs. Advocates here include philanthropist Ise Bosch; the approach can also be seen in action through FRIDA The Young Feminist Fund, where young women and girls work together to determine how funds are allocated.

> Rather than spread their money and attention, donors focus on the change they want to see in the world

Others would argue that 'better' will come from not being led by donors' preferences and passions, but from taking an objective and rational approach to identify the most good that resources can do, calculated by lives saved or quality of life metrics.

Those taking this 'effective altruism' approach include Toby Ord, who founded Giving What We Can, and the organisation GiveWell, which identifies charities that "save or improve lives the most per dollar".

We can all be philanthropists

Andrew Livingstone, Private Client Consultant at St. James's Place, explains why philanthropy makes financial sense

The words 'charity' and 'philanthropy' are often used interchangeably. However, another way of looking at it is to distinguish between 'charity' as an immediate response, and 'philanthropy' as a more strategic process.

One longer-term philanthropic approach is to set up a charitable trust. The funds you transfer are then invested by the trustees in the stock market, acting as an endowment fund, so that the natural income produced by those investments is paid out to a number of your favourite charities on a regular basis.

If the funds being transferred to the charitable trust are in cash, then, as a UK taxpayer, you may be entitled to claim Gift Aid on the net gift. That amounts to a 25% uplift from the government, which will be invested to produce an additional amount that will, again, benefit your charities.

It's also worth reviewing your giving to ensure you are maximising the relief for you and your chosen charities. If you have an existing investment portfolio that you no longer need to access, it can be transferred to your charitable trust. This incurs no Capital Gains Tax liability, and these assets fall immediately outside of your Inheritance Tax estate. These trusts also provide you with flexibility should you wish to change the charities that are to benefit.

If you'd like to learn more about creating a legacy for your favourite charities, contact your St. James's Place Partner today.

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 dependent on individual circumstances.

Trusts are not regulated by the Financial Conduct Authority.

Whatever approach is taken – effective altruism, trust-based philanthropy or one of a number of other models (venture, big bet, community, effective, catalytic, impact, experiential) – there is a trend for modern philanthropists to shift from 'cheque book philanthropy' to having a more thoughtful, intentional plan. Rather than spread their money and attention across a variety of dissimilar causes, donors focus on the change they want to see in the world, becoming an active participant in solving a problem.

Michael Moody, co-author of *Generation Impact: How Next Gen Donors Are Revolutionizing Giving*, interviewed donors in their 20s and 30s and found they "consider just writing cheques – and especially waiting until [they] retire to write cheques – to be the most uninspired and ineffective way of giving. They want to give their time and their talent, and they want to do so in meaningful ways."

As well as this shift to engaged, impact-driven giving, there is also a significant rise in collective giving. Giving circles, which pool donors' resources and decide together how best to allocate these funds, tripled in number in the US in the ten years to 2016.[2]

Recognition that social and environmental problems are complex, global and too big to be tackled alone has resulted in a rise in collaboration. Funders have come together in both words (for example, London Funders led the 'We stand with the sector' coronavirus pledge, which has been signed by more than 350 funders)[3] and deeds (such as the Climate Leadership initiative, where 29 philanthropists pledged $4 billion to combat climate change).[4]

WHAT'S NEXT?

In terms of the next big thing, there are many claims being made for philanthropy's role in a post-coronavirus society. Will giving reduce as a recession hits, or will people be more aware of needs and give more? Will the recent trend in increased funding for the environment continue? Will donors think locally or globally? Will the calls to tackle racial justice lead to a shift from giving money to deliver services to support for structural change?

What is clear is that the need will be great – 84% of UK charities reported a decrease or significant decrease in their income during lockdown. At the same time, 47% reported an increase in demand for their services.[5]

These debates can be confusing and off-putting for a philanthropist who is seeking to use their money to make a lasting difference. There are so many options to do good that it is easy to get overwhelmed. Donors also put pressure on themselves – their money is precious, and they want it to make a difference and not be wasted. The fear of getting it wrong, and being seen to do so, can too often induce paralysis.

So what can they do? The priority is to make a start. Find a focus, listen to those active in your area of interest, and work with others. As attention shifts from emergency funding to investing in recovery, the charitable sector has an urgent need for more funds from thoughtful people looking to help. The rewards are great – for society and philanthropists.

Emma Beeston is a philanthropy consultant who advises grant-makers, companies and families on creating and implementing giving strategies. She co-created the Advising Donors module for the University of Kent's Masters in Philanthropic Studies, lectures on CASS Business School's Charities Masters programme and delivers training for the Association of Charitable Foundations' Professional Development Programme. She is also a co-founder of a giving circle, Bath Women's Fund.

How to get started

Find a focus

Whether it's a theme, goal or geography, having a clearly articulated focus allows donors to develop their knowledge of an area and make better choices over time. This will bring rewards as they feel more satisfied that they are making a difference. Choosing a focus is harder than many realise, but it is fundamental to success.

Bring humility

The reason charities have not yet ended poverty or stopped violence against girls is that these are incredibly complex issues. Donors may well have knowledge, expertise and a different perspective that will be valuable, but the first thing to do is to listen and learn from those active in the field.

Unite with others

Seek out other funders and philanthropists to collaborate with. If there is not time to develop partnerships or if extensive research is needed, Caroline Fiennes, Director of Giving Evidence, which advocates for evidence-based charitable giving, suggests that donors "copy someone else's homework". Large foundations will have a good understanding of a cause area, and knowing who they consider worth backing can be useful.

Give more than money

Money is incredibly important – and donors should consider if they can give more. But what else might they add? Can they bring influence or contacts? People reaching out to their peers is one of the best ways of encouraging more people into philanthropy, and so rather than anonymity, a donor publicly declaring their support can add value to a donation.

Image: Stocksy. Sources: [2] "The Landscape of Giving Circles", Collective Giving Research Group, 2017 [3] covid19funders.org.uk [4] climateworks.org [5] "Impact on the charity sector during coronavirus", research from the Institute of Fundraising, NCVO and Charity Finance Group, June 2020

Success story: Hooke Highways

It is in the nature of an entrepreneur to overcome barriers and find a way forward. This certainly rings true for Michael Montague, managing director of Somerset-based traffic management company Hooke Highways.

"We had to pause for about two weeks when lockdown hit," he says. "But after that, we were able to continue trading."

While many projects were delayed, some providers brought forward plans to lay new fibre optic cable to take advantage of empty roads. "We were quick to show customers that we were very much open for business," says Montague.

Before the crisis, Montague's St. James's Place Partner connected him with Elephants Child, which has been advising the business for the past three years. When the pandemic hit, Elephants Child was able to assist in putting a rolling plan in place during the first few weeks of lockdown.

"Our senior team analysed sales levels and resources each week and made the necessary adjustments," Montague says. "We established a COVID rep at each of our depots, and they kept in regular contact to ensure that none of our depots ran out of personal protective equipment or hand sanitisers and soaps."

Hooke Highways is now moving into the 'thrive' phase, Montague says. "Customers we haven't seen for eight weeks are now coming back, and we've found new opportunities that would never have come about without coronavirus and could lead to a lot more work in future."

Survive Stabilise Thrive

How the adaptive DNA of UK small businesses helps them find opportunity in times of crisis

By Rebecca Burn-Callander

When a new virus swept the globe in early 2020, no one was prepared for the fallout. Nations went into full lockdown in a bid to protect citizens, and the whole world suddenly faced the prospect of a swift and deep recession.

The UK was hit hard by the COVID-19 outbreak; as of 21 July, it had the third most deaths, per 100,000 of the population, of all affected nations.[1] Some industries, such as the hospitality and travel sectors, were devastated overnight as flights were grounded and venues closed indefinitely. According to data from the government, the number of employees on payrolls in June was down around 650,000 on the March level.[2]

Businesses large and small scrambled to adapt to the UK's new trading environment. There were casualties – 21,000 more UK businesses failed in March compared with March 2019[3] – and around a quarter of all firms paused trading during the first two weeks of lockdown.[4]

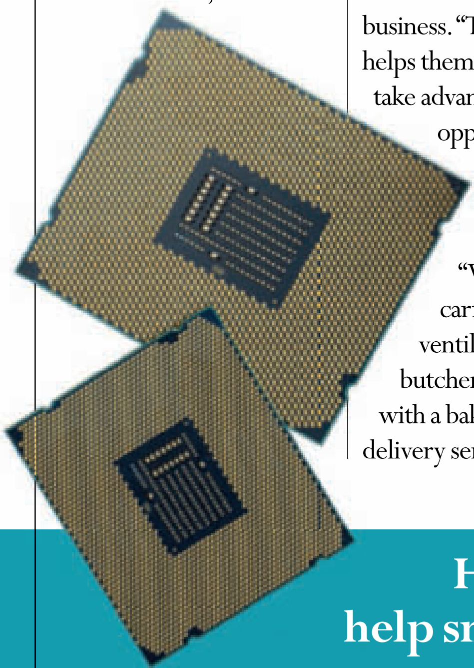
But where there is risk, there is often opportunity. Online grocery shopping and retail, DIY stores, streaming services and medical suppliers saw a spike in sales. Many smaller companies found they had a unique advantage over corporations: they had the agility to rapidly tweak or re-engineer

Illustration: Magictorch

There were 5.9 million SMEs in the UK in 2019, according to the Department for Business, Energy and Industrial Strategy

their business models to meet the changing needs of their customers.

"That is the major advantage of the small business; they can make a plan today and execute it tomorrow," explains Martin Brown, Chief Executive of growth advisory firm Elephants Child, which is working with St. James's Place to help many small and medium-sized enterprises (SMEs) survive the crisis.



The ability to adapt is fundamental to a small business. "Their velocity helps them to pivot and take advantage of new opportunities, and outstrip their competitors," says Brown. "Whether it's a carmaker making ventilators or a butcher teaming up with a baker to launch a delivery service, we have seen incredible innovation from the nation's SMEs."

A phased response

Just as there are well-known stages of grief – denial, anger, bargaining, depression and acceptance – business leaders have typically experienced three phases of reaction to the coronavirus.

"The first phase saw many business leaders going to ground," says Brown. "They felt overwhelmed. During the second phase, businesses were beginning to make sense of trading under lockdown and were accessing government

> "It's okay not to have all the answers, but you need to be prepared to adapt quickly"
>
> Martin Brown, Chief Executive, Elephants Child

How professional support can help small businesses survive – and thrive

Stephen Renals, Head of Division Marketing Strategy, St. James's Place

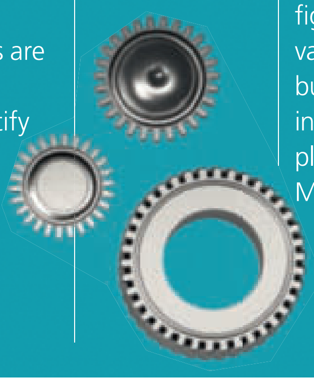
Whether it's in the midst of a crisis or during happier times, professional insight and advice can benefit business owners at each stage of their journey.

For many entrepreneurs, who work intensely in their business 24/7, it's an extension of them. They started it from scratch and bear all the scars. The pure intensity of running a business can mean they often have a one-dimensional view of it.

This is where professional insight and advice can help. St. James's Place Entrepreneur Club and Elephants Child, for example, are able to step back to develop a holistic view of a business in order to determine what actions it needs to take to grow and develop further.

The life journey of a business can be roughly divided into four stages: getting started, early-stage growth, expansion, and exit, sale or succession. At each stage, business owners will encounter new challenges and new opportunities.

Wherever business leaders are in the journey, professional support can help them identify and articulate their core strategy and aspirations, develop – and adapt – their short- and long-term operating plans, explore avenues for raising finance, increase their attractiveness to the market, and understand the options available should they want to exit.



Similarly, business owners who are laser-focused on their business might not be paying enough attention to their own finances as their personal wealth grows, which is where St. James's Place Wealth Management is able to help.

Perhaps it's a matter of figuring out how to protect the value they have built in their business, deciding whether to invest, or how to make estate planning more tax-efficient. Making sure business owners are managing their wealth can ensure the success of a business translates into long-term financial security.

Sources: [1] Mortality Analyses, Johns Hopkins University & Medicine Coronavirus Resource Center, 21 July 2020 [2] Labour market overview, UK, Office for National Statistics, July 2020 [3] "UK companies facing COVID-19 'pincer movement', data shows", Enterprise Research Centre, April 2020 [4] Coronavirus and the economic impacts on the UK, Office for National Statistics, 23 April 2020 support. In more recent months, we have seen the third phase, where leaders are seeing growth opportunities, raising money and committing to getting out of this crisis.

"Rigorous planning has been key," he adds. "Most business leaders realised quickly that without a plan, they would have to make redundancies and lose sales. Planning prevents leaders from drifting blindly into the worst outcome."

Brown recommends all businesses operate on a rolling 90-day plan during uncertain times. "Things are changing too quickly for a three-year or even one-year business plan," he notes. This type of planning helps to quantify and manage uncertainty, turning it into its more manageable cousin: risk.

Strong leadership

Beyond rigorous planning, strong leadership has been critical during the crisis.

"A leader needs two things right now," Brown says, "resilience and honesty. The first is crucial to business survival: competent leaders create positivity and drive businesses forward despite the challenging situation. Honesty is also important. This means being upfront with staff, customers, investors and stakeholders about the impact of COVID-19 on the business. Only then can leaders access the support they need to keep going.

"If you are true to yourself and your values, and do what you say you are going to do, people will engage with you and your business more readily. It's about understanding your own concerns and frailties, and allowing yourself to be vulnerable. These times have taught us that it's okay not to have all the answers, but you need to be prepared to adapt quickly."

Success story: Isansys

Founded in 2010 by Keith Errey and Rebecca Weir, Isansys designs and manufactures remote medical monitoring technologies that reduce the need for doctors and nurses to take observations in hospitals. Phones began ringing off the hook when the pandemic hit.

"We were selling a few monitoring packages a week, and then overnight we were hit with hundreds of orders," says Errey. "We are a small manufacturer in a specialised industry, so it was a challenge to meet the sudden demand."

Errey moved quickly to ensure that essential components could be sourced from multiple suppliers, and then put in huge orders. Within two weeks, all Isansys staff apart from the manufacturing team were equipped with the technology to do their jobs from home, leaving space for production to continue with adequate social distancing and other health and safety measures in place.

"We put in VPN lines and secure phone links for the customer support teams," explains Errey. "We spent several thousand pounds on upgrades, but when orders were running into the hundreds of thousands, these costs no longer looked so big."

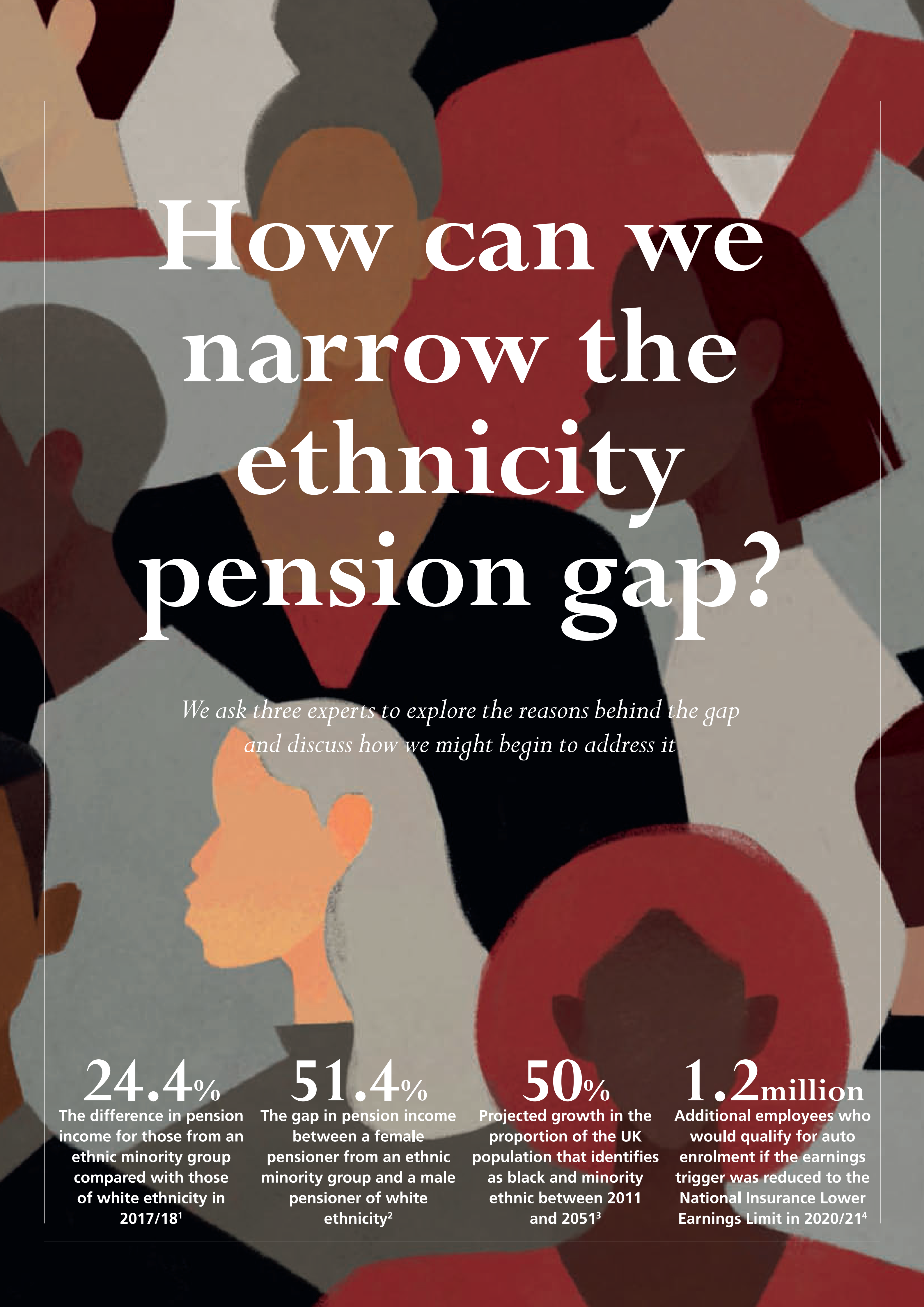
Many leaders would have balked at the challenge of scaling five-fold in a matter of days. But, with the help of Elephants Child, Errey was connected with aerospace and automotive engineering firm Ricardo, which manufactures components for giants such as Airbus. Ricardo reviewed Isansys's processes and advised on the fastest ways to scale without compromising on quality.

"Without the support, we would not have been able to come through the most difficult months of the COVID-19 crisis as successfully as we have done and, consequently, would not be positioned for future growth as strongly as we are now," Errey notes.

Errey's St. James's Place Partner introduced him to Elephants Child, which has helped Isansys develop a formalised business strategy, including a funding strategy. And some of the changes implemented as a result of COVID-19 will help the business emerge much stronger when the recovery arrives.

The pandemic has also helped prove that its remote monitoring solutions are the future of healthcare. "Rebecca and I have known this for more than ten years and finally the market sees the opportunity that we do," says Errey. "We have supportive backers, but so often, when looking for funding, potential investors have said, 'Yes, this is interesting, but you aren't Philips or GE. Will anyone buy from you?' It's clear they will.

"We are now selling into the NHS, which has taken years. I'm expecting a really interesting future for this business."



How can we narrow the ethnicity pension gap?

We ask three experts to explore the reasons behind the gap and discuss how we might begin to address it

24.4%
The difference in pension income for those from an ethnic minority group compared with those of white ethnicity in 2017/18[1]

51.4%
The gap in pension income between a female pensioner from an ethnic minority group and a male pensioner of white ethnicity[2]

50%
Projected growth in the proportion of the UK population that identifies as black and minority ethnic between 2011 and 2051[3]

1.2million
Additional employees who would qualify for auto enrolment if the earnings trigger was reduced to the National Insurance Lower Earnings Limit in 2020/21[4]

DAWID KONOTEY-AHULU
Co-founder of investment consultancy Redington

The fact is, most people – white or from another background – don't have enough to live on in retirement. That makes the gap facing ethnic minorities all the more significant.

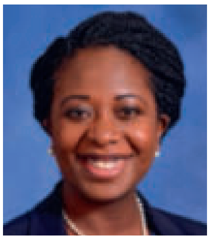
Not every ethnic minority is affected by this, but I think certainly the black population, by and large, they have these 'kinks in the hosepipe'. So if you have one kink, the water stops, and if you have multiple kinks, the water definitely stops. And for the water to flow again, you need to unkink all the kinks.

There are systemic issues around the way we hire people, around the way we promote people, the way we select people for mentoring. The people we look at and say, "One day, they'll be on our board." You can see people get 'stuck' – they're not able to progress through the system.

A lot of ethnic minorities simply don't earn enough to put aside money for retirement. If you're spending most of your income on just rent and food, you don't really have anything left at the end of the day. Saving is seen as something of a luxury.

It's timely, and it's urgent, and it's one of those things that the sooner you fix it, the more chance you have of making sure that people of a minority background have what they need in old age.

MIMI GOM
Associate Partner, St. James's Place Academy



The pension freedoms mean people can access their retirement savings earlier, so it's increasingly urgent that they understand the implications of having such a significant gap in their pension pots.

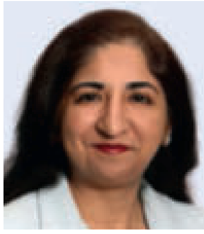
We do have to acknowledge the causes of the gap – you'll find greater levels of self-employment, informal employment and underemployment within BAME communities. So they may not have the liquidity to save into a pension.

But there's also often a lack of knowledge, as well as a sense of scepticism. When people hear the word 'pension', they may associate it with the State Pension, and that has negative connotations – they don't want to rely on the state. It's about explaining the distinction between the State Pension and a private or employer pension, explaining compounding, and making sure people are aware of the advantages that accrue to them.

There's also an element of distrust in the system – for example, if you come from jurisdictions where institutions are not necessarily performing the way they ought to. In this case, it's making sure people know about the layers of protection and the checks and balances that are in place.

For me, it's an education piece: explaining how pensions work, and why they're so important, creates a sort of 'light-bulb moment' for many people.

NAEEMA CHOUDRY
Partner, Human Resources Practice Group at Eversheds Sutherland



In recent months, there's been a lot more emphasis in relation to race and ethnicity in the workplace, and the real need to do something more.

The government ran a consultation on ethnicity pay reporting, which closed in 2019, and, more recently, more than 100,000 people signed a petition calling for the government to debate the issue.

But this isn't just about pay, it's about starting that conversation about ethnicity in the workplace and the wider context. It is quite multi-faceted, and it's not just an employer issue; it's a societal issue.

It's absolutely critical that we look at the pay gap and pension gap statistics in an intersectional way, rather than treating people all the same. The needs of ethnic minority women are very different from the needs of white women, for example. And there are differences in the needs of different races as well, as the Black Lives Matter movement has shown.

Raising awareness of the ethnicity pension gap will help get the debate started, and ideally drive further research into why individuals from certain communities aren't investing into their pensions. It's not about taking a one-size-fits-all approach – you've got to look at the different communities and their needs. Then you can start looking at solutions.

98%
Percentage of white households with a State Pension, compared with 94% and 85% for black and Asian households, respectively[5]

67%
Proportion of people from ethnic minority groups who are not a member of any type of pension scheme[6]

33%
Proportion of self-employed people from ethnic minority groups with a pension, compared with 50% of self-employed white people[7]

55%
Percentage of people from ethnic minority groups who believe they are saving adequately for retirement, compared with 61% of white British[8]

Image: Stocksy Sources: [1,2,3,4,5,7] *Measuring the ethnicity pensions gap*, The People's Pension, 2020 [6,8] *Retirement Report 2020*, Scottish Widows

HOW MUCH ARE YOU WORTH?

Unpaid yet essential work isn't recognised in a formal way and disproportionately falls to women. Economist Diane Coyle explores how we might start to measure these hours of effort

There are certain types of work that have great value, and yet those who do this work remain underpaid or aren't paid at all. The coronavirus pandemic has been a reminder of this: of our dependence on low-paid key workers, from hospital cleaners and porters to supermarket cashiers and bus drivers, and of the amount of work needed in every home, with household members locked down nearly 24/7.

The burden of unpaid work – both in the home and through voluntary activities such as helping out in schools or in the local community – has always fallen disproportionately on women. The Office for National Statistics reports that women in the UK work 26 unpaid hours a week on average, compared with 16 hours for men.[1] Valuing this work at the market wage for similar activities, it adds up to £1.24 trillion a year, or almost two-thirds of GDP, the official measure of paid work.[2]

To put it another way, if everybody stopped their unpaid work in the home and the voluntary sector, and it was instead paid for by hiring nannies, cooks, cleaners, office managers, drivers, classroom assistants and so on, the UK economy would be more than 60% larger.

MEASUREMENT MATTERS

These many hours of effort are clearly valuable – even though no money changes hands – and it has been debated whether an estimate of their value should be included in GDP. Indeed,

Images: Adobe Stock, Shutterstock

the debate dates back to the 1940s; the (male) economists involved in developing the way we now measure the economy concluded it would be too hard to collect the necessary data.

There have been advocates for measuring the worth of household and voluntary work. The Bank of England's Chief Economist, Andy Haldane, for one, is a prominent voice for properly accounting for the essential role voluntary work plays in society. Haldane is also one of the founders of Pro Bono Economics, a charity devoted to assessing the economic impact of volunteering.

Measurement matters because what is not measured is overlooked by policymakers and undervalued by society. For example, women who do not work in paid employment, or only do so part-time, pay a heavy penalty in terms of their lifetime earnings. It's often called the 'motherhood penalty', because it is usually having children that determines when women stop paid employment, and it means that after giving birth, they earn around a quarter (in Denmark and Sweden) to more than 40% (in the UK) less than men.[3]

Perhaps regular official statistics on the value of childcare, home care and voluntary work will demonstrate its value in society. In this case, women could proudly feature their unpaid experience on their CVs, and this penalty might decline.

Perhaps, also, men might shoulder more of the unpaid work. And perhaps governments could think about how to reduce the burden of household work and how to enable the essential activities that keep society functioning.

Many European countries, for example, including the Scandinavian nations, provide high-quality, publicly subsidised nursery care, resulting in a high proportion of women being able to undertake paid jobs. This also results in a more equal division of household labour between men and women.

RECOGNISING VALUE

Very few countries regularly collect the data from time-use surveys that would be needed to calculate official statistics on the value of unpaid work. But two things are making it more likely that they will start to do so.

One is the way digital technology and tech companies are changing how we carry out business. For example, we do more activities such as online banking for ourselves – bypassing the bank teller who is part of the paid workforce. We provide – and consume – entertainment via social media as an alternative to paid equivalents. These transactions are difficult to define in traditional economic terms, but it is impossible to understand what is happening to the economy as a whole without measuring these activities.

> "These many hours of effort are clearly valuable – even though no money changes hands"

The other is the aftermath of the pandemic. With everyone having spent much more time at home during lockdown, creating more need for cooking, cleaning and childcare, there has been increased visibility around this unpaid work.

As one *Financial Times* headline asked, rhetorically, "Who is cleaning up the lockdown mess?" The answer is, usually, the women in the household – even those who are still working in their paid job full-time. The uneven load is even affecting academic journals, which are being flooded with submissions of papers written during the lockdown – by men.

If governments do start to collect better data about unpaid economic activities, it will not be a moment too soon. The work done for love, or even duty, is vital for the wellbeing of individual households and society as a whole, and it is time we paid proper attention to it.

Diane Coyle is the Bennett Professor of Public Policy at the University of Cambridge and author of GDP: A Brief but Affectionate History *(Princeton University Press).*

Protecting your worth

RICHARD MOODEY
Zurich Intermediary Group

While we're well aware of the gender income gap and gender pension gap, the income protection gap is often overlooked. Unfortunately, women still lag behind men when it comes to taking out financial protection: research from LifeSearch in 2019 found that 6% of women have income protection, compared with 10% of men.

With women increasingly taking on the role of main breadwinner, creating more equality in these statistics is a must. There are life moments when the need for cover comes into focus, including entering the workplace, starting or ending a relationship, and motherhood. A health crisis of the scale of the COVID-19 pandemic could also be seen as a trigger to talk protection, and help women get the peace of mind that it brings.

Embracing the new normal

VICKI FOSTER
Head of Inclusion and Diversity, St. James's Place Wealth Management

How different our lives are compared with those of our parents. In the past 25 years an increasing number of women have returned to work, forcing conversations around how partners can have meaningful careers and how families can find a workable balance between home and work life.

When you consider how much has changed, the extent of the gender gaps around pay, savings and pensions are perhaps even more frustrating.

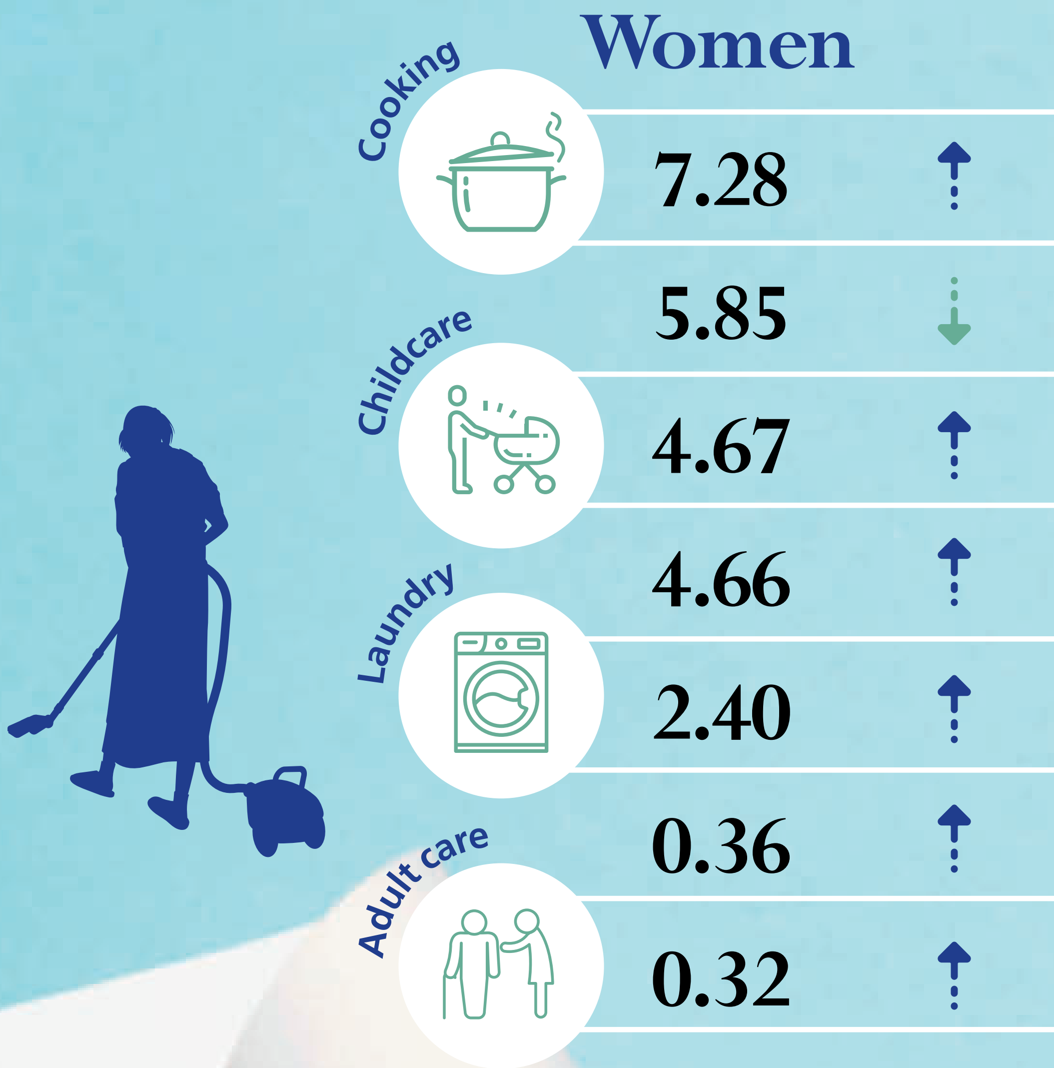
A person's worth should not be limited by outdated gender stereotypes. I'd like to see employers take a more active role in helping to reframe our perceptions of caring responsibilities and domestic labour. It's encouraging that more employers are offering flexible working arrangements, but we need to see this expand to a more sophisticated approach where job-sharing, part-time roles and compressed hours are embraced.

COVID-19 will provide a platform for these conversations, and embracing change will undoubtedly lead to improved mental health, increased wellbeing and some movement in the gender gaps that still exist today.

Real value

Time-intensive unpaid labour

Measuring the difference, in hours per week[4]



Sources: [1,5,12] "Women shoulder the responsibility of 'unpaid work'", Office for National Statistics (ONS), 2015 [2,9,11] Household satellite account, UK: 2015 and 2016, ONS [3] "Child penalties across countries", Centre for Economic Policy Research, May 2019 [4] UK Harmonised European Time Use Survey, 2015 [6] "How much less were women paid in 2019?", House of Commons Library, January 2020 [7,8] *Time to care: Unpaid and underpaid care work and the global inequality crisis*, Oxfam, January 2020 [10] Earnings and working hours, ONS, 2019

26 vs 16
In the UK, women do 26 hours of unpaid work per week on average versus men's 16 hours[5]

83p vs £1
On average, women are paid approximately 83p for every £1 men are paid[6]

Men

↓	3.65
↑	7.21
↓	1.89
↓	2.42
↓	0.39
↓	0.20
↓	0.23

42%
Percentage of women around the world who are outside the paid workforce because of unpaid care responsibilities, compared with just 6% of men[7]

12.5 billion
Hours of unpaid care work put in every day by women and girls globally[8]

£1.24 trillion
Annual value of unpaid household service work in the UK, almost two-thirds of GDP[9]

80%
Increase in the value of unpaid household work in the UK between 2005 and 2016[10]

£585
Median weekly earnings for full-time employees in April 2019[11]

£259.63
Additional amount the average woman could earn per week if her unpaid work was paid, versus £166.63 more per week for the average man[12]

To better understand your protection needs and how to further develop financial resilience, contact your St. James's Place Partner today.

WAKE-UP CALL

How companies are re-evaluating their supply chains to cope with a changed world

By Nick Easen

COVID-19 has sent shock waves along supply chains around the world, with global goods trade falling by 3% year-on-year in the first quarter of 2020 and a steep 18.5% in the second quarter, according to World Trade Organization estimates.[1]

The crisis has clearly exposed the fragility of sourcing goods from halfway around the world, and sectors with complex supply chains are likely to be particularly hard-hit. The issue is whether just-in-time, hyper-efficient chains – which have little leeway to accommodate disruption – are still robust enough to serve global trade. Could this be an opportunity to onshore or diversify?

Across the following pages, we offer snapshots of the supply-chain story and examine what things might look like post-pandemic.

THE Q&A

Rethinking fundamentals

Hamish Douglass, manager of the St. James's Place International Equity fund, believes the coronavirus crisis has raised fundamental questions about how global supply chains function

Q Are there lessons to be learned from the past?

A: The 2011 earthquake and tsunami that hit Fukushima in Japan also hit global supply chains, showing us how complex and concentrated they are, especially with car parts. But not a lot changed over time.

Even during the current crisis, there have been few supply chains that have gone down completely for a long time. It helps that demand for goods has dampened tremendously. The fact that many supply lines are up and running today shows that they're resilient.

Take a look at Apple, which has an incredibly complex supply chain. It had a very short-lived issue with manufacturing when China locked down, but it's now largely back up and running.

Q Have companies been rethinking supply chains?

A: The debate is around the length of just-in-time supply chains and whether they've become too efficient, as well as too short, with no inventory in the system. Should businesses lengthen supply chains to make them more resilient? For low-margin products such as shoes, apparel or white goods, this is unlikely to happen.

If all your competitors don't do it and you decide to add costs into your supply chain to mitigate a once-in-a-decade event, your goods will suddenly be uncompetitive because you've got a low-margin product. It may happen for higher-value goods.

Q What about diversifying or onshoring production?

A: Many discussions around onshoring are driven by politics. Diversifying is a much more sensible strategy than onshoring to developed countries, which will lead to higher costs.

Also, some countries just don't have the skills any more in many industries because they've become so specialised. The US, for instance, doesn't have the skills for, say, shoe manufacturing.

The major issue with this pandemic is political change. If we get a very deep and prolonged recession, we're likely to get a political movement that is very nationalistic. This could be anti-globalisation and pro-tariff.

> “The fact that many supply lines are up and running today shows that they're resilient”

THE CASE STUDY

Too-lean supply chains buckle under the pressure

Procurement Leaders, a global membership organisation for corporates, has seen just-in-time supply chains buckle under the strain of COVID-19.

"The question that people were asking at the start of the crisis was whether they could absorb the extra costs of building up stockpiles and warehousing. Cash management has been a priority for many, and that won't change, especially during a large-scale, global economic downturn," says Tim Burt, Customer Insights Manager at Procurement Leaders.

Research by the organisation last year on the future of global sourcing found that the localisation of supply chains around key markets was an emerging trend.

"We also found that only one in every two chief procurement officers have clear systems in place for identifying and managing risk," Burt notes. "One way to de-risk is by localising supply chains. But building up in local markets will take time and money."

> "Building up localised supply chains will take time and money"

THE STATISTICS

COVID-19's impact on global trade

5 million

companies have one or more second-tier suppliers – which supply materials or parts to another company that then supplies them to a manufacturer – in the impacted regions of China[2]

938

of the Fortune 1000 – the 1,000 largest American companies ranked by revenues – have one or more second-tier suppliers in the impacted regions[3]

90%

of all active businesses in China are in the most impacted provinces[4]

72%

of businesses in the UK reported they are exporting less than normal[5]

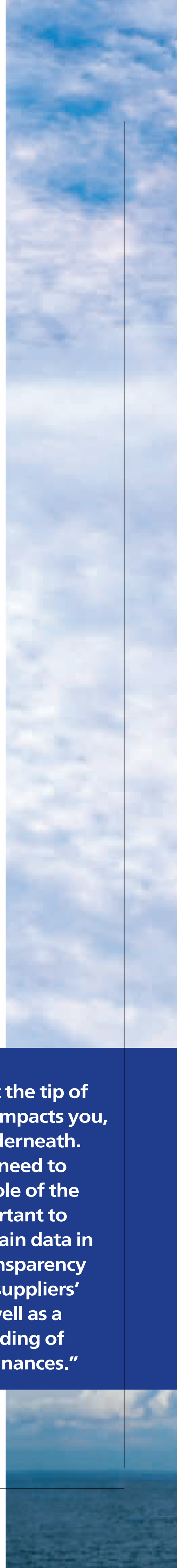
THE INSIGHT

Crisis to drive greater visibility

The coronavirus has shown that there's a lack of visibility along global supply chains. Knowing suppliers, their location and the inherent risks that each pose will be crucial for investors.

"The majority of companies in most industries only look at their first-tier suppliers and often lack a detailed understanding of their sub-tier supply chains," says Brian Alster, General Manager, Third-Party Risk & Compliance Solutions at Dun & Bradstreet.

"It's usually not the tip of the iceberg that impacts you, but what lies underneath. Companies now need to examine the whole of the iceberg. It's important to look at supply chain data in order to gain transparency and insight into suppliers' risk profiles, as well as a better understanding of their credit and finances."



Images: Stocksy. Sources: [1] "Trade falls steeply in first half of 2020", World Trade Organization, June 2020 [2,3,4] *Business Impact of the Coronavirus*, Dun & Bradstreet, February 2020 [5] Business Impact of Coronavirus Survey, Office for National Statistics, 20 April to 3 May 2020

THE BIG QUESTION

But what of the geopolitical situation?

One important issue that will be impossible to ignore post-lockdown will be the geopolitical situation. Politics colours cross-border trade, tariffs and potential onshoring, and influences how smoothly just-in-time supply chains function.

The pandemic has put a spotlight on China, the world's factory and the epicentre of the COVID-19 outbreak.

US President Donald Trump was already waging a protracted trade war on the world's second-largest economy before lockdown. Dependency on China within supply chains is back in focus since so many companies were disrupted due to the pandemic. For investors, geopolitics and how it will evolve is the big unknown, especially in a US election year. Australia is already in a trade dispute with China, which is also linked to the pandemic.

Before the virus hit, Sir Martin Sorrell, ex-boss of WPP and founder of digital media company S4 Capital, said: "In the last 40 years, business has expanded because of free trade and globalisation.

"But are we now starting to see a different era? Is there going to be a new Cold War between America and China? Are we going to end up with a decoupling – two systems and two different approaches – instead of an integrated approach? It's a question of whether the US will accept the rise of China."

THE FUTURE FOCUS

Data-driven supply is here to stay

Recent events have exposed the relatively low levels of digitisation in global supply chains, many of which are archaic, paper-based and bureaucratic. The fact is, cross-border settlements are based on a model that's changed little in decades. And what has moved to the web recently has become clogged up because systems are still rudimentary.

"One of the biggest challenges with today's complex and globalised supply chains is missing, fragmented or inaccurate data," says Roberto Battistoni, Consumer Products Solutions Lead at IBM Global Markets.

The organisations that will stand the best chance of thriving in the future will be those that are building smarter, data-driven supply chains.

"Data analytics, artificial intelligence and visualisation tools allow businesses to model and then build flexibility in. Blockchain and the internet of things are already being successfully used across many industries to add transparency. These technologies could help turn current disruption-prone supply chains into transparent, resilient and accountable ones," Battistoni adds.

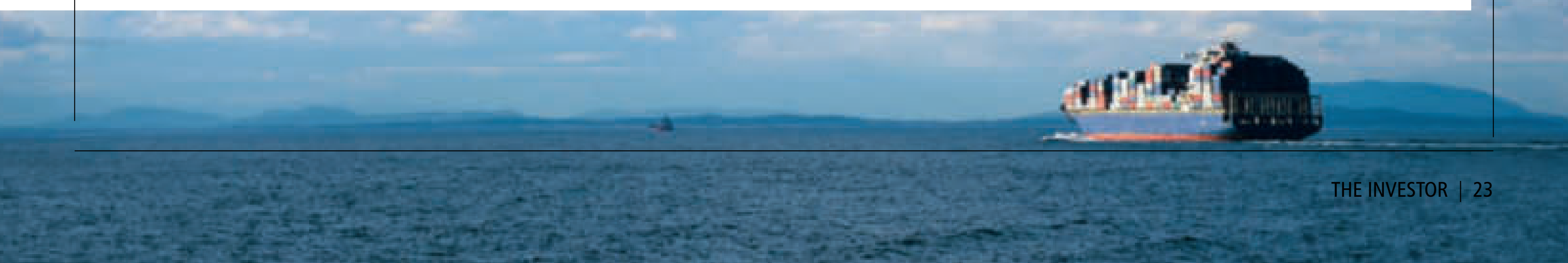
> "One of the biggest challenges with complex supply chains is missing, fragmented or inaccurate data"

THE DRIVERS OF CHANGE

Companies set to see changes

Charles Minutella, Head of Enhanced Due Diligence at risk technology firm Refinitiv, explores the shifts we are likely to see:

- Enterprises may face a far more competitive environment for sourcing materials, suppliers and distribution partners.
- Pandemic-related demand surges and supply shortages for products will result in enterprises pivoting to new, unfamiliar partners. This raises the risk of fraud and financial crime.
- Major corporations will have to spend more time understanding the interdependencies of individual suppliers in their supply chains, as well as the networks of these suppliers.
- There will be shifts due to COVID-19 in the commercial, competitive and regulatory environments in which businesses operate, since there's now a trend of government intervention and protectionism. This is on the rise for essential industries.
- Many supply chains have become reliant on single sources. Diversification may prove painful in pulling away from single-source suppliers, with whom they may have reduced rates, but it will pay off when the next disruption hits.



FROM POTENTIAL TO PROSPERITY

Four experts challenge existing perceptions of Africa and map out what the future holds for the continent

A new narrative

Professor Landry Signé examines the dynamics moving the continent forward

In 2000, *The Economist* labelled Africa 'the hopeless continent', citing poor economic performance, slow growth, conflict and civil war, famine and hunger, and unaccountable governments, among other things.

In 2011, the magazine had a new message, proclaiming the 'rise of Africa' and praising its improvements in health and economic growth.

Yet despite the more recent narrative about the rising continent, the poor perception of Africa has persisted in the minds of many global investors, entrepreneurs and businesspeople. Many often still think of Africa as riskier or more corrupt than other parts of the world. They still focus on poverty or the lack of infrastructure. And while many of these challenges do exist, Africa is not alone – Asia faces these problems; Latin America does too. What's more, this means they're missing the broader trend of improvement.

There are barriers. But the problem is that the narrative about Africa often lacks nuance. The transformations that are occurring on the continent aren't being recognised – they are often acknowledged once they have yielded undeniable outcomes.

THINGS ARE CHANGING

What I'm seeing on the continent now is a phenomenal increase in new players – global players – such as corporations, businesses and investors, but also countries from around the world, that are more aware of the opportunities and are competing in Africa. Things have been changing both in the West and on the continent.

The rise of more democratic, and more accountable, governments in Africa has been accompanied by leaders who are more committed to positive change. The cases of Benin, Ghana, Nigeria and Kenya, among others, are recent illustrations of how accountability can drive democratic change. There is also better macroeconomic management – countries such as Ghana, Rwanda and Ethiopia are doing a better job at implementing appropriate fiscal, monetary and economic policies, particularly compared

Illustration: Ryan Olbrysh

with the 1970s, when many countries had access to resources but didn't necessarily manage those properly.

We are also seeing the rise of what some might call the 'Cheetah Generation': young, entrepreneurial Africans who are more accountable and committed to accelerating the transformation of the continent at an incredible speed, compared with previous leaders, the 'Elephants'. The new generation wants outcomes now, and they want them to be effective.

SECTOR-SPECIFIC OPPORTUNITIES

I genuinely think Africa has tremendous economic potential and will offer opportunities for local and global businesses looking for new markets and long-term investments with favourable returns. Sectors including agriculture, agro-industry, information and communications technology (ICT) and consumer markets will provide high returns on investment, as well as high societal impact.

These businesses will help create jobs and generate resources for governments to address issues such as education, healthcare and infrastructure – and to manage the fast-growing population.

In Africa, manufacturing as a percentage of GDP remains relatively modest, and focusing solely on traditional manufacturing to drive growth has not worked in the same way as it has in China, for example. We have to combine the increase in manufacturing with strategies that have proven, tangible outcomes.

The Brookings Institution has written about 'industries without smokestacks' that share characteristics with manufacturing – these include ICT-based services, agriculture and agribusiness, and tourism. Policy reform in Ethiopia, Nigeria, Mozambique and Tanzania has led to tremendous growth in agribusiness.

These industries benefit from exportability; they are labour-intensive and can absorb a high proportion of moderately skilled workers, and they have high

The application of modern technology can have a rapid impact on economic growth in Africa

> "What I'm seeing is a phenomenal increase in global players that are more aware of the opportunities and are competing in Africa"

productivity. They will also help unlock the continent's agricultural and natural resource wealth: 60% of the world's arable land is in Africa.

TECHNOLOGY AND DIGITALISATION

Technology has played – and will continue to play – a critical role on the continent. In the 1990s, New York City had more mobile phone subscribers than all of Africa. Today, the continent has more than 700 million mobile phone subscribers.[3]

Recently, we have seen solutions associated with the Fourth Industrial Revolution helping in the fight against

COVID-19, but also in healthcare, education and law and order. There are digital tools, such as HelloDoctor in South Africa, that allow doctors to do a full consultation remotely using a tablet, increasing access to healthcare in rural areas. AI is being used to monitor and prevent the spread of epidemics and pandemics, as illustrated by Kenyan company Afya Rekod. And 3D printing is being used in Cameroon to help create solutions for disabled people, as well as to build housing in a more affordable way.

The Fourth Industrial Revolution is blurring the lines between the physical, digital and biological worlds, and it is constantly changing in scope. It will have a significant impact in unlocking Africa's potential.

Born in Cameroon, Landry Signé is a professor and senior director at the Thunderbird School of Global Management and faculty head of the Washington DC-based Executive Master of Global Affairs and Management. He is a senior fellow at the Brookings Institution, a distinguished fellow at Stanford University, a World Economic Forum young global leader, and the author of numerous books, including Unlocking Africa's Business Potential *(Brookings, 2020).*

Sources: [1,2] World Population Prospects, 2019 Revision, United Nations
[3] International Telecommunication Union, 2018 [4] World Health Organization, 2013

Africa's demographic future

Jakkie Cilliers explores how Africa might translate its population explosion into economic development

How will the population surge across Africa shape its economic prosperity? By 2050, Nigeria is forecast to have a population of 400 million people and will have overtaken the United States as the world's third-most-populous country.[1] Africa's population, meanwhile, will have almost doubled – giving it more than a quarter of the world's total.[2]

Africa is the only continent in the world where the size of the working-age population is growing as a proportion of the total, and while every country is different, demography will undoubtedly play a massive role in shaping the future of the continent.

On its current demographic trajectory, much of Sub-Saharan Africa will face the challenge of too-fast population growth and too-slow economic growth, which will restrict much-needed improvements in living standards and incomes.

Countries generally enter a period of particularly rapid income growth when the ratio of working-age persons to dependants is 1.7 or higher; or to put it another way, when the median age is above 25.5 years. This generally occurs when fertility rates are 2.8 children per woman or less. Sub-Saharan Africa is projected to reach this point mid-century, meaning that, for the next 30 years, its extremely youthful population could be a drag on growth.

However, that future is not set in stone. Female empowerment, especially the provision of secondary female education, political leadership and the provision of modern contraceptives, could change Africa's demographic future. Through early action, Africa can increase the ratio of working-age persons to dependants, meaning that more money will be available to invest in education improvements, providing better services to a broader population and generally improving the productive structures of African economies.

In Ethiopia, for example, clear national leadership and international support has allowed the government to invest in basic healthcare to the extent that fertility rates are coming down rapidly.

There are also several key transitions that could boost Africa's productive structures, including trade integration, the potential of leapfrogging using digitisation and the technologies associated with the Fourth Industrial Revolution, such as AI and robotics, and better governance that lifts all boats.

Some interventions can have a more immediate impact than others. Trade integration, the application of modern technology and urbanisation can have a rapid impact. Foundational to all are determined governments and forward-looking leadership.

Jakkie Cilliers is the founder and former Executive Director of the South Africa-based Institute for Security Studies (ISS). He currently serves as the chair of its Board of Trustees and head of its African Futures and Innovation programme. He has written several books, including Africa First! Igniting a Growth Revolution.

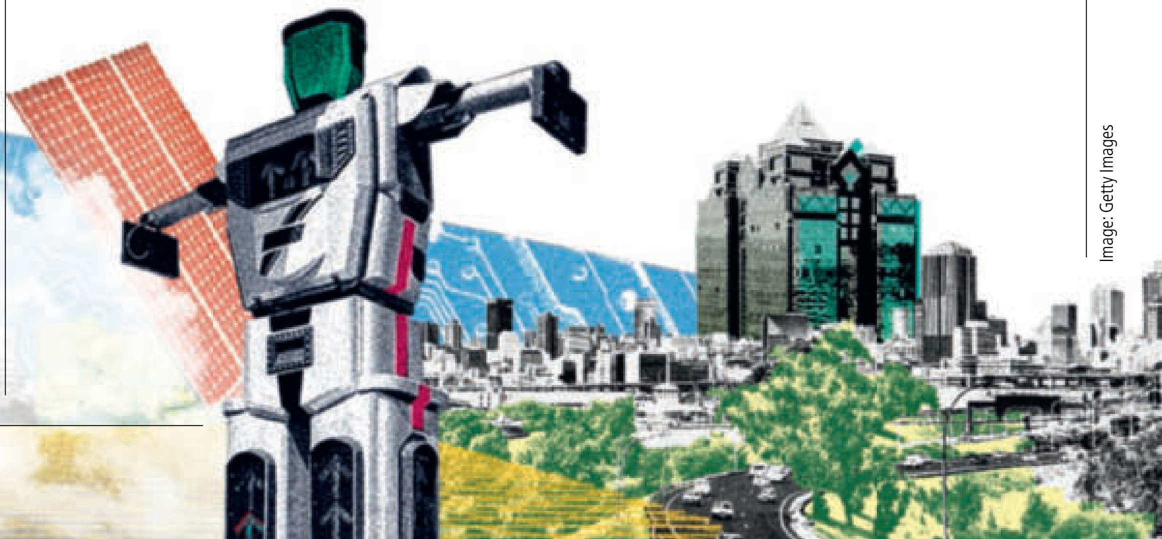


Image: Getty Images

Angola's government has made changes to the country's legal framework to improve competition in domestic markets and attract foreign investment

> Countries such as Senegal, Ivory Coast, Angola and Kenya understand the need for private market investment as a source of sustainable growth

The investment story

Thys Louw, portfolio manager at Ninety One, on what makes Africa such an interesting place in which to invest

There is a perception of Africa as a homogenous bloc, but the continent is made up of 54 very diverse countries. It's generally the bad stories that grab the headlines, but Africa has seen a massive political shift over the past 50 years. We have gone from a situation of constant coups post-independence to embracing democratic principles.

This is what is often missed in the 'poverty and corruption' narrative, and it makes Africa an interesting place for us to invest. There aren't a lot of other investors there, and it has a lot of under-researched, undervalued assets. Throughout events such as the oil price crash in 2014-16, the 2018 global liquidity tightening and now coronavirus, Africa has continued to be a consistent source of returns for investors.

Countries such as Senegal, Ivory Coast, Angola and Kenya continue to make great strides on corporate governance and fiscal transparency. They understand the need for private market investment as a source of sustainable growth.

One of our highest conviction positions is in Kenya, which has a well-diversified economy, a strong services sector, exposure to tourism and agriculture, and exports to Europe. The economy is much better placed than the market thinks in terms of its ability to weather the storm caused by the coronavirus.

There is a low median age in many African economies – 16 in Uganda, 18 in Nigeria and 25 in Egypt[4] – which will require up to a million jobs to be created a year, and the state alone won't be able to do that. Leaders recognise that the only way they can turn that demographic bulge into a dividend is to get the factors in place for a vibrant private sector and to encourage domestic trade and entrepreneurship.

The risk is ending up with a large proportion of unemployed, disenfranchised young people.

The opportunity is dramatic – because Africa can become a massive global consumer.

Seeing Africa clearly

Psychologist and investor Natasha Tiwari on the role of bias

The climate over race relations has brought to the forefront how white privilege and bias is still creating systemic bias in all behaviours, including financial asset allocation.

If investors subconsciously are subscribed to beliefs and vision about the value in emerging economies that are clouded by a colonial lens, this will create a bias. The result is a lack of ability to see opportunities in emerging markets.

Lessons for an ageing world

Beyond placing pressure on the care system, an ageing population has implications for economic growth – and COVID-19 has complicated matters further

By George Magnus

Even before the coronavirus pandemic, the challenge of ageing populations around the world was one in need of urgent attention.

The hares – or the faster-ageing countries – comprising advanced economies such as Japan, Germany and Italy, and a handful of emerging nations such as China, South Korea and Russia, were already seeing the effects. The tortoises, which include India and a swathe of developing nations in Asia, Latin America and Africa, hoped to have another 20-year-plus window. Then along came the pandemic. COVID-19 has not only cast a spotlight on the vulnerability of older people, it has also impacted policy, throwing into disarray the tenuous preparations for ageing by governments, pension fund and asset managers, and individuals.

To put the issue into context, the proportion of the world's population older than 65 will increase from 9% in 2019 to 16% by 2050, according to UN data. A quarter of the population living in Europe and Northern America (which the UN essentially defines as the US and Canada) will be older than 65 in 2050, up from 18% in 2019.[1]

In Africa, Asia and Latin America, the share of the population that is 65 or older is projected to increase from 7% in 2019 to about 14% in

2050. This shift is heavily influenced by China, the fastest-ageing country in the world. The number of Chinese older than 60 will more than double from the 2019 level to nearly 490 million by 2050, lifting their share of the population from 17% to 35%, a higher proportion than in the US.[2]

Spillover effects

Longer life expectancy is mostly something we celebrate, even though it exposes us to an array of ailments and care issues in old age. Yet ageing also matters because it is fundamentally a huge macroeconomic problem for which we have no template. It arises not so much because people are living longer, but because of the problematic combination of rising life expectancy and weak or low fertility rates.

Low fertility rates mean we aren't having enough children – who will later become workers – to replace those workers reaching retirement. As a result, the size and the growth rate of the working-age population, typically defined as those aged 15-64 or 20-64, is going to stagnate or decline.

Linking the working-age and older population numbers, we can calculate the 'support ratio', or the number of workers per retiree. (The inverse of this is the 'old-age dependency ratio'.) In Japan, the support ratio is 1.8, the lowest in the world. Another 29 countries, mostly in Europe and the Caribbean, have support ratios below 3. By 2050, 48 countries, mostly in Europe, Northern America and Eastern and South-Eastern Asia, are expected to have support ratios below 2. China's support ratio, now 7.7, is predicted to fall to just under 2.5.[3]

From a macroeconomic viewpoint, therefore, ageing and stagnant working-age populations will have a direct and detrimental effect on economic growth. They will affect how much people save, and this will influence investment and the level of interest rates. Traditionally, we have thought that older generations would save less, so real interest rates would rise. Yet longer life expectancy and weaker finances for many older people could mean people end up saving more than we expect, and that real interest rates might fall.

Ageing will also lead to labour and skills shortages, which could push up inflation, subject to the effects of automation and robotics. It has already started to impact, in a negative way, the balance sheets of some governments because of promises to pay for healthcare, pensions and residential care. At the same time, institutions are facing defined benefit pension liabilities, while only a minority of older citizens have adequate savings for 20 or more years of non-working life.

> “Ageing is fundamentally a huge macroeconomic problem for which we have no template”

The OECD has calculated that pension, healthcare and long-term care costs will push up public debt as a share of GDP in G20 countries by 180% by 2060, and this could require offsetting tax increases of between 4% and 12% of GDP.[4]

Coping mechanisms

There are really only three main ways to address the macroeconomic effects of ageing, which are all about trying to compensate for the hit to the working-age population. They relate to people, participation and productivity.

Immigration can help to increase the size of the working-age population, mitigating labour and skills shortages. That said, encouraging women and older workers, both often under-represented in the labour force, to go back to work or extend their careers would be more productive.

Getting more women in to the workforce is typically about removing the barriers they face during their lifetimes – for example, ensuring the provision of affordable childcare. Higher participation from older workers requires a variety of workplace and attitudinal changes in addition to a higher pensionable age.

Japan has made strides in recent years in boosting female labour force participation. Meanwhile, over the coming years, government policy will see the retirement age increase in over half of the OECD economies, including the UK, Germany, Australia, the US and Italy.

The most effective – but also the hardest – strategy is to encourage higher productivity growth, so that a smaller workforce becomes more efficient at producing the resources needed to support an older population. This, though, is the holy grail for which we are all searching.

Images: Getty Images

In a paper published in 2018 by the US National Academy of Sciences, authors created an index, comprising productivity and engagement (participation rates, retirement age, volunteering and retraining); wellbeing (life expectancy and satisfaction); equity (poverty risk and educational attainment); economic and physical security; and intergenerational cohesion (income, assets, public provision, social support and transfers from children), to assess how well 18 OECD countries were adapting to ageing.[5]

Norway and Sweden ranked first and second, followed by the US, the Netherlands and Japan. The UK ranked 11th, with four central and eastern European nations filling the lowest slots. No country ranked top in all index components. The principal advantage enjoyed by Nordic countries was equity, while most European countries recorded high marks for social cohesion, neighbourhood support, and financial transfers and housing support between generations. The US score was high on productivity and engagement, and on cohesion, average on wellbeing and very low on equity and security. The Netherlands was high on equity, security and wellbeing, but low on productivity and engagement, and cohesion. Japan was high on wellbeing and life expectancy. The UK ranked second on cohesion, but mid-table on productivity and engagement, and in the lower half in wellbeing, equity and security.

> “The pandemic has undermined stability, productivity and the ageing agenda”

Readjusting after a shock

It's fair to say that many countries are in the throes – or were before the pandemic – of trying to create more opportunities for individuals to extend their working lives and more opportunities for women at work.

Increasing the number of older people in the workforce can ease labour and skills shortages

Image: Getty Images

Older worker participation rates have climbed but are still relatively low, and the gap between male and female employment rates has narrowed to less than 10% in many countries, although there are larger gaps in Italy and South Korea, and across many emerging markets.[6]

The pandemic arrived slightly more than a decade after the financial crisis, subjecting the global economy to two major shocks very quickly, which have undermined stability, productivity and the ageing agenda.

The next decade will be critical for faster-ageing economies in the northern hemisphere – plus Australia and New Zealand – because their rising age structure will pressure pension and healthcare systems, underpinning the need for stronger coping mechanisms. This goes for China too.

For China, the challenge of ageing is more urgent than for most other emerging and developing countries, but all of them face a major problem that advanced economies have been fortunate to avoid – namely, getting old before they get rich. For emerging and developing countries, the rise in age structure in the next 20-25 years will match the rise in advanced nations that occurred over 50-75 years. Compounding the problem is these economies' much lower levels of income per head and far less sophisticated pension and healthcare systems. There is still time for them to adapt, but not much.

George Magnus is a former Chief Economist of UBS Investment Bank, Research Associate at the University of Oxford China Centre and the School of Oriental and African Studies, University of London, and author of The Age of Aging: How Demographics are Changing the Global Economy and Our World.

Sources: [1, 2, 7, 8] World Population Prospects, United Nations, 2019 [3] calculated from United Nations World Population Prospects 2019, using working-age population and older-age cohort data [4, 6] “Fiscal challenges and inclusive growth in ageing societies”, OECD, September 2019 [5] “Multidimensional comparison of countries' adaptation to societal aging”, National Academy of Sciences, June 2018 [9] Economic Survey of Canada, OECD, 2018 [10] Population ages 65 and above (% of total population), World Bank, 2019

Living better for longer

What can we learn from how different countries around the world fund their social care systems?

TONY MÜDD
Divisional Director, Development & Technical Consultancy, St. James's Place

In 2018, for the first time in our history, there were more people on this planet older than 65 than younger than 5.[7] There are a number of contributing factors driving this trend, but the biggest is that we are living longer. This, of course, should be celebrated; however, it can only be the case if we are living better for longer.

The funding of social care in order to ensure individuals can live better for longer is a real political hot potato in the UK. Yet this is a global issue, and countries approach the phenomenon in different ways.

In the US, for example, the healthcare system is mostly privatised, although there is a means-tested joint federal and state programme called Medicaid, with coverage of care costs varying from state to state. According to AARP, a membership organisation for people aged 50 and older in the US, 47% of men and 58% of women older than retirement age will experience a need for care in the future.

Unlike the US, the care system in Canada is provided by the state, and largely funded through taxation and social contributions. In Canada, the number of over-65s is higher than the number of under-15s,[8] and, in 2017, the government pledged six billion Canadian dollars over ten years to address its ageing population – specifically home care programmes.[9]

Belgium and Sweden are among the countries where the provision of care at home has long been a priority. In Italy, too, care homes are far less common, with the country traditionally leaning towards a 'familial model'. In its *Health at a Glance 2019* report, the OECD notes that many people in need of long-term care wish to remain in their homes for as long as possible, and that the proportion of those receiving care at home rose from 64% to 68% between 2007 and 2017. That said, in recent years, countries such as Italy have introduced new frameworks to provide more formal care services, including home care, day centres and nursing homes.

Some countries have an increased focus on the development of community-based services as an alternative for care in institutional settings. Germany has explored multigenerational living, where a kindergarten, social care centre for elderly individuals and somewhere for young people to drop in for socialising or support all exist within the same space.

In 2000, Japan joined Germany in introducing a long-term care insurance model, designed to provide cover as people age. The country has long been known for its widespread respect for its seniors: it actually has a Respect for the Aged Day. At the same time, Japan now has the oldest population in the world,[10] and the provision of care is increasing as a social concern.

It is clear that elder-care systems differ widely around the globe. None offers a panacea, and the UK must find its own solution that is the right cultural fit for its population, as well as one that is financially sustainable.

What we must not do is treat the elderly as if they are solely the responsibility of healthcare workers. We must ensure the needs of the oldest members of our society are met with respect, recognising the contribution they have made as members of the same society in which we all live.

> "Elder-care systems differ widely around the globe. The UK must find a solution that is the right cultural fit and financially sustainable"

DEMYSTIFYING THE MAGIC OF CENTRAL BANKS

Setting interest rates and printing money, central banks are key players in times of economic turmoil. But they're not a cure-all, as economist Roger Bootle explains

Image: Getty Images

Central banks are strange animals. The Bank of England was privately owned from its establishment in 1694 until its nationalisation in 1946 – though it was entrusted with a responsibility to act in the public interest. From the end of the Second World War until it was granted independence in 1997, the Bank effectively operated as the City branch of HM Treasury, which is where the power lay and where the major decisions were made. Since independence, the Bank has had its own distinct identity and clearly designated powers. Nevertheless, like central banks everywhere, it remains an agency of the state, and balancing independence and cooperation with the Treasury is the key to effective policymaking.

The potential power of any central bank is enormous, namely because of its ability to issue a country's money. In normal times, the bank's operations are dominated by changes in official interest rates. A central bank can choose the rate at which it will supply liquidity to the market and the rate at which it will remunerate commercial banks' deposits with it. These official interest rates – in this country usually referred to as the Bank Rate – form the basis for all interest rates.

The Bank of England's Bank Rate is currently at the all-time low of 0.1%. What's more, rates could go still lower, perhaps to -0.5%. Commercial banks are not obliged to fully and precisely follow changes in official interest rates, so a negative central bank rate would not automatically imply that savers would get negative interest rates. But, except for very illiquid or long-term fixed deposits, or deposits with banks of dubious standing, if official rates were -0.5%, then you could probably kiss goodbye to interest on savings deposits. And many savers would indeed incur negative rates.

What this means is that over any given period, instead of the bank crediting the deposit with interest, it would charge interest, with the result that, all things being equal, the amount of the deposit would fall over time. In effect, the saver would be paying the bank for the privilege of being able to deposit money with it. This may sound incredible, but I myself have suffered such negative interest rates on deposits held in euros. It is a painful experience.

STRATEGIC SUPPORT

These days, however, interest rate changes are not the main game in town. Instead, the focus is on whether the central bank should 'print money' – expand its balance sheet by buying securities such as government bonds – and, if so, by how much and in what form. This policy has become known as quantitative easing (QE).

At the moment, QE is being used in conjunction with increased borrowing by the Treasury. Under this arrangement, the Treasury dishes out extra money to companies and other recipients via government stimulus measures. It finances this through the issuance of gilts, which are largely bought by the Bank of England.

Some commentators have suggested that there is a more effective way of deploying monetary support, namely through so-called 'helicopter money' – a term coined by famed American economist Milton Friedman that captures the idea of a helicopter dropping dollar bills onto the citizens below. The practical equivalent might be the central bank crediting everybody's bank account with a certain amount of money.

This is, to an extent, what is happening under today's QE policy. Certain sectors of the economy are receiving payments, and they are receiving them via stimulus from the government, funded largely by the Bank of England.

Is there a serious problem with the current policy? No. The overwhelming need at the moment is to keep the economy going and to prevent a deeper economic crisis. Admittedly, 'printing money' sounds unorthodox and naturally arouses in people the suspicion that a burst of inflation is inevitable. But in practice, there is no immediate inflationary danger.

QE WITHIN LIMITS

There are limits to how far QE can be pushed, and there are dangers. The amount of government debt in the economy in relation to GDP (the debt-to-GDP ratio) cannot rise without limit, as the interest on the debt would eventually consume all the government's tax revenue. Long before that point, any government would either default on its debt or resort to inflation to reduce the debt's real value. To avoid this fate, at some point the debt ratio will need to be stabilised or brought down.

Contrary to much commentary, however, this does not necessarily require significantly higher taxes or significantly lower government spending. The key solution to debt is economic growth. Admittedly, the government will have to be careful in its spending habits. But the debt ratio can be stabilised and

> "These days, interest rate changes are not the main game in town. Instead, the focus is on whether the central bank should 'print money'"

eventually brought down if spending rises at a slower rate than GDP. Meanwhile, to foster economic growth, tax rises must be avoided.

When the economy eventually recovers, the Bank of England will need to take steps to prevent inflation from picking up, including deterring the banks from excessive lending. This will involve a reduction in their huge deposits with the Bank, perhaps by effectively 'freezing' them – disallowing the banks from lending this money. It may also have to sell government bonds back to the market as a way to regulate the money supply and control inflation. It is unlikely to impose much higher official interest rates, not least because it will want to keep the cost of government borrowing low.

With regard to inflation, the authorities will have a choice. They may well decide to stick to the current objective of keeping inflation at 2% per annum. But it wouldn't be surprising if they decided to aim for a slightly higher rate, perhaps 3%.

You can begin to see the outline of a rather interesting world for investors. Negative real interest rates would result in year-on-year losses after inflation for holders of ordinary deposits, and probably for most bondholders as well. This, combined with continued – and perhaps higher – inflation, as well as stronger economic growth, may produce a good environment for equities.

It is also likely to favour residential property – although it's difficult to predict how other factors, including the economic fallout from the coronavirus and possible future tax rises on wealth and property in particular, might offset these circumstances.

Keeping the financial system liquid falls within the remit of the Bank of England

Yet how to ensure stronger economic growth? That is the $64,000 question. There are many possible ways. But beyond providing cheap finance for the government, and keeping interest rates low and the financial system liquid, none lies in the bailiwick of central banks. They have a vital role in preventing us from falling into an economic abyss. But they don't hold the keys to economic salvation.

Roger Bootle is Chairman of Capital Economics and the author of the recently published book The AI Economy.

On alert for positive signals

What investors should know as we begin to emerge from the coronavirus crisis

CHRIS RALPH
Chief Global Strategist, St. James's Place Wealth Management

As the UK begins to reopen following the coronavirus lockdown, we're all looking for indications that the economy is bouncing back. The Bank of England has a role to play, as does the government, in ensuring that we do not fall deeper into crisis, but the path to recovery is more likely to be driven by improvements in the real economy than by monetary policy.

In terms of key positive indicators, we'd like to see a pickup in retail sales and hospitality spending.

The central bank is not expected to increase interest rates any time soon, meaning savings rates for individuals will remain low for the foreseeable future, as will government bond yields. This makes equities, corporate bonds and other real assets more interesting.

Rising inflation isn't likely to be a concern in the short term given continued uncertainty around the scale and speed of the recovery – and whether consumers will be willing or able to spend.

Indeed, compared with the global financial crisis, this one is more complicated. In 2008, we knew where the pain points were – namely the US housing market. Today, unpredictable events, such as second waves of COVID-19 and subsequent shutdowns, could set any recovery back significantly.

At some point, the UK government will have to reckon with its high debt levels. However, it will not want to obstruct any potential recovery. We may get some insight here in the Autumn Budget.

Image: Bank of England


ST. JAMES'S PLACE
WEALTH MANAGEMENT
Just ask
Your relationship with us means saving for a rainy day is all taken care of. Whatever's on your mind, just ask.
For more information, please speak to your St. James's Place Partner.
www.sjp.co.uk