

The PODfolio Podcast – Season 2, Episode 2: Festive Investment Quiz!

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SPEAKER: Welcome to the PODfolio, Willis Towers Watson's investment podcast series where we talk to expert guests on hot topics that matter to institutional investors and their portfolios.

LOK MA: Hello, everyone, and welcome to this special edition of the PODfolio with me, Lok Ma, as your host. It's our first ever festive investment quiz. We've got four rounds of questions for our guests. These questions came from various researchers from across the investment business.

And I got to say, they've decided to go into some pretty weird and wonderful areas of the investment world for this. Certainly, I didn't know most of the answers before I was given them, which does mean quite a lot of it is going to be just guesswork really. And our listeners can very much play along with us. No specialist knowledge required or expected.

So let's introduce our guests. We've brought together four of our I'm going to call, I'm going to call you our rising stars from our investment team in the Reigate office here in the UK, with an average level of experience of around five years, I would say. Super brave of all of you, of course, to take part in our quiz. Honestly, some of these questions are going to be tricky I would say. So using your instinct and sometimes maybe guessing can be a better strategy than applying huge amounts of logic, I would say. And rather than bore our listeners to death with a load of introductions, I'm just going to ask each of you to tell us what you saw as the main investment theme of 2021 as some kind of indirect way of introducing yourself. So I'm to start with the guest that's appearing in the top right of my screen. We have Eleanor Huish. Welcome to the show, and what was your main investment theme of 2021 please?

ELEANOR HUIISH: Thanks, Lok. So over 2021 I saw the focus of trustee boards move to longevity risk. It's an increasingly dominant unmanaged risk for a lot of maturing schemes we're working with. We saw bulk annuity and longevity stock markets remain very active over 2021 from 2020, even with some of the challenges that we saw in the post-COVID world. And we've just been working, the team have just been working on a big buy in, securing a big buy in with over, securing members benefits for over 12,000 members.

LOK MA: Cool. So welcome. And then moving clockwise on, we've got Abbie Knight. So welcome to the show and what was your big theme?

ABBIE KNIGHT: Thanks, Lok. My big theme over 2021 was the impact of the rollout of the COVID-19 vaccine, how that impacted asset returns and the differences across different geographies and sectors.

LOK MA: Cool. And then moving on, we've got Harry KEAY. So welcome, and your big theme please.

HARRY KEAY: Afternoon, Lok. I would say big themes, it's hard to look past climate change. So we saw the publishing of the sixth annual UN Intergovernmental Report on Climate Change, which is a very light 4,000 page read for those with a bit of spare time, the highly publicized COP26, and also several landmark shareholder votes and court cases related to climate change in the investment world as well. So we've definitely seen the modern Titanic start to finally turn on the topic of climate.

LOK MA: Oh, very, very good. And last but not least, we've got Josh Naylor. So welcome. And your theme?

JOSH NAYLOR: Thanks for having me on, Lok. For me, it's the realization from many companies that a more flexible approach to working can be beneficial. It can help to foster inclusivity, can boost productivity, and ultimately lead to better financial outcomes for companies.

LOK MA: Cool. And it's very easy to organize quizzes like this as well I would say. So let's get on with our quiz. And I would encourage our listeners to play along if they want to. The scoring is pretty obvious, one point for each correct answer. And if any listener gets a better score than any of our guests, you can receive free investment consulting from that guest for the whole of 2022. That part probably isn't true. So round one is called Things Were Much Cheaper In My Day. Things Were Much Cheaper In My Day. And for me, my heyday was undoubtedly 1995, a quarter of a century ago. I was 18 years old. And in that year, we saw the launch of the DVD. Don't know if you know what they are. You're so young. The Sony PlayStation, the Macarena dance. Know that?

ELEANOR HUIISH: Yeah.

LOK MA: And of course, the best Batman film that was ever made, Batman Forever. And then that last part, for anyone who's seen Batman Forever, is of course ironic. So, contestants, if I invested \$100 in 1995 in the following areas, how much would that investment be worth now in 2021?

So I'm going to go through various investments. \$100 25 years ago, what would it be worth now? And please type your answer into the chat, and I'll pick one of you guys to explain your reasoning. So question number one, \$100 invested in 1995 in real estate. Write down how much you think that is worth now. Not that it matters, but I used the Shiller US Home Price Index for this. It's too late to look that up now. So \$100 25 years ago, what would that be worth now? And I can see that you guys are starting to type your answers into the chat.

(LAUGHING) Right. So you've all put your answers in. I got to say, there's a much bigger range than I was expecting. The range has gone from \$350 to \$2,000. So I would, first of all, congratulate you guys for not following the herding instinct and going with your own answers.

Not going to pick on all of you. I'm going to go to Harry. What was your answer, and what was your rough thinking process behind this?

HARRY KEAY: Roughly speaking, I thought that maybe house prices and real estate has probably potentially doubled every decade, something upon that sort of remit. So I ended up going towards roughly about \$350. Obviously depends when you look. I feel like Eleanor's answer of \$2,000 is probably-- if you're looking at a small flat in Clapham, then it probably has gone up--

LOK MA: [LAUGHS]

HARRY KEAY: --20 times. But yeah, that was my rationale.

LOK MA: So well done for outing her with the outlier answer as well.

ELEANOR HUIISH: Thank you, Harry.

LOK MA: You're actually, Harry, very close. The answer is \$280. So it was a return of just over 4% a year over the last 25 years. But I think you're absolutely right. There would be very different localized returns over that period as well.

So question number two. Same thing again, \$100 25 years ago, this time in AAA rated corporate bonds. So hopefully the first one has helped you to calibrate where the answers might be. Right, OK, and the answers are in, and this time there is massive herding effect now.

People don't want to stick their neck out. All four answers of \$160, \$175, \$180, and \$190. And so obviously, all of you calibrated your sights with the first answer and went a bit south of there. I'm going to go to Eleanor. So you came up with-- what was your answer, actually, and what was your thinking?

ELEANOR HUIISH: My answer was \$175. I think we were all recalibrated by the first question. My assumption was that real estate would be a lot bigger than AAA rated bonds. And then I went for somewhere in between 100 and that answer.

LOK MA: Cool. And you know what, that's exactly how I would have done. I would have gone less than real estate. But apparently that wasn't the case in the last 25 years. AAA corporate bond returned over 7% a year for the last 25 years, based on this thing that I'm looking at. So the correct answer is actually \$570, and I was surprised by that.

So closest answer is the highest answer amongst you, which again is Harry. That means he's off the mark with the first two questions. Moving on to the next one, gold.

Right, and the answers are in. There's quite a bit of dispersion this time, ranging from \$200 to \$340. I'm going to go to Josh. Josh, what was your answer and why?

JOSH NAYLOR: Yeah, I've gone for \$340. I was thinking somewhere in the region of about 5% a year, and I've just gone straight off the back of that.

LOK MA: Perhaps good thinking. You're actually very close. The actual return in the last 25 years was 6% a year. So your 5% a year was very close. The correct answer's \$440, and you with \$340 was the closest. So there's a point to you.

Next one, cash. There should be a pretty big clue about where you're going with this one. OK, and the answers are in. Very good with this.

You're very good at this, I've got to say. Quite a narrow range. I'm going to go to you, Abbie. What was your answer, and what was your reasoning?

ABBIE KNIGHT: My answer was \$160. My reasoning was it was going to be lower than all of the others.

LOK MA: That was-- wow, your semi-scientific approach got you a point, because the correct answer is \$170. 2.2% a year is this stat that I've got over the last 25 years. Only a couple more.

The next one is equities. What was the-- if you had invested \$100 in equities 25 years ago, it would now be worth what? Harry's looking like he's actually working something very intricate out in his head.

ELEANOR HUIISH: Ooh.

HARRY KEAY: It's difficult to compound returns in your mind, isn't it?

ABBIE KNIGHT: There's a spreadsheet open in the background, I think

HARRY KEAY: Yeah I should have done, really.

LOK MA: [LAUGHS] So quite a range of returns. So \$550 to \$800. I think I've been round to all of you, so I'm going to go to Josh again. What was your answer?

JOSH NAYLOR: I've gone for \$800. And I was thinking somewhere in the 10% a year range with a chunk knocked off for the financial crisis. That was about as logical as my answer got.

LOK MA: That's pretty good, actually. The actual return is between 10% and 11%. So even with the financial crisis, it was that average. So the correct answer is \$1,200. So you knocked off a little bit too much, but you're still closest to the answer, so another point to you.

And then just to wrap up this round then with a slightly left field one. Another thing that appreciates in value over time is wine. And so if you spent \$100 buying a bottle of 1996 vintage Chateau Latour, which is a posh red wine-- so \$100 probably--

ELEANOR HUIISH: I know it well.

LOK MA: --wouldn't get you the whole bottle. [LAUGHS] So that would be worth quite a lot of money now. So the question for you is, the return on this bottle of wine closest to which of the asset classes we just talked about? So real estate, AAA rated corporate bond, gold, cash, or equities?

ELEANOR HUIISH: We need a phone a friend function. Phone our [INAUDIBLE].

LOK MA: [LAUGHS] Interesting results. Three of you went for equities. One of you went for corporate bonds. Abbie, why did you go for corporate bonds?

ABBIE KNIGHT: Complete guess. Love to say there was any science behind it at all.

LOK MA: It turns out that you're correct. The return on that bottle of wine was 7.3% versus 7.2% on the corporate bonds. So that was actually very close. So well done to you.

And just to get the usual caveat out there that past performance is no guide to future returns, and these numbers would look very, very different if you were to look over slightly different periods, but that was a relatively straightforward round to just get you guys into the right frame of mind. And at the end of that round, Abbie, Harry, and Josh all have 2 points. Eleanor, I'm afraid you're still--

ELEANOR HUIISH: Oh, dear.

LOK MA: [INAUDIBLE]. So best of luck in the next round. So moving on, our second round is called swipe right. And for those who are not familiar with Tinder and the world of online dating-- and just for the avoidance of doubt, I am not a part of that world-- but swiping right on someone's profile picture means you like the look of them, basically.

So each of our questions is going to cover one particular asset class, and I'm going to tell you about three investment ideas in that asset class. Your task is to pick which of these ideas to swipe right. In other words, you get a point if the investment you picked delivered the best return over a recent period, which I'll specify to you.

And I'll just give you guys a clue before we start. All of these investments will have been affected by COVID in different ways. And so thinking through the implications of that might help you just a tiny bit. But really, to be honest, there's probably quite a lot of guesswork involved in this.

So our first question in this is in the area of secure income assets. So investment A, for you to think about whether to swipe right, is a portfolio of commercial ground rent assets. And for those of our listeners who are not familiar with ground rents, it's something that's seen in a small number of countries like the UK. Essentially, if you own a ground rent, right, you own the land, and the owner of the building that's put on top of your land has to pay you a stream of regular income. So it's kind of like rental income in a way. Investment B is a fleet of trains in the UK again, running from London to Bristol in the southwest area. And the operation of those trains is backed by a government guarantee. And then the third investment, investment C, is two state of the art, low carbon greenhouses that have just finished building recently. So I'm going to go through them again, and you, again, please type your answer in. Investment A is a portfolio of commercial ground rent. Investment B is a fleet of trains running from London to Bristol backed by a government guarantee. Investment C is two state of the art, low carbon greenhouses that have just finished building. And I'm looking for the highest return over the period since the end of 2019, so really through the COVID crisis.

You've all given me the same answer. So I'm going to pick on one of you. Harry, I'm going to come to you. What was your answer, and what was your thinking?

HARRY KEAY: So I went for C, for low carbon greenhouses, to be honest, largely based on the fact that I guess we've had supply chain issues around food. So some of these greenhouses produce a lot of food, et cetera within the UK, so that's a more valuable asset on that basis, having been affected by COVID and those types of things, and then also just coming through on the positive climate related trend as well. So that's why I went for that. Yeah, and I guess avoided the fleet of trains given my experience with train times in this case.

LOK MA: [LAUGHS] So that was very strong reasoning. This investment C actually gave a return of 10% a year, so very, very strong. Investment B delivered a return of 11% a year, and so that's the correct answer. So there's obviously challenges with fewer people traveling around the UK and various countries. But the payments from this investment was actually based on availability, not usage. So you just have to make the trains available for use, and you get paid under this government guarantee, not dependent on the people actually getting on the trains.

And those kind of assets or those kind of guarantees have been very attractive, given recent market conditions and whatnot. So no points for anybody. We're going to move-- do you see, this grouping isn't helping you. You've got to just close your eyes to what everybody else is doing.

So question number two is in the area of alternative credit. And investment A for you to decide whether to swipe right on is a smart beta strategy, buying bonds that have recently been downgraded from investment grade at a high yield. So you might know it as a fallen angel strategy. Investment B is a high conviction portfolio of Latin American corporate high yield, and investment C is a portfolio of short dated loans for US residential projects.

So I'm going to go through them again. A is a fallen angels strategy. Think about downgrades. B is high conviction Latin American corporate high yield, and then C is short dated loans for US residential projects. And as I speak, you have already given me your answers.

I'm going to go to-- there's a spread of answers. I'm going to go to Abbie. What was your answer and why?

ABBIE KNIGHT: Yeah, I put A for the fallen angels strategy. I thought it probably wasn't C around loans for residential, just given that there were some rules about mortgages and not necessarily needing to pay those back around COVID. That was my only logic around that one. And then it was a straight guess between the first two.

LOK MA: Very good. Yeah, you've got the correct answer. So--

ABBIE KNIGHT: Great.

LOK MA: --the returns on B and C are 5% and 6% a year respectively. But this fallen angel strategy, so that was invested in some of the companies that got downgraded because of the COVID pressures, and a lot of them have actually rallied since then because of all the support from central government banks and all that kind of good stuff, and in some cases, got put back into investment grade. So essentially, this strategy benefits from a market overreaction with the initial downgrade, so you're picking things up on the cheap. And that delivered a very strong return.

And then our third and final question of this round is in a miscellaneous category. I'm just going to give you three rough, broad investment strategies. Again, which one delivered the highest return?

A is emerging market equity. B is weather insurance, and C is African fixed income. These are a bit more left field. So-- [LAUGHS] all right, one of you changed your mind.

HARRY KEAY: I've changed it again.

[ALL CHUCKLING]

LOK MA: Oh, look. Harry [INAUDIBLE]. So we've now got something with everything in it. I'm going to Harry, because you changed your mind so much. You went-- so you can at least tell us your thought process.

You went for A, then you changed it to B, and then you changed it to C. So I think you're actually swiping right on African fixed income. So what was your thought-- what was your very convoluted thought process?

HARRY KEAY: A part of it was just fat fingering the keyboard and pressing the wrong one. But so to be honest, I thought initially it might be emerging market equity, given the returns we've seen on equities. But then actually, on reflection, I was thinking, perhaps given the way spreads have changed over the last couple of years, African fixed income might have been a potential source of strong returns over the last couple of years.

I thought weather insurance was likely to be the lowest, given the [INAUDIBLE] events that we've seen over the last couple of years. But I hesitate to say that, because, well, I've got a couple wrong. So we'll see.

LOK MA: I'm loving the thought process, which resulted in the wrong answer. [LAUGHS].

HARRY KEAY: Yeah. [LAUGHS]

LOK MA: The correct answer really, again, has surprised me. It's B. It was actually weather insurance. So I mean, you mentioned all the weather events. We had that big storm in Texas in February as well. But these contracts were actually structured in such a way that included upside payouts to the investor as well.

So one of the upsides was related to the wind farms in Texas. During the big storm in February, there was lots of wind, and it ended up generating a load of electricity at a time when the electricity prices were very high because of the disruption. So somewhat counterintuitively, that delivered a return of over 23%. So there you go.

I mean, there's obviously a huge element of guesswork here. And some of these answers are quite counterintuitive, which probably explains why Eleanor is still to get off the mark at the end of that round, because she's being far too sensible. You're better off closing your eyes and picking, probably.

Harry's on 2 points, Abbie's on 3, and Josh is currently in the lead with 4 points. Well done. So moving on. And I've got your back, Eleanor. I've got your back on this one.

ELEANOR HUIISH: Thanks a lot. [LAUGHS]

LOK MA: Our third round is called Blank Space, named after the famous song by my idol, Taylor Swift, of course. And you need to complete these famous quotes about investing. So this is, hypothetically speaking, a buzzer round, so you've got to be quick.

So I'm going to read out each quote, and instead of pressing a buzzer, which we don't have either the budget or the technology for, you can just type in what you think goes in the blank into the chat. And the first person to type the right answer gets a point. Failing that, whoever gives me the most insightful or amusing answer also gets a point as well.

So we're going to start now. And the first saying is by Albert Einstein. And the saying is, blank is the eighth wonder of the world. So according to Albert Einstein, what is the eighth wonder of the world? So I'm going to go to the correct answer first. Josh, you were very, very quick. So what is the eighth wonder of the world?

JOSH NAYLOR: Compound interest is the eighth wonder of the world.

LOK MA: Correct. That's the actual correct answer. Eleanor, you know I've got your back. So you also have a different answer. What was it?

ELEANOR HUIISH: I did. I wrote actuaries. I didn't know the answer, but then Josh said it, and I thought it wouldn't be really worth my time writing it again. So I thought I'd write actuaries, because we got [INAUDIBLE], so I've got to keep up the good messaging where I can.

LOK MA: Obviously, you didn't know that your host is an actuary himself. And so I'm minded to give you a point, just to get you off the mark as well for an interesting answer. So the rest of you, don't judge me.

We'll move on to question two. This one-- you might or might not know this one. This is by American author, Barry Ritholtz. And the quote is, the beauty of blank is that it's about as close as you can get to a free lunch in investing. The beauty of what is about as close as you can get to a free lunch in investing? Looking at your faces on the screen, none of you have heard this before.

ELEANOR HUIISH: Are we allowed to know when it was said?

LOK MA: I looked up this guy. I would imagine this guy is in his 40s or 50s, so it couldn't have been that long ago.

ELEANOR HUIISH: [LAUGHS] Oh no.

[ALL LAUGHING]

ABBIE KNIGHT: That was payback from you beating me last time, Josh.

LOK MA: That was amazing, because, given it was such a non-standard answer, you were within like a second of each other. So you obviously had this [INAUDIBLE]. So Harry had equity. Eleanor had gold. Abbie, what was your answer?

ABBIE KNIGHT: I put low carbon greenhouses.

LOK MA: Which I would say is probably closest to something I would agree with, given the focus on sustainability and given these things benefit from government grants as well, which you could argue is a free lunch. So I'm going to give you a point for an interesting answer. Josh actually said the same thing, but it was half a second later.

The correct answer is obviously much more philosophical than that. The beauty of diversification is that it's about as close as you can get to a free lunch in investing. Of course it's going to be something zen-like.

So keep that zen-like state in mind, because the next question is similar to that. It's by Benjamin Franklin. And the quote is, an investment in what always pays the best interest? An investment in what always pays the best interest?

ABBIE KNIGHT: Me and Josh have put the same answer for the last three. We clearly work together too often.

JOSH NAYLOR: Indeed.

LOK MA: The answers are in. Harry said an investment in forests pays the best interest. I'm not totally sure what that's about. Eleanor I would agree with. An investment in people always pays the best interest. Josh, you had probably the more cheesy Facebook-friendly answer. What was it?

JOSH NAYLOR: I've gone for, an investment in yourself always pays the best interest.

LOK MA: I think I would--

HARRY KEAY: You read too many self-help books.

LOK MA: That sounds like the kind of thing I see on-- well, for me, Facebook. For you, I don't know. Whatever the thing is, Instagram maybe.

JOSH NAYLOR: Caught me out on my guilty pleasure, Harry.

LOK MA: [LAUGHS] So I'm going to give you a point for that, Josh. It's the first to-- the interesting answer. The correct answer is actually that an investment in knowledge always pays the best interest, and so I hope you're all suitably inspired by that.

The next one, you might not have heard of it, but you could maybe guess what it is. The quote is by Robert Arnott, and what I'm asking for is, in investing, what is blank is rarely profitable. In investing, what is blank is rarely profitable.

ELEANOR HUIISH: Harry's got a habit of changing his mind.

LOK MA: Yeah, I don't even know if you've-- oh no, yes, you have now answered it all now. So Josh said, what is interesting is rarely profitable. Abbie said, what is cheap is rarely profitable. Eleanor says, what is complex is really profitable.

And Harry says-- actually, Harry, what is your answer? I feel like you're going to win the point on that one.

HARRY KEAY: I went for, what is easy is rarely profitable, again, probably from the self-help books about, hard work and all that pays off or whatever else.

LOK MA: So I mean, you're quite close to the actual answer. The actual answer is, in investing, what is comfortable is rarely profitable. So it's a comment on supply and demand. Anything that people can understand very easily and get access to very easily, obviously everybody is going to be throwing their money at that, and that bids up the price. It means the return that you could hope to achieve is slightly less. So--

ELEANOR HUIISH: I think I should lose a point for my completely wrong opposite answer. [LAUGHS]

LOK MA: Well, I mean, it's two opposing schools, right. People will say, I only invest in what I understand, which I think is almost impossible for anybody to disagree with. No one is going to say, no, definitely invest in things you don't understand. But equally, by standing away from the crowd, you could pick up things on the cheap and hope to deliver greater return, but there's more governance risks, et cetera, et cetera.

So I don't know why I just went to a bigger [INAUDIBLE] of that technical point. But anyway, again, get yourself into a zen-like state of mind. Melody Hobson said, the biggest risk of all is blank. And it's more than one word, in case it helps. The biggest risk of all is what? [LAUGHS]

ELEANOR HUIISH: [LAUGHS]

LOK MA: I'm loving all the answers. I do feel quite bad because they're all good answers. One of you is actually correct. So, Abbie, give us the correct answer.

ABBIE KNIGHT: Oh. The biggest risk of all is not taking any risk.

LOK MA: Correct. So if you avoid all the risks, then you end up not having any return in your portfolio, and therefore you completely-- you guarantee that you're going to fail to achieve your objective. But actually, I liked all of your answers.

Harry says, the biggest risk of all is investing in cash. Josh says, the biggest risk of all is longevity.

Eleanor, the biggest risk of all is climate.

You know what, I like them all. I would have given you all a point, but I can't penalize Abbie by giving the rest of you-- I'm going to give you all an extra point for-- so Abbie gets 2 points for the correct answer, and the rest of you all get 1 point for an interesting answer.

And this last one is my favorite quote of all time, so I think I'm going to make this double points. It's not investment related, but I think this quote applies very well in the investment sphere as well. It's something that I use with my children all the time.

The quote is by a country singer in the US called Roger Alan Wade, and the quote is, if you're going to be dumb, you got to be blank. So if you're going to be dumb, you got to be blank.

Sorry, my missus is in the same room as me. She's giggling because she hears me say that to my kids all the time. [LAUGHS] So both of you-- well, actually, no, there are two answers here. So I'm going to go to Josh first. What was your answer?

JOSH NAYLOR: I've gone for confident. If you're going to be dumb, you've got to be confident.

LOK MA: Yeah. And, Harry, if you're got to be dumb, you've got to be?

HARRY KEAY: Fun.

LOK MA: I kind of like that because it kind of semi rhymes. The correct moral is, if you're going to be dumb, you've got to be tough. And I think that's something that could apply very easily in the investment world, although I would never be brave enough to say that to a client, and that is why I've brought this out in a podcast.

So I'm going to give nobody a mark for that. So if you're going to be dumb, you better be tough.

Remember that for future reference.

And so at the end of our third round, Eleanor on 2 points, Harry on 4, Abbie on 5, and Josh storming ahead with 7 points. So we're going to move on to the final round now, and the final round is quite simple. It's called Higher or Lower, and it's based on a new climate-related metric called the Climate Transition Value At Risk, or the CTVAR.

So I'm just going to have to explain what that is about to our listeners very quickly. So the Climate Transition Value At Risk, so the CTVAR, measures how much the value of a company's share price might change-- so plus 5%, minus 10%, et cetera-- how much that share price might change if our economy moves away from a business as usual model to one that's fully aligned with the goals of the Paris Climate Agreement, so including all the good stuff around limiting the increase in temperatures to well below 2 degrees Celsius above pre-industrial levels.

So for this round, I'm going to start you off by telling you about two companies, and then you tell me if the CTVAR for that second company is higher or lower than the previous one and so on, OK. So higher or lower. And these are all based on real examples, although for obvious reasons, we're not going to be naming any of the companies.

So your first company-- that's the baseline for the higher or lower game-- is a European airport. So I can't name the city. So imagine a big city in Europe and the airport operating in that, what the CTVAR for that would be. And then the next company for the higher or lower is a hotel chain based in North America.

So you've got to think and type into the chat whether you think the CTVAR for that North American hotel chain is going to be higher or lower than the CTVAR for the European airport. So all of you gave me the same answer. Abbie, I'm going to come to you. What was your answer?

ABBIE KNIGHT: I said lower, because I think the first-- well, one of the first things that's probably going to be hit with climate transition is air travel. Although hospitality will be hit as well, it feels like it'd be less of an impact.

LOK MA: So I completely agree with your argument, but I disagree with your answer. So you've gone that the hotel chain is lower CTVAR than the European airport. So the European airport, the CTVAR's actually

minus 22%. So it's hit hard if we transition to a green economy, because we're all going to end up flying less than what's been priced into the share price.

As you say, the hotel chain in North America, you're going to lose the international travelers, but again, going along your own line of thinking, that's going to be partly offset by people staycationing. So you've got still people in the US coming to this hotel chain. So the CTVAR for that is minus 14%.

So minus 14 being higher than minus 22, the correct answer is actually higher. And none of you, none of you got that, probably because you were thinking of-- oh, right, Yes, OK. Josh put in, are you-- come on, guys.

For me, minus 14 is a higher number than minus 22. I don't care where you're from, and we're not talking magnitude or anything. So as I'm the host of this quiz, that still goes. So nobody gets a point. So now your new baseline is minus 14%, and you also understand how basic mathematics work.

[CHUCKLING]

On to the next.

ABBIE KNIGHT: I'm just so glad it wasn't just me who thought of it that way.

LOK MA: [LAUGHS]

HARRY KEAY: [INAUDIBLE] must agree.

LOK MA: The next one is-- so you're comparing with minus 14 for that hotel chain. The next one is a manufacturer of semiconductor components, a company that makes components for semiconductor for various bits of machinery and devices.

Oh, again, the same answers across four of you. I'm going to go to Eleanor this time. So what was your answer, and what was your thinking?

ELEANOR HUIH: So we all went higher, and I'm slightly concerned I'm going to get this the wrong way around again. But I thought that the hotel chain was going to be more impacted, so it'd have a lower CTVAR than the semiconductor company.

LOK MA: And so the model predicts that the level of semiconductor components that you need for consumers, so for their gadgets and whatnot, that will stay roughly stable. But there will be an increase in demand from electrification and digitalization in various industrial sectors, so if we move to that greener economy. And so the CTVAR for that company is plus 1%.

So you are correct. You're all correct. It is actually higher. So starting from a plus 1% now, the next company is a global fast food chain.

So again, not naming any names, but picture in your head your favorite fast food company. How is that going to do? Who have I not picked on for a bit? I haven't picked on Josh for a bit. So what is your answer? And again, we got the same answers for all four of you.

JOSH NAYLOR: I've gone for lower. I think fast food is going to have a negative impact from a climate change move to a low carbon economy, because I think people's diets are going to get healthier if we successfully navigate the challenges of reaching net zero.

LOK MA: Very, very good. That is indeed the correct answer. So you all get 1 point.

Exactly as you say, if we move to a greener economy, we expect to see a faster shift towards plant-based diets. So a lot of these fast food joints, their brand is all built around eating meat, so they are going to take a bit of a hit. The actual CTVAR for that particular company was minus 8%.

And our very, very last question is about a large car manufacturer that's targeting electric vehicles to make up about 20% of its sales by 2025. So a car manufacturer targeting EVs to account for about 20% of sales by 2025.

ELEANOR HUIISH: Oh.

LOK MA: That's good. So finally, we've got a split thing. So I'm going to go to Harry and Eleanor for your thoughts. So, Harry, what was your answer?

HARRY KEAY: So I went for lower, reason being was just that my expectation was that having, what, 20%, 25% of your sales in renewable-- well, sorry, electric cars wouldn't be enough. So that potentially still having 70%, 75% of your car manufacturing based in old school diesel petrol cars is going to be a real big risk, even by 2025.

LOK MA: And, Eleanor, your thinking?

ELEANOR HUIISH: I went for higher. So I think that's sensible, Harry. But I just thought that it would be higher than the fast food chain, given that they were at least some way towards the low carbon world and making it work within that.

LOK MA: I think that's a very good point, actually. So a lot of these things-- sorry, this is another teachable moment. A lot of these things are about the net effect of various things happening, and in this case, Eleanor's got it right, because you expect to make fewer of the old school combustion engine cars, but you're making more electric cars.

And so obviously, there's offsetting effects between those two things. And you also got to think about the net effect versus what is currently being priced into the share price of these companies. So that magic 20% presumably is more than the market average or more than what people have allowed for, et cetera, et cetera, which is why the CTVAR in this case is positive. It's a plus 4%.

And so that was the end of our Higher or Lower round. And that's the end of round four, and it's the end of our quiz as well. So I'm going to just announce the results. Eleanor and Harry at the bottom, I'm afraid, with 5 and 6 points respectively. Abbie with a very commendable 8 points, and Josh just ahead with 9 points.

So he is the winner of our quiz today, which means that, Josh, you can now take the rest of your afternoon off. The rest of you will be banished to our Reigate office dungeon to watch a DVD of Batman Forever. So thank you. Thank you very much.

ELEANOR HUIISH: That doesn't sound so bad. [LAUGHS]

LOK MA: That's because you have not watched it, Eleanor.

[ALL LAUGHING]

So thank you very much to our guests. And as your signoff, I'm just going to ask each of you to give us your forward-looking predictions for the biggest investment theme of 2022. And I'm going to let our winner, Josh, have the honor of going last.

So I'm going to go around again. Eleanor, thank you for your time and for being such a good sport. And also, what is your prediction for next year?

ELEANOR HUIISH: Yeah, so going forward in 2022, I'm expecting that there's going to be more of a focus on governance. As the number of defined benefit members fall, there's going to be-- well, we think there's going to be shrinking trustee boards alongside a general increase in complexity of work to do within those boards. And then with that, there'll probably be a bigger role to play for the professional trustee, although again, that will present some challenges in terms of costs as well as lack of diversity of thought.

LOK MA: Cool. Thank you very much. And, Abbie, thank you for taking part in our quiz. What was your prediction for next year?

ABBIE KNIGHT: Great. Thanks for having me along, Lok. My prediction for next year is about the continuing efforts to improve diversity of thought within the industry through diversity and inclusion initiatives and holding firms more accountable.

LOK MA: Cool. And, Harry, thank you for taking part. What is your prediction, please?

HARRY KEAY: Thanks, Lok. So Josh has referred to me as Greta on a couple of occasions, which makes it unsurprising that I expect more climate related excitement next year. So we spent decades working out the typical measures of portfolio risk and incorporating financial statements into asset prices. So climate's likely to be the same, just squeezed into a far shorter period of time, given the impending clock of doom, I think as Boris referred to it, or whatever.

LOK MA: Very good. And finally, Josh, first of all, congratulations on winning this prestigious quiz. Thanks for taking part, and what is your final thought for us? What's your outlook for next year?

JOSH NAYLOR: Thanks, Lok. I think inflation's going to be the key theme for 2022. How long the higher inflation we've seen in recent months will be sustained, what the policy response is going to look like, I think they'll be the interesting questions that we're going to need to consider over the next few years.

LOK MA: Thank you. And if I knew that was going to be such a dull answer, I might not have wrapped up the show with that. [LAUGHS] Maybe that's how you won it to start with. And we hope our listeners also enjoyed this quiz. We'll see you all in the new year for our look ahead for 2022, and in the meantime, do please take care.

[MUSIC PLAYING]

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