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WAKE UP CALL FOR SLEEPY SAVERS

By Richard Evans

Tens of thousands of pension savers have put billions of pounds into funds that consistently underperform.

Funds run by some of Britain's most familiar and trusted names, such as Standard Life, Lloyds TSB and Friends Provident, are among the serial underachievers.

If the funds' performance fails to improve, savers could find that their eventual pension pot is worth tens of thousands of pounds less than if they had invested in an index tracker. They could face a much reduced annual income in retirement, or find that they have to carry on working for many years past retirement to make up the shortfall.

One example is Standard Life's UK Equity fund, which has almost £3.5bn of savers' money under management. It has underperformed its peers in the UK All Companies sector over five and 10 years, according to figures from Morningstar, the fund analyst. Someone who invested £1,000 a decade ago has seen his money shrink by 8.3pc to £917. The average fund in the sector shrank by 2.6pc over the same period.

A spokesman said the fund had marginally outperformed its benchmark – the FTSE All Share index – over 10 years. "We are still disappointed that the performance of the fund has not been stronger, but like many others we have been affected by the extreme levels of volatility within the UK financial sector towards the end of 2008," he added.

Another fund in the UK All Companies sector, Friends Provident UK Equity, which is managed by F&C, underperformed over five, seven and 10 years, and shrank by 12.9pc over the past decade. Its Stewardship ethical fund lost 5.2pc over the same period. A spokesman said: "F&C has managed the fund since 2004 and it is ahead of its peer group over more recent time periods."

The £3.5bn Balanced Managed fund from Lloyds TSB has put in a below-average performance compared with other balanced managed funds over one, three, five, seven and 10 years. It returned just 3.4pc over 10 years, compared with an average of 7.9pc for the sector. A spokesman said:

10 top pension funds

Over last 10 years

Fund	Gain
Clerical Medical with-profits regular payments	55%
Zurich Managed	47%
Axa Sun Life/Framlington Balanced	38%
Skandia/BlackRock Managed	34%
Scottish Friendly Managed	33%
St James's Place/Invesco Perp Managed	28%
Skandia/Fidelity Moneybuilder Balanced	27%
Zurich Balanced Managed	26%
UBS Life Managed	26%
Zurich/Schroder Managed	23%

UK individual pensions, ABI category balanced managed (up to 85% equity)

SOURCE: MORNINGSTAR

"Over the five-year period to the end of June, the fund has performed in line with its peer group median and is also around the median peer group return over the 10-year period."

Another fund to underperform over the same time periods was Scottish Life's Managed fund, which belongs to the same sector. It shrank savers' money by 0.9pc over the past 10 years.

> Consistent failure could be a trigger

A spokesman for the company said: "For the bulk of the five and 10-year periods used, the average balanced managed fund held over 80pc in equities. Our fund in comparison holds about 55pc-60pc in equities so will perform differently from the vast majority of the sector."

The performance of Clerical Medical's £2.5bn Balanced fund has been consistently in the bottom 25pc of its peer group – the "cautious managed" sector, whose funds can invest up to 60pc in shares. This fund grew just under 4pc over the past decade, compared with a sector average of almost 20pc. A spokesman said: "The year-to-date performance of the fund is very close to the composite index. The recent pullback in investor sentiment saw the recent rally in equities end; however, the fund's allocation to bonds proved helpful."

Matthew Morris of howmuchdoineedtoretire.co.uk, a retirement planning website, said: "These biggies, the £1bn-plus funds, have no excuse for this level of consistent underperformance. If they were football clubs they would have been relegated by now."

The appearance of these particular funds in a list of underperforming pensions is no statistical fluke, it seems. "It's striking that many of these names are the same as the ones we identified when we researched underperforming pensions two years ago," said Tom McPhail of Hargreaves Lansdown, the financial adviser.

Investors with money in underperforming funds do not have to put up with it, however. Advisers say you should see any poor performance as a wake-up call and take action to put your pension plans on a permanently healthier footing. But no one is going to knock on the door and tell you that you have a useless pension. So how can you assess the performance of pension funds yourself?

"If you are not sure how your pension is performing, first dig out a recent statement from the manager, then write to ask for more details," said Mr McPhail. This should include performance over one, three, five and 10 years, the performance benchmark against which the managers measure themselves, such as the All Share index, and how the fund has performed against this benchmark and its peers. While it was difficult to lay down hard rules about translating figures into a "stay or go" decision, Mr McPhail said consistent failure to meet the benchmark or perform in line with peers could be a trigger to take money elsewhere.

Switching money out of a pension fund can incur a penalty – sometimes up to 20pc – so ask about this when you contact the fund manager. Check whether your plan comes with any extras, such as guaranteed annuity rates – losing these could cost more in the long run than any gain from switching.

If you decide to take your money out of your pension fund, resist the temptation simply to put the money into a better-performing fund and instead take time to consider your goals and circumstances.

Mr McPhail recommended every investor go through a basic pensions health check.

"First you need to look at your pension investment strategy," he said. "It's important first to decide your broad asset allocation, before considering which actual funds to buy. If, for example, you are a mature investor with say 10 years to go to retirement, you shouldn't be taking too much investment risk. So you might look at some UK equity income funds, with perhaps some absolute return and some corporate bond or strategic bond funds, with a plan to increase your weighting in fixed interest as you near retirement."

In the last couple of years before buying an annuity you should be looking to hold predominantly fixed interest and cash, he added, while young investors with time on their side should put the emphasis on growth.

"If you are midway through your pension-building life you might look to a balance

> Whatever your age, monitor assets

of UK and overseas income and growth, predominantly equity based – sectors such as active managed, UK all companies and global growth." Whatever your age, he added, you should ensure that you keep monitoring your pensions assets – yearly or even monthly.

www.morningstar.co.uk
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