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Most pension funds failing investors

Dominic Welling| FTAdviser | Published Tuesday , August 18, 2009

The majority of pension funds (86 per cent) have been failing investors, with most funds showing signs of endemic poor performance, according to new research.

The review of 778 funds by consumer website Howmuchdoineedtoretire.co.uk found that when some very basic filters were applied only 14 per cent of the funds made the grade, meaning 86 per cent fell down.

The research looked at every mainstream pension fund available to private/personal investors in the UK. This was then filtered down by excluding any fund below £10m and/or any fund that did not have at least a five-year track record.

Each of the funds then had certain performance criteria applied to them, such as the fund had to have achieved first or second quartile rankings in at least three out of the last five years.

In addition, over five years and 10 years it had to have above average returns, and thirdly the funds had to have volatility equal to or less than the average.

The research found that not only do funds generally underperform but that most funds then fail even to meet a basic standard of performance against their peer group.

This means that investors would undoubtedly be better following a strategy of not using funds.

According to the website, arguably investors would be better throwing their money at randomly selected assets or more viably at index trackers of one sort or another.

Matthew Morris, the author of the research, said: "With some very notable and laudable exceptions the industry is failing.

"When a pension investor hands their hard earned money to a fund manager to get them a return they must have an expectation that the manager will produce something more than they could achieve by doing the investing themselves, i.e. they are paying for the expertise, and hopefully that the manager will stack up well when they are compared to their peers and competitors, otherwise why bother?

"One may as well throw some darts at the dartboard and pick investments on that basis."

Furthermore, the research also identified that fund managers are failing in 86 per cent of cases to add any value at all.

Morris continued: "Warren Buffet was bang on the money when he said what is happening is that the tide's gone out and we can see who has been swimming naked. The years 1987-2007 masked the shortfalls in performance that have now become apparent."

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