UnaVida

PLAN FOR LIFE

The importance of good investment performance on your pension

A research document brought to you by

UnaVida Life Planning

Sector: UK Index Linked Gilts

This is a sector which contains funds, where the fund manager invests into UK government index linked gilts.

There are 59 Funds we have tracked with an established ten year performance.

The 10 year average return was **91.1%.**

This is just around **6.7%** per year.

However the average of the top quartile (i.e. the best 25%) was **7.5%** per year approx.

The average of the bottom quartile (i.e. the worst 25%) was **5.7%** per year approx.

You can see therefore that over a relatively short period (10 years) an investor who was in the average of the best funds would have gained around 1.8% more per year than an investor in the average of the worst funds.

On a £40,000 notional starting fund this is just under £13,000 more simply for choosing a better fund or funds.

Source: Morningstar *

Sector: Flexible Investment/Managed

This is a sector which contains funds, where the fund manager invests into predominately equities, but with a split to include other assets (e.g. cash and gilts); this is the traditional 'manged fund' that many pension investors use.

There are 66 Funds we have tracked with an established ten year performance.

The 10 year average return was **89.1%**.

This is 6**.5 %** per year approx.

However the average of the top quartile (i.e. the best 25%) was **8.05%** per year approx.

The average of the bottom quartile (i.e. the worst 25%) was **5.08%** per year approx.

You can see therefore that over a relatively short period (10 years) an investor who was in the average of the best funds would have gained around 3.0% more per year than an investor in the average of the worst funds.

On a £40,000 notional starting fund this is approximately £20,000 more simply for choosing a better fund or funds.

Source: Morningstar *

Sector: Europe excluding UK

This is a sector which contains funds, where the fund manager invests into companies across Europe but excludes any companies in the UK.

There are 95 Funds we have tracked with an established ten year performance.

The 10 year average return was **90.2%.**

This is **6.6%** per year.

However the average of the top quartile (i.e. the best 25%) was **8.9%** per year approx.

The average of the bottom quartile (i.e. the worst 25%) was **4.9%** per year approx.

You can see therefore that over a relatively short period (10 years) an investor who was in the average of the best funds would have gained 4.0% more per year than an investor in the average of the worst funds.

On a £40,000 notional starting fund this is about £30,000 more simply for choosing a better fund or funds.

Source: Morningstar *

Sector: UK All Companies

This is a sector which contains funds, where the fund manager invests into companies of any size or type in the UK.

There are 132 Funds we have tracked with an established ten year performance.

The 10 year average return was **89.3%.**

This is **6.5%** per year.

However the average of the top quartile (i.e. the best 25%) was **8.9%** per year approx.

The average of the bottom quartile (i.e. the worst 25%) was **4.5%** per year approx.

You can see therefore that over a relatively short period (10 years) an investor who was in the average of the best funds would have gained around 4.4% more per year than an investor in the average of the worst funds.

On a £40,000 notional starting fund this is about £32,000 more simply for choosing a better fund or funds.

Source: Morningstar *

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Sector: UK Direct Property

This is a sector which contains funds, where the fund manager invests into property in the UK.

There are 70 Funds we have tracked with an established ten year performance.

The 10 year average return was **35.1%.**

This is around **3.0%** per year.

However the average of the top quartile (i.e. the best 25%) was **4.6%** per year approx.

The average of the bottom quartile (i.e. the worst 25%) was **1.3%** per year approx.

You can see therefore that over a relatively short period (10 years) an investor who was in the average of the best funds would have gained around 3.3% more per year than an investor in the average of the worst funds.

On a £40,000 notional starting fund this is over £7,000 more simply for choosing a better fund or funds.

Source: Morningstar *

Sector: Asia Pacific incl. Japan

This is a sector which contains funds, where the fund manager invests into companies across Asia, including Japan.

There are 67 Funds we have tracked with an established ten year performance.

The 10 year average return was **143.5%.**

This is **9.1%** per year.

However the average of the top quartile (i.e. the best 25%) was **12.2%** per year approx.

The average of the bottom quartile (i.e. the worst 25%) was **7.0%** per year approx.

You can see therefore that over a relatively short period (10 years) an investor who was in the average of the best funds would have gained around 5.2% more per year than an investor in the average of the worst funds.

On a £40,000 notional starting fund this is around £48,000 more simply for choosing a better fund or funds.

Source: Morningstar *

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Conclusion

“Money is the best deodorant”
Elizabeth Taylor

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Conclusion

These examples, a sample from the fund market demonstrate that even within sectors there are relatively large variations in performance from the top to the bottom; as described in our opening segment these variations will create sizeable differences in “pot value” over time. An investor who can get the better returns will have a far bigger pot at retirement than investor who gets the lower returns.

Today this is truly significant; because the recent changes in pension rules for private pensions mean that from April 2015 onwards pensions can be drawn in full (subject to tax). From age 55 onwards they do not have to be turned into an annuity.

Someone arriving at retirement with a pot of £100,000 because they have managed to get a better return than someone else, who has a pot of £70,000, as an example, can enjoy this extra £30,000 as a cash sum (less tax where appropriate).

We have established therefore that returns compound quickly and that even relatively small extra amounts soon start to add up; that differences in returns exist within the fund market – which leads to…

How do we try to ensure we get the best returns?

The importance of seeking help and advice

Government changes introduced in April 2015 provide greater freedom for pension investors with a private or personal style pension plan at the point they choose to take benefits. In brief these changes will allow pensions to be drawn without restriction, at a rate and pace of income to suit that person’s requirements.

This is an important change which invigorates pensions, making them incredibly flexible at their most important stage: the stage where they are needed to produce income.

However, this change should not mask what is most important to anyone saving into a pension and looking forward to their retirement: the amount of money that is in the pension will always be the ***most*** important factor.

In this respect, this guide has been produced by us to highlight how much difference pension investors can make to their eventual retirement pot and income by focusing on the importance of the return generated year by year.

There is a real, meaningful and discernible “prize” to be gained from concentrating on performance. Most modern pensions are keenly charged – in other words they can be accessed with low or competitive charges – leaving the ***variation in performance*** as the likeliest biggest differentiator in how much money will be available in retirement.

Just how does a pension investor get better performance?

The issue that remains therefore is this: it is clear that performance makes a big difference; that there are variations in performance in the fund market and that two investors using similar strategies can and possibly will get very different results.

How can you set out to get the better performance?

Clearly no-one knows what future returns will be from any sector or fund in the market. Likewise there is no guarantee that a good past performance (including out-performance) will be maintained.

This suggests therefore that there is an element of chance around pursuing any mix of fund selection.

This is true, but only to a point. There are ways to focus on better performance and there are steps to improving the prospects of getting superior future returns, naturally these are not guaranteed, but these steps can be employed by anyone. They include:

1. Ensuring that your asset allocation approach is based on your risk profile and tolerance.
2. Using detailed analysis of funds which extends beyond a simple past performance assessment.
3. Ensuring that the funds you use are non-correlated and are diversified.
4. Undertaking a process of regular reviews to monitor and, where appropriate, change any non-performing funds and to keep your approach current to changing fortunes.
5. Having a disciplined and structured approach, and a plan of action which is focused on searching out the most suitable funds
6. Working with appropriate, qualified and quality professionals who will have experience in the selection of funds.

The summary of this is a simple one: improving performance or getting good performance is worth pursuing. It is unlikely to cost you any more in charges, however it will inevitably require more time and focus. The outcome if you can achieve this ***is a higher pension for you to enjoy in your retirement****.*

About us

We have 30 years' experience, helping people manage their capital in good and bad times.

We have observed over many years that many investors are "disconnected" from their financial arrangements, that is they may have an ISA or pension arrangement but for some reason they do not believe that they can, in any way, influence the investments held within their arrangements.

Part of the reason for this is that they often receive statements that are published weeks or months later than the dates covered, so they are often post-dated to current market conditions. By the time they read their valuation statement, they are resigned to the fact that it is too late to do anything about their investments.

Another observation is that many investors fail to understand even basic investment planning, so typically the composition of their investments, pensions and ISAs is unbalanced and exposing their portfolio to additional risk or under-performance - either way their investments often under-achieve.

The fund selection tends to be restricted to retail unit trusts, as Investment Trusts are far more complex.

That is a shame as the index of investment trusts tends to out-perform unit trusts and other open ended investments, in the medium to long term. The inclusion of Investments Trusts within a portfolio, if selected carefully, may provide significant scope for additional capital gains due to the discount mechanism and gearing.

I trust that this guide will assist you. You do not have to put up with poor under-performing investments. My advice to you is to seek out a knowledgeable investment adviser and ask for a second opinion on your financial arrangements.

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This guide was produced and published in January 2016, with all figures quoted to 1st November 2015.

Nothing stated in this guide should be relied upon by the reader as advice. Nor should the reader take any action based on any figures provided or performance data.

The returns shown cannot be guaranteed in the future. You might get back or less than the amount shown.

Readers should only take steps or action following receipt of independent financial advice provided by a suitably regulated Firm or Individual.

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