



# Research Document Performance of UK Pension Funds

**Presented By: Landmark Financial  
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**Landmark**

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## Introduction

This Research Report analyses current underperformance of some of the UK's largest insured pension funds. It provides a background as to how these funds have developed in terms of fund inflows and management. The report examines the performance of these funds against the main indices and top performing funds over various periods.

## Background

During the 1980's and early 1990's many of the UK's largest insurance companies dominated the pension markets through their direct sales forces. Under new legislation, army's of commission based advisers sold thousands of individual pension policies. The result of these sales divisions was to build up significant assets under management within the funds of the UK's largest life assurance companies.

Often little attention was paid to such disciplines as investment performance, asset allocation and forecasting. The default investment for many advisers was simply to place contributions into the company's managed or with profit funds. There was little scope for regular review of clients funds and as such these funds continued to receive inflows irrespective of performance.

Prior to the introduction of stakeholder personal pensions the "old" contracts often had high charging structures which made the policies expensive. The performance of many of the large funds went unchecked as investors failed to monitor the performance of their funds or became disillusioned with pension investments in general.

## Statistics

Table 1 – performance of funds in the balanced managed sector

Company	Fund size	Cumulative Performance			
		1 year	3 years	5 years	10 years
Abbey Life Man	3.12bn	2.4%	40.7%	39.9%	59%
AXA Man	4.78bn	9.1%	50.8%	46.6%	-
Barclays Life Man	3.04bn	2.5%	38.9%	37.3%	77.4%
Clerical Med Bal Man	3.22bn	1.5%	30.9%	24.9%	73.7%
Friends Prov Man	4.22bn	.08%	38.1%	33.2%	63.7%
Lloyds TSB Man	4.76bn	2.6%	39.9%	34.6%	70.1%
NU Bal Man	3.08bn	7.9%	46.7%	42.6%	84.9%
Phoenix Lf	1.95bn	0%	35.1%	28.8%	61.4%
Prudential Man	2.08bn	2%	38%	34.2%	-
RSA Man	1.96bn	6%	37.7%	32.9%	73.8%
Scot Eq Mixed	7.84bn	2.2%	38.4%	30.4%	59.1%
Scot Life Man	2.14bn	1%	34.8%	29%	61.7%
Scot Wid Mixed	2.86bn	7.6%	47.1%	41.9%	-
Zurich Man	13.2bn	2.2%	44.3%	42.3%	90.4%
FTSE All share	-	<b>12.7%</b>	<b>65%</b>	<b>57.3%</b>	<b>109%</b>
Invesco Income	<b>5.2bn</b>	<b>18%</b>	<b>86.7%</b>	<b>90.5%</b>	<b>278%</b>

Source: Money Management June 2007 – figures provided by Morning Star

Table 2 – with profit closed funds

Abbey Life	Liverpool Victoria
Alba Life	National Provident Life
Britannia Assurance	Pearl Assurance
Cornhill	Phoenix Assurance
Canada Life	Scottish Legal Life
Century Life	Scottish Mutual
Equitable Life	Scottish Provident
Family Assurance	Skandia Life
Friends Provident	Sun Life Assurance
GE Pensions	Swiss Life
Guardian Assurance	Winterthur Life
Lincoln	Zurich Assurance

Source: FSA Insurance Sector Briefing Update on closed with profit funds – November 2005

Table 3 – with profit performance

Company	Cumulative Performance			
	1 year	3 years	5 years	10 years
Cle Med	4.03%	12.49%	22.4%	64.63%
Fr. Prov	4.01%	12.47%	22.10%	69.20%
Guardian Choices LT	1.47%	4.56%	13.24%	49.71%
NM With Profit A	0.16%	0.36%	1.26%	24.55%
NU With Profit Guar 00	4.02%	12.49%	22.41%	66.05%
Phoenix Alba Lasia	0%	0%	3/12%	32.90%
Scot. Eq High Equity	0.33%	2.01%	8.72%	46.18%
Scot Mut	4.06%	12.35%	21.80%	71.53%
Scot Prov	3.68%	12.10%	22.29%	65.68%
Scot Wid	2.39%	5.5%	11.34%	48.45%
Winterthur	0%	0%	3.7%	-
Zurich	2.25%	13.44%	7.33%	37.33%
<b>FTSE All share</b>	<b>12.7%</b>	<b>65%</b>	<b>57.3%</b>	<b>109%</b>
<b>Inv Inc</b>	<b>18%</b>	<b>86.7%</b>	<b>90.5%</b>	<b>278%</b>

Source: Lipper Fund Statistic April 2007

## **Analysis**

Table 1 provides performance figures from the balanced managed sector and as can be seen from a comparison against the FTSE All Share index, there has been significant underperformance, and against one of the top performing funds, the underperformance is further exacerbated. An investor with £100,000 in his pension fund invested in the Abbey Life Managed fund would have a total value of £159,000 after 10 years in comparison to an investment trading the FTSE All Share which would have produced £209,000 over the same period. If invested in the Invesco Income fund, the value would be £278,000.

The large balanced managed funds have attracted large inflows over the past 10-20 years. Unfortunately the top fund managers are not attracted to these types of funds and are usually employed by the leading investment houses. This means the future potential performance may be limited. Some of the funds are also closed to new business and there is little incentive to improve performance figures.

Moving on to the with profits table, we can see a number of the large funds have closed and have taken a cautious approach to the asset allocation increasing fixed interest holdings. This will limit the future growth potential of the funds if equity markets perform well. As noted in Table 3 the underperformance against the balanced managed sector and the FTSE All Share is even more pronounced and investors in these funds will have significantly underperformed the market.

## **Summary**

The tables listed in this report provide a snapshot of some of the funds in the UK pension sector. Whilst only a small number are shown, the capital invested accounts for billions of pension holders money and as such they have an important effect on the future performance of UK pensions.

The survey should encourage investors to review the performance of their own pension funds, paying particular attention to the asset allocation and future trends. The more proactive approach may result in improved performance.

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