

Press Release



Contact: Louisa Bartoszek
+44 20 7163 2826
louisa.bartoszek@bnymellon.com

Balanced funds' returns affected by market environment in 2008

Bond pooled funds buck the trend with International Bond Funds achieving returns of 33.6% in Q4 and 51.2% over 2008

LONDON, 27 January 2009 – BNY Mellon Asset Servicing's latest quarterly CAPS survey shows that balanced funds ended 2008 with a disappointing quarterly return of -3.4% in the fourth quarter. Negative returns in the previous three quarters meant that these funds provided a median return of -20.3% over a one year period to 31 December 2008.

Results for pooled balanced funds were also negative over a three-year period, with the average fund returning -1.8% p.a. Results were however healthier over five and ten year periods to 31 December 2008, with the median fund providing returns of 5.0% p.a. and 2.5% p.a. respectively. Over a five-year period, balanced funds achieved a modest excess return of 1.9% p.a. in relation to the Retail Prices Index. However, funds failed to provide real returns over a 10-year period.

During the final quarter of 2008, returns for many active pooled managers were in negative territory. Returns for Equity pooled fund managers were all negative with the exception of Japanese Equities, which returned 13.6%. Returns for other equity pooled funds ranged from -13.2% for Emerging Market Equities to -1.6% for European ex UK Equity funds. Many of these funds did however achieve outperformances against their respective indices.

Bond pooled funds fared better during Q4 2008, with returns of 3.4% for UK Bond pooled funds, and 33.6% for International Bond funds, although this return can primarily be attributed to currency movements. Property pooled funds (-12.3%) struggled during the final quarter of the year and had one of the worst quarters on record.

Although there were a few exceptions, pooled funds struggled during 2008 and returns for most funds were negative during this period. Emerging Market Equity funds (-38.0%) and Pacific Basin ex Japan Equity funds (-31.4%) provided the poorest returns of the year, followed by UK Equity pooled fund managers who returned a disappointing -29.9% during this period. By comparison, the strongest performing pooled equity funds were Japanese Equities (-2.9%) and North American Equity funds (-14.9%).

During 2008, UK Bond pooled fund managers (-0.9%) struggled in comparison with International Bond pooled funds (51.2%), although this was primarily a result of sterling weakness. Cash and Index Linked Gilt pooled funds were the only other sectors to provide positive results, with returns of 5.0% and 3.0% respectively. For the second consecutive year, Property pooled funds failed to achieve positive results and returned -21.1%.

Commenting on the performance of balanced pooled funds in 2008, Alan Wilcock, Performance and Risk Analytics Manager at BNY Mellon Asset Servicing, said: "2008 was certainly a challenging environment for all the major asset classes. Returns were negative in all four quarters for UK and Overseas Equities overall, despite sterling's weakness improving returns in the US and European markets by over 30% and in the Japanese market by 70%. International Bond funds also benefited from those currency movements and provided significantly better returns than UK Bond funds. Non-gilt funds performed poorly relatively to the Gilt funds as relative performance widened over the second half of the year"

Market volatility sees a shift in asset allocations

Within BNY Mellon Asset Servicing's balanced pooled fund universe, the most notable change during 2008 was the drop in UK Equity weightings, which fell from 43.5% to 36.5%. This reduction of 7.0% was despite managers moving money into this sector and was as a result of poor relative performance during this period. This represents a new low for this sector, and is the first time that we have seen UK Equity weightings exceeded by Overseas Equity weightings for this universe.

This press release is issued by The Bank of New York Mellon to members of the financial press and media.
All information and figures source The Bank of New York Mellon as at 30 December 2008 unless otherwise stated.
The Bank of New York Mellon, London Branch, registered in England and Wales with FC005522 and BR000818
Branch office: One Canada Square, London E14 5AL
Authorised and regulated in the UK by the Financial Services Authority.

Press Release



Holding in Overseas Equities fell slightly during the year from 39.3% to 38.7%. Within this sector, we saw reductions in Europe ex UK, Pacific Basin ex Japan, and Emerging Market Equity weightings as a result of poor relative performance. We did however see weightings in North American Equities boosted by 2.3% to an all time high of 11.7%, as money was moved into this sector. Japanese Equities also saw a small increase of 0.8% during the year.

During the year, a combination of strong performance relative to other sectors and managers moving money into these sectors meant that weightings were boosted in both UK and Overseas Bonds. Weightings in Overseas Bonds doubled over the year, increasing from 1.6% to 3.4%, with weightings in UK Bonds at 10.4% after a rise of 2.8% during 2008.

Perhaps not surprising given the unstable financial climate during 2008, weightings in Cash were boosted by 2.4% and rose from 6.8% to 9.2% during the year. This is the highest quarter end weighting we have seen for this sector since 1990.

“The volatile equity markets and Sterling’s weakness have impacted equity allocations making Overseas Equities more popular at the year end for the first time in the survey as managers have increased their diversification across markets. A more cautious approach to asset allocation overall has also meant equity allocations have fallen to their lowest levels, with corresponding increases in allocations to the bond and cash markets,” added BNY Mellon’s Wilcock.

BNY Mellon Asset Servicing’s Pooled Pension Fund Database covers the largest and most representative sample available to UK pension funds’ trustees. The company currently covers 75 separate asset managers who manage over £336 billion in pooled funds, both balanced and specialist.

-ends-

Notes to editors

The performance analysis and other information in this press release are based on historical data and are intended for informational purposes only. Past performance is not a guarantee of future performance. This press release does not constitute investment advice, nor is it an offer or recommendation of any security, investment product, service or firm.

BNY Mellon Asset Servicing offers clients worldwide a broad spectrum of specialised asset servicing capabilities, including custody and fund services, securities lending, performance and analytics, and execution services. BNY Mellon Asset Servicing offers its products and services through The Bank of New York Mellon and other subsidiaries of The Bank of New York Mellon Corporation.

The Bank of New York Mellon Corporation is a global financial services company focused on helping clients manage and service their financial assets, operating in 34 countries and serving more than 100 markets. The company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset management and wealth management, asset servicing, issuer services, clearing services and treasury services through a worldwide client-focused team. It has \$20.2 trillion in assets under custody and administration, \$928 billion in assets under management and services more than \$11 trillion in outstanding debt. Additional information is available at www.bnymellon.com.