

Press Release



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2008 market volatility impacts performance of UK Pension Funds

Bonds buck the trend with returns of 58.1% for Overseas and 12.8% for UK

Shift away from equities continued during 2008 falling below 50% for first time

LONDON, 30 March 2009 – New research from BNY Mellon Asset Servicing, published today, reveals that the average UK pension fund achieved a weighted average return of -13.6% for the year ending 31 December 2008. This is the first time that BNY Mellon has recorded negative yearly returns for UK pension funds since the three-year downturn at the beginning of the decade.

Results were just in positive territory over the medium term, with the average pension fund achieving a return of 0.1% p.a. over three years to 31 December 2008. Results were even more promising over longer term periods, with funds achieving a weighted average return of 5.6% p.a. over a five-year period. Funds made real returns over this period of 2.6% p.a. against the Retail Prices Index, and 1.7% p.a. against the National Average Earnings Index. Over 10 years to 31 December 2008, the average fund achieved a return of 3.7% p.a. which represents a real return of 1.1% p.a. against the Retail Prices Index.

Over the year, equity market returns were in negative territory for each of the key sectors. The poorest equity performances came from Emerging Market and Pacific Basin ex Japan Equities with returns of -35.4% and -31.3% respectively. UK Equities fared only slightly better and returned -29.9% over the same period. Japanese (-1.3%) and US (-12.5%) Equities provided the strongest returns comparatively. This can partly be attributed to sterling weakness against the yen and the dollar, boosting returns in these markets to the UK investor.

Bonds fared better during 2008, with UK Bonds returning 12.8%. Over this period Overseas Bonds provided the strongest overall result with 58.1%, although this was primarily driven by sterling weakness. Index-Linked Gilts also provided positive results and returned 3.7% over the same period.

2008 saw Property struggle for the second consecutive year, with this sector achieving a return of -24.0%. This is the lowest yearly return we have seen for the CAPS Property Index since our records began in 1980.

Asset allocation trends

During 2008 the average asset allocation to Equities fell below 50% for the first time ever and reached a record low of 48.8% at the year end. In addition, the allocation to Overseas Equities was slightly higher than that to UK Equities for the first time ever (24.8% compared to 24.0%). The second half of the year also saw a turning point for allocations to UK Bonds, with the allocation exceeding that to UK Equities for the first time.

By the year end 30.0% was invested in UK Bonds with only 24.0% in UK Equities. Within UK Bonds the trend to invest more in corporate bonds also continued in 2008 with the allocation increasing to 17.8% at the year end, while gilt allocations were slightly down year on year.

Commenting on the results, Alan Wilcock, BNY Mellon Asset Servicing' Performance and Risk Analytics Manager, said: "2008 was an extraordinary year in many respects, with overall pension fund returns producing the worst result in the last 30 years, despite the long-term shift away from equity allocation which progressed further during the year."

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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.

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