

Press Release



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

Balanced Funds return to strength with 20.5% returns in 2009

Weightings in UK Equities continued to rise from the previous all time quarterly low of 35.5% posted at the end of Q1 2009

LONDON, 26 January 2010 – BNY Mellon Asset Servicing's latest quarterly CAPS survey shows that balanced funds ended 2009 on a positive note with a return of 3.1% in the fourth quarter. A return in fortunes also for the previous two quarters meant that these funds provided a median return of 20.5% over a one year period to 31 December 2009.

Results for pooled balanced funds were also positive over three, five and ten-year periods to 31 December 2009, with returns of 1.2%, 7.0% and 2.6% per annum respectively. Over all the above periods, the median fund achieved real rates of return against the Retail Prices Index except the three-year and ten-year periods which underperformed by 1.5% per annum and 0.1% per annum respectively.

During the final quarter of 2009, returns for active pooled managers were fairly mixed. Within Equities, BNY Mellon recorded positive results for most sectors, with Emerging Market Equity posting the highest return with 7.6%. The Japanese Equity pooled sector posted the lowest equity sector return with -4.3%. The majority of the equity sectors managed to beat their respective index with UK Smaller Companies and Pacific Basin (ex Japan) Equity outperforming their indices by 2.5% and 1.4% respectively.

Over the quarter, UK Equity pooled fund managers achieved a return of 4.4% underperforming the FTSE All Share which returned 5.5% over the same period. Over twelve months UK Equity achieved 29.9% which underperformed its Index by 0.2%. For the three-year period to 31 December 2009, UK Equity posted a negative return with -1.8% per annum; this underperformed its index by 0.5% per annum. The five and ten-year periods however, show positive returns of 6.2% per annum and 1.4% per annum respectively.

Global Equity also outperformed its index as 3.9% compared to 3.6% for Q4 2009. For the twelve-month period Global Equity achieved 24.2% while the Index achieved 21.2%. The three, five and ten-year periods were also positive with 0.4% per annum, 7.0% per annum and 1.7% per annum respectively. Of these three returns only the ten-year beat its index.

Within Bonds, UK Bond pooled fund managers returned 0.2% for Q4 2009 and outperformed the comparative market index of -2.0% in the fourth quarter. International Bond pooled fund managers fared worse, achieving a return of -2.2%. International Bonds also outperformed their Index by 0.7%. Cash posted a return of 0.1% for Q4 2009 which matched its Index which also returned 0.1%.

Property pooled fund managers continued their run of positive quarterly returns with 7.7% during the quarter. Over twelve months the median return for this sector was positive with a return of 1.6%.

Commenting on the performance of balanced pooled funds in 2009, Alan Wilcock, Performance and Risk Analytics Manager at BNY Mellon Asset Servicing, said: "The final quarter of year generally added to positive results achieved in the year to that point, producing very positive results for most of the equity and balanced funds for 2009.

"While returns for 2009 on government fixed income bonds and property were negative, non-gilts performed much better and so UK Bond funds generally also produced positive results," added Wilcock.

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Weightings in UK Equities continue to rise

Within BNY Mellon Asset Servicing's balanced pooled fund universe, the most notable change was the continued increase in weightings in UK Equities which has steadily risen during 2009 from the previous all time quarterly low of 35.5% posted at the end of Q1 2009. Weightings rose by 0.7% to 38.2% in Q4 2009. This can be attributed mainly to strength of UK Equities over the course of 2009.

According to BNY Mellon, weightings in Overseas Equities were level over the final quarter. North American Equity allocation increased by 0.6% from 12.4% to 13.0%, with small reductions in the other markets compensating.

As weightings in Equities increased over the quarter, weightings fell in both Cash and Bonds. Weightings in Property fell, while Other Assets increased over the quarter.

During the previous 12 months allocations in the equity sectors predominantly increased. UK Equity weightings increased by 1.7% from 36.5% to 38.2%. Overseas, Emerging Markets Equity produced the largest increase, rising by 1.4% from 3.5% in Q4 2008 to 4.9% in Q4 2009 followed by US Equities and Pacific ex Japan Equities both showing a 1.3% increase. Japan Equities was the only equity sector to show a decrease in assets held over the year, falling from 5.6%, in Q4 2008 to 4.6 in Q4 2009.

The Bond sectors produced a mixed picture over the year, with UK bonds decreasing and Overseas bonds increasing their allocation. Overall fixed income allocation fell from 13.8% to 12.7%. Index-linked exposure increased by 0.1 % over the year. Cash allocations fell significantly from 9.2% to 5.2%. Property decreased from 0.8% to 0.4%.

"The strength of the equity markets over last year led to the higher equity allocations. Large reductions in both Bonds and Cash allocations point to increasing confidence following the market turbulence in 2008 and early 2009," said 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 61 separate asset managers who manage over £393 billion in pooled funds, both balanced and specialist.

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Notes to editors

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