



NEST CAUTIOUS INVESTMENT STRATEGY REVEALED

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In this article, Mark Eedy, Managing Director of Thomas, Carroll Independent Financial Advisers, the **UK Chartered Financial Planning Firm of the Year 2009**, discusses the low risk, low return investment strategy adopted by NEST.

“The NEST investment approach, unveiled recently, is cautious. This is probably the right thing for their target market but it also presents an opportunity for advisers to demonstrate added value in recommending a private pension arrangement, and providing ongoing advice to scheme members”.

NEST's target market is low-medium earners, many of whom are not currently saving for their retirement. Quite a few will have limited or no experience of equity-based investment and NEST is understandably keen to ensure these new savers are not put off in the early years by adverse investment performance.

So whilst not everyone in this market will be risk-averse it is fair to say that many will be. Most members will traditionally have borrowed money, rather than saved. The NEST strategy is, quite rightly, designed to suit the overall market not individuals within it.

NEST chief executive Tim Jones said that combining non-existent risk appetite with NEST's transfer ban and £3,600 annual contribution limit then pots would be too small to invest in volatile funds.

A private scheme on the other hand can offer much more tailored options to suit the demographics of the scheme as a whole and for the individuals within it. For an employer looking to attract and retain a skilled workforce, a private scheme would seem to be the obvious choice.

NEST will offer less than ten funds in total, which could include ethical or religiously focused funds.

A private pension arrangement will often offer dozens of funds, including the facility to invest with alternative fund managers via external fund links.

The NEST default funds will follow a "glide path" comprised of 3 different phases of growth:

- The foundation phase
- The growth phase
- The consolidation phase

This is not massively different to a lifestyle-based approach within a private scheme, but the asset allocation within the different time horizons is likely to be more adventurous, especially in the early stages, within a private pension arrangement.

The foundation phase is where the biggest difference will be seen between NEST and private schemes. Within NEST savers will "typically" be in the foundation phase for 5 years from when they join the scheme. The investment objective is "to preserve the value of contributions in real terms" and there will be a lower proportion of "return-seeking assets".

A private scheme is less concerned with the prospect of members opting-out and is more likely to use this period to maximise growth. Members with a long term investment horizon should be able to absorb more short-term losses and to benefit from longer-term gains overall.

Within the growth phase the NEST aim is "to deliver inflation + 3 per cent over the long term", which could also be considered cautious for a long term growth objective.

A private scheme could offer a range of risk-reward rated funds to suit different types of member, including those who would like to be a bit more adventurous.

The consolidation phase is designed to "manage the risks associated with converting a member's accumulated savings into a retirement income".

Typically, a private scheme would look to move the investor into lower risk funds as they approach retirement to protect against possible stock market falls. This can be achieved by adopting a lifestyle profile or active fund management in the run up to retirement.

We are pleased to offer a review of your existing pension arrangements without charge or obligation. Furthermore, if you agree to engage our services we will design, communicate and implement your private pension scheme and agree an ongoing advice service to you and your employees, tailored to your exact requirements and budget.

Why Thomas, Carroll?

We have the honour of being named **'The Chartered Financial Planners of the Year'**¹ the Personal Finance Society – the body which grants Chartered status to IFA firms and individuals.

Our title demonstrates the excellence, commitment to professionalism, training and development of our people which our clients and professional colleagues have come to expect from us.

We have also recently been awarded **Retirement Planning Firm of the Year**² by Bankhall Group, the UK's largest supplier of IFA compliance and support services.

Contact us

If you wish to discuss the content of this brief in more detail please contact Mark directly on 02920 855 245 or e-mail mark.eedy@thomas-carroll.co.uk

¹ Awarded by the PFS in 2010

² Awarded by Bankhall Group in 2010

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