



# The benefits of diversification

This guide is designed to explain how investing your pension across a mix of asset types can help to reduce the impact of market falls.

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## Market movements in 2020

The lockdown measures put in place to contain COVID19 has caused a big drop off in UK and global economic activity. This has resulted in poor investment performance in the short term and interest rate cuts as central banks act to try and limit the economic damage caused by the virus. It's very likely that you'll have seen the value of your pension drop recently and this could continue over the next few months. While it can be hard to watch large market drops, it's important to remember that investing for retirement is a long-term game and it's very normal for the value of investments to rise and fall as the economy goes through cycles of expansion and contraction. Although not guaranteed, the hope and expectation is that values generally go up over the longer term, despite this short term volatility.

If you are hoping to retire soon then now might be the time to take stock - is there any room for flexibility with your plans? It's also worth remembering that you're unlikely to need all of your pension pot when you do retire, and if you do need to take some money out, the rest can stay invested and potentially benefit from future growth if markets do recover. If you're unsure what do to with your pension then we would recommend speaking to a financial adviser.

## Investing with us

We believe that investing in a wide range of asset classes will result in more consistent performance across a wide range of economic conditions and helps to reduce the risk of having all your eggs in one basket. The Governed Range holds a broad mix of assets- for example: company shares, commercial property, government bonds, corporate bonds, commodities and cash. That spread is deliberate, and means your pension is better prepared to withstand sudden market shocks - so when one particular asset class is performing poorly you shouldn't be as badly affected. The impact of COVID19 has caused most asset classes to fall in value since the start of the year, except for UK government bonds which have risen in value and helped to offset some of the negative returns.

## Annual returns from different asset classes

The table below shows annual returns to the end of April from different asset classes over recent years.

		YEAR									
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
PERFORMANCE RANK	1	Commodities 19.7	IL Gilts 15.5	Global Stocks 21.2	Property 11.1	Global Stocks 20.0	Property 7.0	Global Stocks 32.0	Property 8.4	Global Stocks 11.8	Gilts 15.0
	2	UK Stocks 13.7	Gilts 12.8	UK Stocks 17.8	UK Stocks 10.5	IL Gilts 16.7	Gilts 4.2	IL Gilts 25.5	UK Stocks 8.2	IL Gilts 6.9	IL Gilts 8.6
	3	Global HY 12.3	Corp Bonds 6.4	Global HY 15.2	Mixed Asset 6.8	Property 13.0	Corp Bonds 2.5	UK Stocks 20.1	Global Stocks 7.8	Mixed Asset 4.5	Corp Bonds 6.4
	4	Global Stocks 9.0	Global HY 5.1	Corp Bonds 15.1	Global HY 6.5	Mixed Asset 11.6	Cash 0.5	Mixed Asset 15.1	Mixed Asset 5.5	Global HY 4.4	Cash 0.6
	5	IL Gilts 8.3	Property 2.6	Mixed Asset 13.9	Global Stocks 5.7	Gilts 10.7	IL Gilts 0.2	Global HY 12.7	Global HY 2.1	Corp Bonds 3.6	Global Stocks -0.4
	6	Mixed Asset 7.4	Mixed Asset 1.5	IL Gilts 11.6	Cash 0.5	Corp Bonds 9.8	Global Stocks 0.1	Commodities 11.7	Commodities 1.5	Gilts 3.2	Property -3.9
	7	Corp Bonds 6.6	Cash 0.6	Gilts 6.0	Corp Bonds 0.0	UK Stocks 7.5	Global HY 0.0	Corp Bonds 9.6	Corp Bonds 0.6	UK Stocks 2.6	Mixed Asset -5.7
	8	Gilts 6.4	UK Stocks -2.0	Property 1.3	Gilts -3.0	Global HY 3.3	Mixed Asset -0.4	Gilts 8.2	Cash 0.4	Property 2.2	Global HY -6.4
	9	Property 5.4	Global Stocks -3.0	Cash 0.5	IL Gilts -3.8	Cash 0.5	UK Stocks -5.7	Cash 0.3	Gilts -0.8	Cash 0.7	UK Stocks -16.7
	10	Cash 0.6	Commodities -17.2	Commodities -1.2	Commodities -4.9	Commodities -17.3	Commodities -13.4	Property 0.0	IL Gilts -4.4	Commodities -2.8	Commodities -20.6

Source: Lipper, Royal London, as at 6/5/2020. How your investments have performed in the past doesn't tell you anything about how they might do in the future. Prices could rise, but they can fall too so you may not get back what you originally put in.

MARKET INDEX	ASSET CLASS
ABI UK - UK Direct Property-Pen	Property
Bloomberg Commodity TR	Commodities
FTSE Actuaries UK Conven Gilts All Stocks TR GBP	Gilts
FTSE Actuaries UK Idx-Lnk Gilts All Stocks TR GBP	IL Gilts
FTSE All-Share TR	UK Stocks
FTSE AW ex UK TR GBP	Global Stocks
Governed Portfolio 5	Mixed Asset
ICE BofAML Global HY Const TR GBP Hedged	Global HY
LIBID GBP 7 Day	Cash
Markit iBoxx Sterling Non Gilts Overall TR	Corp Bonds

If you think it looks like a 'patchwork quilt' then you're not mistaken – this shows us that a single asset class is never the best performer for long, and the fortunes of a particular asset class can quickly change. Not only that, but it's clear that some asset classes are riskier than others and the range of returns can vary significantly. In contrast, the returns from mixed assets vary less.

## Greater diversification

For many people, spreading pension investments across these asset classes can be a sensible approach in order to smooth the ups and downs and reduce unnecessary risk. Our Governed Range is designed to do that for you. Each portfolio provides an asset allocation depending on your objective, attitude to risk and time to retirement. And our governance means we have a formal review process to ensure that the portfolios continue to perform as we would expect.

As the uncertain situation continues to unfold, you can feel assured that our investment experts are continuously monitoring the markets, keeping a close eye on your pension investments and making any changes we feel necessary in response to market events.

## How our governance benefits you

- You can be comfortable with the level of risk you're taking when you invest
- As time passes your investments will be automatically updated to maintain the asset allocation in line with this level of risk.
- You can review the outcome of our governance meetings on our website every quarter.

To find out more speak to your financial adviser or visit our investment [market update webpage](#)



Remember, investments can go down as well as up and you might not get back all the money you paid in.

