Fiona Bawdon asks if Pep managers measure up

Is your Pep performing?

How can you tell if your Personal Equity Plans (Peps) are being managed as well as they could be? What measure can you use to determine whether you are getting the best — or even a half decent — return on your investment? Anyone who invested the maximum each year since the introduction of Peps in 1987 would now have put in £73,200 — £55,200 in general Peps and £18,000 in single-company Peps.

John Mendelssohn of Somerset, a *Times* reader, has posed this question to the professionals several times, but without success.

He wonders whether the advisers he has questioned have been unwilling to give him an answer because the truth might not reflect too well on them.

To be fair, the question may not be quite as straightforward as it appears. Keivan Borhani, director at Murray Noble, the financial planning firm, emphasised that there is "colossal variation" in what could be included in a Pep portfolio. The range could include UK shares, UK investment or unit trust schemes, European trusts, emerging market trusts or even cash holdings.

However Laurence Boyle, director at Williams de Broe, the stockbrokers, was brave enough to answer the question. He has calculated benchmarks based on the performance of UK unit trusts where most Pep cash is invested.

For UK unit trusts, he splits the funds into average performers, those in the top half and those in the top 10 per cent (see table).

Had your Pep been invested in unit trusts that were consistently in the top 10 per cent, for instance, you would now have a fund of more than £122,230. For the single-company Pep, he takes the benchmark as the average performance of the FT-SE All-Share index. This would have returned a total £24,675 in the period (see table). Adding both together would give a benchmark for top investment managers — a Pep fund worth £146,905 today.

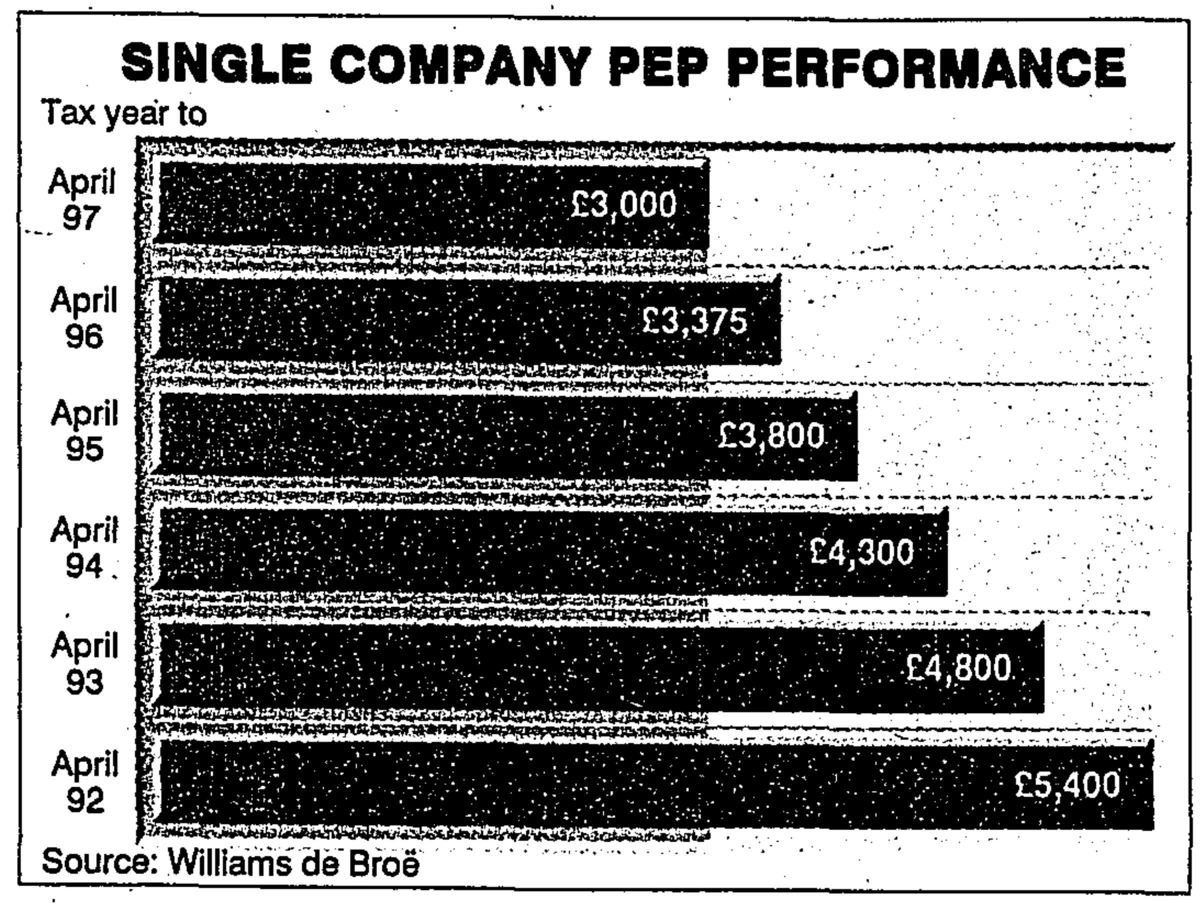
An above-average manager, consistently selecting funds in the top half of the performance tables over the past ten years, would have delivered £130,710; while an average manager would get you £114,630. Robert Guy, a director of John Charcol, the financial adviser, preferred not to look at the question in absolute terms. He said that that the most meaningful comparison was for people to recall their aims when they took out a Pep. "Good performance" will be that which matches or exceeds original expectations. He divides Pep holders into four different categories.

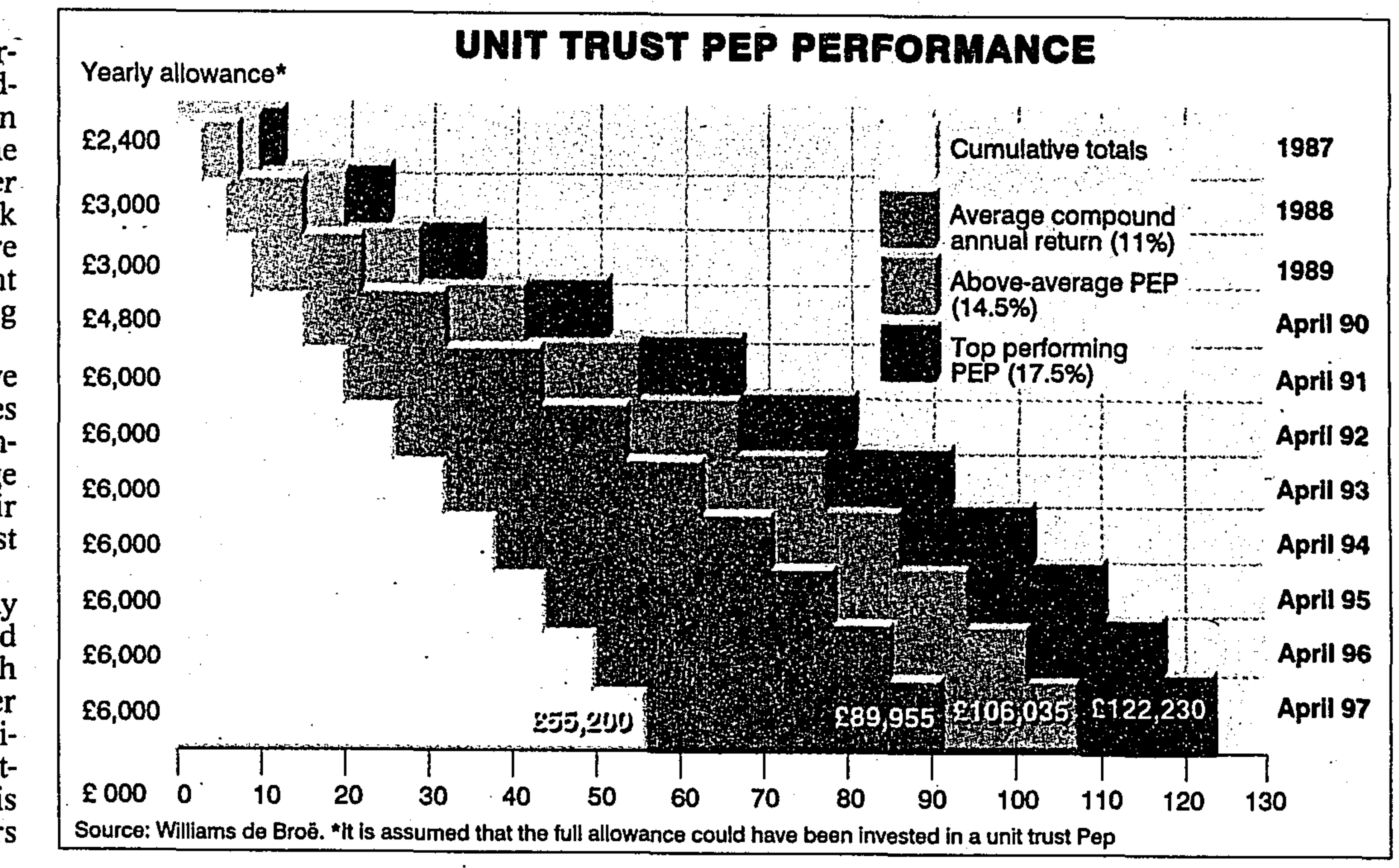
■ Investors who would otherwise have put money in a building society. "The best return from a building society over the period would have been 4 per cent net. For the additional risk factor, I'd say if you were getting an extra 3 per cent return on top, you are doing OK."

■ Investors who would have had their money in UK shares any way. Because of the tax benefits, this group would gauge success by whether or not their Peps are outperforming the rest of their portfolio.

■ Investors using Peps to repay a mortgage. These clients would have assumed a rate of growth — probably between 7.5-9 per cent — to calculate the premiums needed to repay their mortgage. So long as the Pep is reaching this figure, investors should be largely be satisfied.

■ Investors with big holdings in blue chips, who are using their Pep allocation to invest in riskier — and hopefully more lucrative — areas. This group would judge success by whether they were got better returns on this portion of their portfolio than on other investments.





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