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Changing hands

Clients are the losers from adviser consolidation

Where has all the Isa cash gone?

Retail investments are 'leaving the system', so should there be concern among fund firms and platforms?

VALENTINA ROMEO

Money held in stocks and shares Isas "left the system" in 2016 as investors chose pensions over funds and platforms.

The latest figures from the Investment Association show funds in Isas provided by fund firms and five platforms have had seven months of consecutive net outflows totalling around £1.9bn.

Fund managers and platforms Cofunds, Fidelity FundsNetwork, Hargreaves Lansdown, Old Mutual Wealth and Transact make up about three-quarters of the UK market for funds held in Isas.

In the seven months to November, around £2bn has left Isas provided by fund groups, while £252m has left platform Isas.

The latter only had £105m inflows over that period. Across the whole 2015 tax year, fund group Isas suffered outflows of £1.3bn.

Figures released last week show total net sales across Isa funds provided by fund groups and platforms for 2016 more than halved to £1.5bn, down from £2.6bn in 2015.

Hargreaves Lansdown senior analyst Laith Khalaf says: "From the five platforms we got modest outflows in some months but actually the real driver comes from the fund companies rather than the platforms. If you look at 2014 and 2015 people were withdrawing money from their fund company Isa but the overall Isa figure is still good because that money went to platforms.

"Now it seems that money is leaving the fund companies and is not ▶

ISA FUNDS NET SALES (£M)

	Fund companies	Five fund platforms	Total
2014/2015 tax year	-1,223	3,779	2,557
2015/2016 tax year	-1,577	3,099	1,522
2016 April	-185	771	586
May	-332	175	-158
June	-339	-104	-443
July	-306	-61	-367
August	-242	88	-154
September	-274	94	-180
October	-330	-66	-395
November	-206	-21	-227

SOURCE: INVESTMENT ASSOCIATION

EXPERT VIEW

BELLA CARIDADE-FERREIRA

Pensions and China behind Isa outflows

Isa activity was down in 2016 against 2015, but for entirely normal and expected reasons. During the first quarter of 2016, Chinese concerns spooked the stockmarkets and sent retail investors scurrying for cover.

In these situations, self-directed investors are more likely to panic and sell to stop further losses. It is therefore no surprise fund manager Isas suffered outflows.

Many DIY investors sold at the wrong time and so their assets were negatively affected (if only they had waited a couple of weeks...).

However, spooked markets were not the only reason – pensions were another factor. Although the first quarter is traditionally the start of

> **Many DIY investors sold at the wrong time (if only they had waited a couple of weeks)**

the Isa season, Fundscape figures show pension flows were four times stronger than Isa activity.

One reason for the strength of pension sales was the widespread belief that former chancellor George Osborne was planning to impose a flat rate of pension relief as well as reduce or withdraw tax relief on 25 per cent lump-sum withdrawals.

As such measures are often introduced immediately, the race was on to get investors to maximise their pension contributions before the budget deadline. The media was awash with the stories and so investors, both advised and self-directed, pulled money out of their Isas to channel into their pensions.

Once all the hullabaloo had subsided, the country was in Brexit campaign mode. Investors generally put off investment decisions until after elections (or referendums) and they can see the direction of travel. Once the news had sunk in there was a post-Brexit bounce in Isa sales, but it could not make up for the loss of investment in the first quarter of 2016.

Bella Caridade-Ferreira is chief executive of Fundscape

transferring across the platforms. This looks like money leaving the system and not going from one bit of the system to another.

"If advisers were moving to other providers you'll notice and you'd expect to see that in the figures if you look at the picture combined.

"There is no business reason for those platforms to suffer outflows, but where is that money going to?"

Following the flows

Old Mutual Wealth managing director of UK distribution Scott Goodsir says while the IA's data shows Isa sales are down across the market, saying factors such as the pension freedoms and the personal savings allowance challenged flows into the product.

Goodsir says: "To a certain extent the introduction of the personal savings allowance poses a challenge for the Isa market, but the bigger factor here is freedom and choice which has led to consistently high sales of drawdown and retirement products.

"For many customers approaching retirement and thinking about their retirement and legacy planning, allocating to a pension is often more appealing than an Isa since it now offers a high degree of flexibility in a more tax-advantageous wrapper."

Over half of Old Mutual Wealth platform gross sales went into pensions in the third quarter of 2016.

The platform push

Transact, however, says it has seen positive net inflows into Isas every month for the last 12 months.

A spokesman says:"The monthly net positive figure ranges from £20m to over £100m each month. Isa gross and net flows are very healthy, and we are optimistic about Isa business for the coming year."

Cofunds blames last year's commercial property fund suspensions and political change for its outflows.

A spokeswoman says: "The upheaval in politics throughout 2016 resulted in investment uncertainty for end investors.

"Therefore, we're not surprised to see the fluctuation of money across certain investments such as stocks and shares Isas.

"It's key to remember market volatility also affected other asset classes, demonstrated with the suspension in trading among many major commercial property funds. Market uncertainty has continued into 2017, and although it's early days the threat for investors of losing money, or seeing their money fluctuate, will drive the appetite to spread risk."

True Potential saw 2,000 transfers within its business went from cash Isas into stocks and shares Isas in 2016 worth £32m.

> **The threat for investors of losing money, or seeing their money fluctuate, will drive the appetite to spread risk**

The firm says money switched into True Potential's range of 10 multi-asset and multi-manager portfolios.

After charges, the Balanced True Potential Portfolio grew by 12 per cent over a year, meaning savers saw growth of £3.8m.

True Potential senior partner Mark Henderson says many investors still prefer cash over equities though.

He says: "There is still widespread inertia that means many savers remain overly exposed to cash. Everyone needs a rainy day fund but inflation is higher than most cash Isa rates.

"By being overly conservative, these savings are missing an opportunity to grow and, worse, they are losing value. Cash is no longer a risk-free return but more like a return-free risk."

Where to move next?

Khalaf suggests investors are closing their Isas and moving money into other assets. He thinks cash and property are unlikely targets, however, because of factors such as the stamp duty levy on buy-to-let.

Investors might keep their Isas, but just hold more cash within them, he adds.

Architas investment director Adrian Lowcock argues most of the flows leaving Isas were cashed in to buy properties or pay in to a pension.

He says: "In the run-up to April there was a big change in the stamp duty on property and people were also redeeming Isas to buy properties. There was also been a lot of concern last year on the tightening of the pension allowance which could happen this year so many advisers and commentators have said to use your pension allowance while you still have it."

Lowcock thinks it is unlikely investors are moving money into other types of Isas such as cash Isas, given the low interest rate environment.

Instead, they have held more money in cash.

ADVISER VIEWS

Robert Wood
Principal
Wychwood Financial Services

Since pension freedoms, we are using pensions as the first port of call for new and replacement investment monies, particularly for clients approaching or at minimum pension age. In some cases we are using Isa funds to maximise pension allowances due to the benefit of tax relief, and the ability to extract tax-free cash and taxable income later at a lower tax rate. This is basic financial planning and where the real value of advice is.

Jonathan Davis
Managing director
Jonathan Davis Wealth Management

For individuals who will likely not get close to £1m in a pension, this seems to me to be by far the superior way to save for a secure retirement, versus Isas. So I am not surprised to hear people are transferring retirement funds from Isas into pensions or putting new retirement savings money into pensions, rather than Isas, given superior tax benefits. I would be surprised if this is yet the start of a trend of more divestments than investments, in aggregate. However, given the large numbers of people retiring each year, I could be proved wrong.