CORE | DATA research

SIPP Investment Strategies

Trends, challenges and outlook

A study of UK financial advisers

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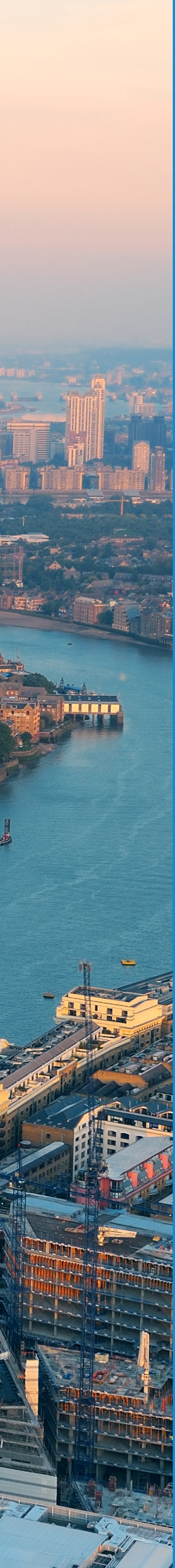

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INTRODUCTION

SIPPs have made headlines again over the last year as issues stemming from unregulated investments and unregulated introducers continue to rumble on. Collapsed providers, complaints, compensation claims and court cases have provided a steady drip feed of bad news. And this will likely continue until there is clarity over the precise role of providers and who is ultimately responsible for vetting SIPP investments.

But as these old issues stick around, new forces including Covid, technology and changing investment trends are reshaping the SIPP market. This evolution has given rise to a new breed of online, streamlined SIPP which bears little relation to its full SIPP counterpart – raising the question over whether the wrapper needs to be redefined and relabelled.

But while the SIPP has mutated and modernised, the core principles underpinning its conception in 1989 — giving people more choice, flexibility and control over retirement savings – are more relevant than ever.

The switch from DB to DC schemes, coupled with the pension freedom reforms in 2015, ushered in a new age where individuals are expected to take personal responsibility for their retirement savings. And that promise of freedom and choice is even more alluring today when individuals are looking to invest savings built up during the pandemic via an expanding array of online investment platforms. Market conditions also favour SIPPs which provide access to alternative, yield-generating strategies in an environment of low interest rates and rising inflation.

SIPPs therefore fulfil a vital function. They allow people to take more control over their retirement savings. And they meet the desire for a wider array of investment options at a time when investors seek diversification through uncorrelated assets.

However, the democratisation of investing and hunger for more esoteric assets is exposing mass market and unsophisticated investors to new risks. This, coupled with the actions of unregulated introducers and a lack of clarity over SIPP provider due diligence, is a toxic mix which regulators need to address to reduce consumer harm.

FIVE KEY TAKEAWAYS

1 Risk on approach

SIPP investors have adopted a risk-on approach as they look to take advantage of buoyant markets and low interest rates in the post-Covid era. This risk-on sentiment is reflected in a bullish outlook on stocks. Almost a third of advisers say SIPP clients have raised contributions to equities compared to just 3% who say clients have dialled down their equity exposure. While SIPP investors have poured money into stocks, they have reduced allocations to bonds amid the prevailing low rate environment and inflation concerns. Nearly three in 10 advisers say clients have reduced bond weightings.

2 ESG momentum

Four in 10 advisers say clients have raised contributions to ESG investments over the past year. This compares to just 2% reporting a decline in ESG contributions. Clients higher up the wealth scale seem especially keen on sustainable investing — nearly half of HNW advisers say clients have increased their ESG commitment. The findings confirm that momentum behind ESG has been boosted by the pandemic.

3 The allure of investment trusts

Almost a third of advisers say investment trusts are among the most popular SIPP investments —underscoring the growing appeal of these closed-ended vehicles. This can partially be explained by the role of the pandemic in highlighting the ability of trusts to consistently pay dividends through use of revenue reserves. Investment trusts also offer access to a range of alternative and private assets which are seeing increased demand as investors look for uncorrelated diversifiers capable of generating attractive returns.

4 Charges the biggest headache

Charges continue to present the prime challenge when advising on SIPPs. Nearly seven in 10 advisers say high charges/ fees are a main concern. High fees pose a particular challenge for independent advisers and those focused on the HNW market. Elevated concern over charges could indicate a growing price gap between lower cost platform SIPPs and their traditional full SIPP counterparts.

5 Call to ban unregulated investments

More than seven in 10 advisers think the FCA should ban unregulated investments in SIPPs and nearly nine in 10 call for the regulator to ban unregulated pension introducers. Mass market advisers feel more strongly about these issues. However, nearly a third of advisers think non-standard assets have an important role to play in SIPPs. Going forward, eight in 10 advisers think there will be increased regulatory scrutiny of the SIPP market.

Methodology:
CoreData Research surveyed 350 UK financial advisers in September 2021.

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About Us

CoreData Research is a global specialist financial services research and strategy consultancy. CoreData Research understands the boundaries of research are limitless and with a thirst for new research capabilities and driven by client demand; the group has expanded over the past few years into the Americas, Africa, Asia, and Europe.

CoreData Group has operations in Australia, the United Kingdom, the United States of America, Spain, Malta, and the Philippines. The group's expansion means CoreData Research has the capabilities and expertise to conduct syndicated and bespoke research projects on six different continents, while still maintaining the high level of technical insight and professionalism our repeat clients demand.

With a primary focus on financial services CoreData Research provides clients with both bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research database hosting and outsourcing services.

CoreData Research provides both business-to-business and business to- consumer research, while the group's offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.

The team is a complimentary blend of experienced financial services, research, marketing and media professionals, who together combine their years of industry experience with primary research to bring perspective to existing market conditions and evolving trends.

CoreData Research has developed a number of syndicated benchmark proprietary indexes across a broad range of business areas within the financial services industry.

- Experts in financial services research
- Deep understanding of industry issues and business trends
- In-house proprietary industry benchmark data
- Industry leading research methodologies
- Rolling benchmarks

The team understands the demand and service aspects of the financial services market. It is continuously in the market through a mixture of constant researching, polling and mystery shopping and provides in-depth research at low cost and rapid execution. The group builds a picture of a client's market from hard data which allows them to make efficient decisions which will have the biggest impact for the least spend.

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