



## Do lifecycle funds have a place in your life?

When do you start investing in them and what to look out for

by Tho Li Ming

**T**he idea behind investing in lifecycle funds for retirement is great: You have a category of funds — usually with a long-term horizon — that starts off its investment lifespan with an aggressive portfolio before gradually becoming conservative until its maturity. Are they the ideal way to fund your retirement?

### Lifecycle funds here

While some of the lifecycle funds overseas adopt the fund-of-funds model, the funds here mostly invest directly in various asset classes according to the different mandates given throughout their investment lifespan. The fund categories here are divided into both long-term and short-term dates. Sharifatul Hanizah, managing director of RHB Investment Management Sdn Bhd, says the lifecycle funds, although focused on retirement funds, can also be used more as an investment vehicle. “Typically, lifecycle is associated with retirement, but a lifecycle fund is used to meet the needs of the person as they evolve over the period from when he leaves college till he stops work. It can be used to meet expenses for his

children’s education, healthcare and retirement.”

The local lifecycle fund industry is very small, with a total of just 12 conventional funds and three Islamic ones. One company that had introduced lifecycle funds stopped doing so as the inflow of funds wasn’t enough. There are two reasons for the lack of popularity: One is that most individuals here are already investing in a fund for retirement — the Employees Provident Fund (EPF), and the other is that most investors hold short-term views.

“From what we’ve seen in the last two years, local investors usually want to see a quick turnaround in their investments and are not willing to stay invested in a fund for long,” says Cheong Kim Chee, a financial planner and director of financial planning services firm, Ascendur Bistari Sdn Bhd. A true-blue lifecycle fund can be “built” with a 25- or 30-year investment horizon.

However, in recent times, lifecycle funds, which are also known as target date or target maturity funds overseas, have come under scrutiny on the ground that they may be taking on more risk than they need to. Because of the financial crisis, across the globe, lifecycle funds lost a quarter of their value on average, with some investing heavily in risky instruments like derivatives. Last year, the Securities and Exchange Commission in the US reported that 2010 target-date funds lost an average of 25% in 2008; some of them lost as much as 41%.

On the local scene, while funds with longer maturity dates did fall into the negative, funds with one- to five-year maturity dates stayed in the black over the one- and three-year period ending April 30, 2009.

“Overseas, 2008 was an extreme

market and some funds got hit more than others. But today, some of those funds have rebounded nicely. Lifecycle funds here did reasonably well as the local markets didn't go down as much as the global markets. We think we've got the right balance here, considering the small fund sizes we have here, relative to the multi-billion dollar funds in the US. We also don't hold derivatives in our funds, although we would have no issue with it as a tool to hedge risk," says J Campbell Tupling, CEO of CIMB-Principal Asset Management Bhd.

### A suitable retirement funding vehicle?

Do lifecycle funds belong in an investor's portfolio? Says Tupling, lifecycle funds are designed for accumulation of funds for retirement and should be held for a minimum period of 10 years. "This product is geared to people entering their 30s... those who are established and already have their career going. They can invest without having accumulated sums as it's meant for regular savings.

"If you want to invest for less than 10 years, then this [product] doesn't really make sense because the ability to benefit from the type of asset allocation that we're doing doesn't usually come in five years. If so, investors would be better off with other shorter-term funds."

Sharifatul agrees, saying that a lifecycle fund is meant to help an individual with his financial planning. "Lifecycle funds are good because you can allocate resources accordingly and be guided by a disciplined asset allocation [approach]."

Ng Chze How, director of retail funds at AmInvestment Group, says the product is more suited for the novice investor. "In Malaysia, when

we talk about retirement, people want to do it on their own, that is, invest in various funds. This is more of a solution for those who don't know how to asset allocate on their own. Many investors are quite reluctant to invest in such a long-term product."

As at end January, the performance of two lifecycle funds with a five-year performance track record — AMB Lifestyle Trust 2014 and AMB Lifestyle Trust Today — averaged returns of 37.82%, which are similar to those reported by mixed-

income for retirement, next to the EPF. If they find that their EPF funds are not sufficient and the funds are generating better returns, investors can also opt to take a portion of the funds out of their EPF account at 50 and put it in a lifestyle fund.

Because it's targeted for retirement, lifecycle funds should be managed separately in an overall portfolio. "This should be their long-term 'don't-touch' money and should be managed separately from the other shorter-term funds they have," says Tupling.

When evaluating the funds, watch out for the fees. Ng says some lifecycle funds could come with higher annual management fees of up to 2%. Benjamin Tee, head of research and development at Ascendur Bistari Sdn Bhd, notes that some shorter-term lifecycle funds that invest almost 90% in bonds could carry a much lower front-load fee of 1% due to its conservative stance. "Those

that have a longer lifespan and invest in equities will have fees that match those of single-type equity funds."

Sharifatul says lifestyle funds could carry exit penalty fees as well. "Fund managers have a deadline to meet and yields to lock in, so they will find it difficult if investors keep exiting. The fees will ensure that they [investors] maintain some kind of discipline," she says, adding that some lifecycle funds that come with insurance may have additional fees as well.

As the target-funds debacle in the US has shown, 'set it and ignore it' is a dangerous practice. Monitoring of lifecycle funds should be done at least once a year. Compare them not just against benchmarks but also against their peers in the same category with similar maturity dates. ■



**SHARIFATUL:** Watch out for exit penalty fees



**CHEONG:** Allocate between 10% and 20% of your portfolio



**TUPLING:** They should be held for a minimum period of ten years

asset funds over the same period. Investors can use lifecycle funds as a post-retirement investment as well. "Retirees can simply continue to invest in a lifecycle fund that's going to be relatively conservative today and hold it for the next 10 years," says Tupling.

### How to manage it?

In the US, employers usually buy into lifestyle funds as part of their employees' retirement plan. Although the EPF works very much like a retirement income vehicle, experts say that lifecycle funds can still play a role in local investors' portfolios. Cheong suggest that investors can allocate between 10% and 20% of their investments to the professional fund managers of these funds. "The fund can be used as additional