BNY MELLON
INVESTMENT MANAGEMENT

# ACTIVE MANAGEMENT IN RETIREMENT

LIFE BEYOND WORK

Active management is a concept that stretches across many different investment strategies. However, it can be particularly relevant for those planning their lives beyond work.

To get to the bottom of what exactly active management is and how it can relate to retirement, our consumer editor, Ruth Strachan sat down with head of retirement, Richard Parkin for a crash course...

## KEY TAKEAWAYS

- Active management is when decisions are actively taken on a portfolio's holdings dependent on analysis of market conditions and trends.
- Active management can be useful in limiting losses. This may be helpful for people hoping to make their retirement savings last as long as possible.
- A choice to integrate active management into your investment strategies needn't be exclusive. When seeking financial advice, you can discuss having a mix of actively and passively-managed investments in your portfolio.

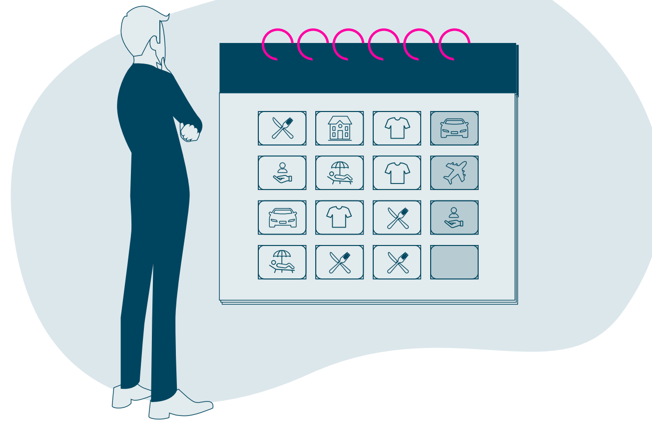
Ruth: **Hi Richard, so today we're talking about quite a broad topic that goes across all investment really, and that is active management. Shall we start with what exactly that is?**

Richard: Hi Ruth. Active management is probably best understood by first talking about its opposite, passive management. Passive management involves buying a portfolio of investments that represent a whole market or part of a market. Typically, a passive investment manager will buy investments in the same proportion as the market. The result is that, overall, they should earn very similar returns.

Ruth: **You're losing me, what exactly does the same proportion as the market mean?**

Richard: A good example of this is a FTSE 100 tracker fund that will buy shares of the 100 largest UK companies with the aim of delivering a very similar return to that of the FTSE 100 Index, which represents that portion of the UK stock market.

By contrast, active investment managers will take a view on how individual investments will perform and build a portfolio of investments they expect to do well and excluding investments they think will do less well. If they get it right, that is, pick the winners and avoid the losers, then they can earn a better return than passively managed funds.



Ruth: **So, quite literally being active in your investment management…**

Richard: Yes, and the usual goal of active management is to provide a higher return than or outperform the benchmark (which is the standard or baseline for that market) but there can be other, more specific goals too for the 'active manager' to consider. For example, rather than boosting returns, the active manager might be asked to focus on limiting the risk of losing money or of finding investments that will support the transition to **net-zero**.

Ruth: **So, Richard - if we're looking at this through our 'life beyond work', retirement lens – why could active management be something to consider when planning retirement?**

Richard: Well, individuals will typically have a range of financial goals for their retirement. And they usually have a required level of income that they need to support their standard of living.

They may also have some money they're keeping for unexpected expenses or for leaving to loved ones.

Often, people are looking to take enough investment risk to earn the investment returns that they need to achieve those goals but not so much risk that they put those goals in danger.

Ruth: **Enter active management?**

Richard: So, what a financial adviser or investor would most likely be looking to do in this situation is balance risk and return. This is different from saving for retirement, when focus is most often on trying to maximise return.

One of the key ways of balancing risk and return is by limiting losses. We believe active management can be very helpful in doing this. It's not always easy to spot the companies or markets that are going to do well (at least not before everyone else has worked it out) but it can be easier to identify where there is potential for greater losses. Although, it's important to note the value of investments can still fall and you may not get back the amount invested.

Ruth: **It sounds like an obvious thing to do. Why would you not want to outperform the market? What am I missing?**

Richard: Well, active managers may not always get it right. Instead of picking the winners and avoiding the losers they could end up missing the winners and picking a few losers. They could end up doing less well than the market.

The other factor is cost. Active managers will generally charge more than passive managers because their costs are higher. This is because active management often involves having analysts supporting a fund manager to research companies and markets, whereas passive management is largely automated. The expectation is that active managers will be able to generate additional returns or limit risk that makes the higher fees worth paying.

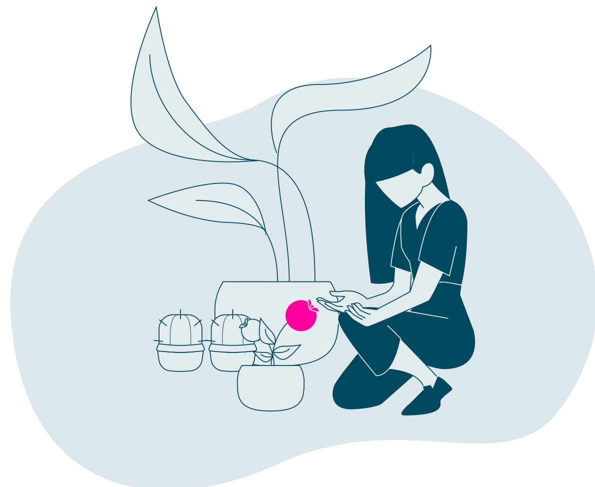
Ruth: **There are a lot of decisions to make in retirement, why might someone decide that active management is right for them?**

Richard: A financial adviser will be able to help you work out what you need to achieve your retirement goals. They can also assess what level of risk and return is appropriate for you and select investment funds that meet your needs. This could be a mix of both passive and actively managed funds.

Most importantly, they can keep your goals and investments under review and adjust your retirement plan as necessary. One thing that is certain is that the world rarely unfolds as we expect, so having a trusted guide to help manage your plan through changing circumstances is hugely valuable.

Ruth: **Thank you, Richard.**

**Net-zero:** An objective to reduce emissions and implement methods of absorbing carbon dioxide from the atmosphere in a bid to negate greenhouse gases produced by human activity.



**Important information**

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