The child trust funds that LOSE you money

By James Coney

PARENTS who saved their child trust fund (CTF) voucher in some of the most popular funds have endured pathetic returns, Money Mail research reveals.

In some cases, the Government's £250 gift has withered to just £217 in five years. On average, the most popular investment CTFs have grown by 13pc in five years — almost half the level of growth achieved by the average UK All Companies fund.

Had these parents been allowed to save their child's money in a cheap tracker following the FTSE 100 stock market index they could have made returns of 20pc.

The pathetic returns and high charges demonstrate why it is essential children are allowed to transfer their savings from under-performing CTFs to the Junior Isa when it is launched in November.

Last week, we launched our campaign to persuade the Government to allow this sensible change.

Under current rules, children born between September 1, 2002, and January 2, 2011, will not be able to open a Junior Isa. Instead, their money will be locked in a CTF until the child reaches 18.

When CTFs were launched in 2005, parents could invest in a cash savings account or one of 43 investment funds.

With the latter option, there was a choice between cheap 'stakeholder' funds, where charges were capped at 1.5pc a year, or more expensive non-stakeholder funds. Some 76pc of CTFs are invested in stakeholder funds, 7pc in non-stakeholder and 18pc in cash CTFs.

Initially, there was plenty of choice, with all major banks and building societies, the Post Office and specialists such as Family Investments offering investment CTFs.

But after the Government announced CTFs were to close at the end of this year the number of funds on offer halved — severely limiting the options for parents with new money to invest or who want to move their child's fund elsewhere.

With no new accounts being opened, experts fear investments firms will have little incentive to put their best managers in charge. If a good manager leaves, the fund is merged or performance suddenly nose-dives, there are just a handful of places where CTF savers can move to.

MoneyMail Campaign
FREE OUR CHILD TRUST FUNDS NOW

Some parents and grandparents have committed the maximum £1,200 a year top-up contribution to their youngsters' CTFs. That money could be condemned to years of poor returns because it is trapped in the CTF regime until the child is 18.

Our research shows how dire the choice of funds can be. Parents who invested their £250 voucher in the Family Charities Ethical Trust five years ago would have £226. The Scottish Friendly Managed Growth fund would have shrunk their savings by £1. CIS UK FTSE4Good Tracker fund has grown the money by just £16, and the Family Investments Child Trust fund by £27.

Over three years, many of these are even worse. Children in the CIS fund are nursing losses of £3, Engage Investment Growth (sold through Asda) has not made anything, Family Charities has lost £33 and Scottish Friendly £27.

A cheap fund that blindly tracks the FTSE 100 stock market would have given investors returns of 17pc over one year, 3pc over three years and 20 pc over five years. Yet the average stakeholder CTF delivers just 12pc over one year, 3pc over three years and 13pc over five years.

Part of the problem is the level of charges. Even the cheapest CTFs can take 1.5pc a year, but the cheapest trackers outside the CTF wrapper charge less than 0.5pc.

Some funds have done well: for example, the Baillie Gifford Managed trust has returned 34pc over five years, growing the initial £250 investment into £335. Join the debate at *www.thisismoney.co.uk/ctfs*

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UNHAPPY RETURNS FOR CHILDREN

What your £250 investment in a stakeholder child trust fund is worth today

Source: Moneyfacts	1 year	3 years	5 years
Baillie Gifford Managed	£283	£295	£336
CIS UK FTSE4Good Tracker	£278	£247	£266
engage Investment Growth	£279	£250	£280
F&C FTSE All-Share Tracker	£284	£263	£302
Family Charities Ethical Trust	£275	£217	£226
Family Investments Child Trust	£272	£266	£277
Halifax UK FTSE 100 Index Tracking	£280	£249	£282
HSBC UK Growth & Income	£285	£266	£280
Legal & General Tracker Trust	£282	£257	£291
Legal & General UK Index Trust	£284	£263	£300
Santander MM Balanced International Tracking	£268	£269	£292
Scottish Friendly Managed Growth	£284	£223	£249
Scottish Widows Balanced Growth Portfolio	£270	£280	£295
Average Stakeholder CTF	£279	£257	£283
Average UK All Companies Fund	£300	£268	£306