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Cash child trust fund returns outshining stakeholder

The latest survey by **Investment Life & Pensions Moneyfacts** has revealed the extent to which cash child trust funds (CTF) have delivered superior returns to those from the Government's preferred option for parents - stakeholder accounts - since the scheme was launched four years ago.

The survey examined the performance of cash and stakeholder child trust funds in each tax year since their launch in April 2005 (see table below). It found that despite enjoying strong investment returns in the first two years, the average stakeholder child trust fund is now worth a quarter less than the average cash child trust fund.

	Stakeholder CTF % growth	Cash CTF % growth
2005/06	24.2%	5.2%
2006/07	7.3%	5.3%
2007/08	-5.8%	6.3%
2008/09	-26.2%	5.1%
Since launch - 4 years (Value of initial £250 voucher shown in brackets)	-7% (£232)	24.2% (£310)

Notes: Table shows fund performance for every tax year since the Child Trust Fund was launched in April 2005 and four year cumulative performance. Source: Lipper/Moneyfacts

Struggling stakeholder

As the table highlights, the first wave of stakeholder CTFs enjoyed impressive early growth. In the tax year 2005/06 the average stakeholder CTF grew by an impressive 24%, turning the initial £250 Government voucher into a fund worth £310. The second year provided steady rather than spectacular returns with the average stakeholder CTF posting growth of 7%.

However, over the last two years performance has deteriorated markedly, reflecting the wider stock market turmoil. The average stakeholder CTF lost almost 6% in the 2007/08 tax year and a further 26% in the last tax year. As a result, the four year cumulative performance figures make depressing reading. Since launch, the average stakeholder CTF has lost 7% with the initial £250 worth just £232 now.

Cash is king

Ever since child trust funds were launched, controversy has surrounded the Government's decision to allow cash as a permissible investment. Critics argue that a deposit account is not a suitable place to hold money for a period of 18 years, as over long periods of time the real value of cash can slowly be eroded by inflation. Despite this warning around a fifth of CTFs are cash accounts.

Over the first two years following their launch, the average cash CTF trailed behind those of its stakeholder counterparts, posting growth of 5.2% and 5.3% respectively. However, over the last two years the tables have been turned and cash has become king. Interest rates peaked during the 2007/08 tax year, enabling the average cash CTF to post growth of 6.3% compared with an average stakeholder CTF loss of 6%.

Similarly, in the last tax year the average cash CTF enjoyed growth of 5.1%, whilst the average stakeholder CTF fell by a quarter. Overall, parents who had invested just the initial £250 Government

voucher in a cash CTF from the start would now on average have an account worth £310 (24.2% growth), £78 more than the average stakeholder CTF.

Richard Eagling, Editor of Investment Life & Pensions Moneyfacts, said: "Whilst no-one would advocate investing in a cash CTF over the full 18 years, these figures demonstrate the important role it can play as a temporary safe haven during periods of market volatility. Although the stock market turmoil has meant disappointing returns for stakeholder accounts so far, the long term nature of the child trust fund should ensure there is plenty of time for a recovery. Indeed, there are signs that their performance is starting to improve, with stakeholder funds up 8% already this tax year."

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Press Office	<p>Darren Cook Head of Press & PR</p> <p>Michelle Slade Press Officer</p>	<p>01603 476207 dcook@moneyfacts.co.uk</p> <p>01603 476454 msslade@moneyfacts.co.uk</p>
Out of hours	<p>Darren Cook Head of Press & PR</p>	<p>07803 899935</p>
<p>An ISDN line is available for broadcast: 01603 230551</p>		