MONEY

WHAT A COMPLETE BARGAIN
AISLING CO-AUTHOR SARAH BREEN ON HER FURNITURE FIND
SUNDAY PAGE 5

Get smart to soften the impact of school fees

If you think ahead and choose your investments wisely, it will all add up when you pay for your children's education, writes *Grainne Rothery*

ALAMY

Your child's first day at school can be an emotional wrench but planning can ease the financial burden of private education

Funding a private school education may seem out of reach for all but the wealthiest of parents, but early planning and regular saving over the years can make it a more affordable option.

Just over 7% of post-primary students attend private schools in Ireland. According to Department of Education figures, there were 52 fee-paying schools in the country in the 2016-17 school year, with 25,500 pupils enrolled. A further 331,900 pupils were enrolled at the country's 688 free-scheme schools.

The cost of attending a fee-paying school varies considerably. At the lower end of the scale, Royal School in Cavan charges €2,600 a year per student. With fees of €8,000 a year, Ireland's most expensive fee-paying school for day pupils at present is St Columba's College in Dublin 16.

Mark Boobbyer, warden at St Columba's, said his school offered a six-day week and class sizes of 12-15 students. "We have good teachers, but so do other schools," he said. "We have a very conducive atmosphere and also a very good work ethic. I think that's made easier by small classes and probably very motivated parents."

While money is no object for some parents, for many, sending children to private school is a big decision, said Boobbyer. "Many of our kids are not from wealthy families. Obviously it's relative – their parents have to be earning a reasonable salary. A lot of the children need a bit of help and we provide a lot of bursaries. You'd be surprised how many don't have fancy holidays. They have to make sacrifices to come to a school like this."

Get saving

To reduce the need for such sacrifices, Steven Barrett, managing director at Bluewater Financial Planning, stresses the importance of thinking ahead and starting to save as early as possible.

"The earlier you decide on whether you're going to send your children to private school," he said, "the earlier you can start planning, which means the monthly costs will be lower."

Putting money into a short-term vehicle is the biggest mistake for anyone with a long-term goal such as funding education some years down the line, said Eoin McGee, principal at financial planning firm Prosperous.

"Deposit accounts are useful if you're saving for something really short-term," he said. "But the rates are very bad and deposit accounts are very unlikely to beat inflation over the long term."

If the goal is in any way long-term, McGee's advice is to save through a well-diversified investment portfolio, which should offer much better returns. And it's possible to save as little as €100 a month through these investment funds.

Barrett also recommends the investment route. "You need to get the capital markets to do the heavy lifting," he said. "If you don't plan for it, the money comes out of your pay and you're working 100% to earn all that money. If you can invest in global stocks – such as Apple and Disney

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and Google – and get the growth of those funds to partially pay for the cost of your children's education, it's just good planning sense."

Go regular

Euro cost averaging dilutes the risk of investing in such portfolios. "The benefit of contributions being paid regularly means that you are purchasing or buying units cheaply when markets are down, which can be advantageous, and when markets are high you are purchasing units in a steady rising market," said Teresa Kinane, managing director at Lifesteps Financial Planning.

"Overall, the principle of regular contributions over time is advantageous to building up a fund."

According to Barrett, parents aiming to save enough money to cover school fees of €6,000 a year in 12 years' time should be putting away €300 a month per child. This allows for Dirt of 41% and assuming 3% inflation per annum on the current school fees.

"If your investment fund grows by 5% net per annum, for 12 years, it will cost you €300 a month to fund school fees for the following six years," said Barrett.

"Or, if you invest a lump sum of €37,600 today, that will cover the fees in 12 years' time."

Borrowing the money to fund school fees is not advised. "I certainly wouldn't recommend that parents use borrowing as a method of paying for school fees on an ongoing basis," said Barrett.

Value for money

Is all of the expense, and sacrifice, worth it? Kevin Denny, associate professor at UCD's school of economics, is not convinced that fee-paying schools offer children an academic advantage.

"If you look at the points of children who go to say Blackrock College or Mount Anville, they do better than average," he said. "But you're not comparing like with like.

"The sort of parents who send their kids to fee-paying schools tend to be better off and tend to put a higher value on education; they're more middle class, they're more clued in, they know how the system works and maybe they can afford private tuition and other things."

Fee-paying schools may offer other social benefits, he said. "If you take a more holistic view of education, the extracurricular activities, whether it's sports and debating, the schools clearly do have other advantages."

Three of the top five schools in the most recent Sunday Times guide to the top 400 secondary schools in Ireland were not fee-paying.

The rankings are based on the percentage of students gaining places in Irish universities and certain colleges over the previous three years.

NEW DUBLIN INDEPENDENT TO CHARGE €24,000 A YEAR

Ireland's first international – and most expensive – school is set to open in South County business park in Leopardstown in Dublin in September 2018.

Fees at Nord Anglia International School Dublin will start at €15,900 a year for kindergarten, increasing to €24,000 for grades 9 and 10 (ages 14 to 16). The school, which will have capacity for 800 students, will follow the international curriculum and, instead of the Leaving Certificate, will offer the international baccalaureate (IB) programme from September 2019.

Nord Anglia operates 55 schools around the world and prides itself on its "global campus" programme and collaborations with the likes of the Juilliard School, Massachusetts Institute of Technology and Unicef.

Principal Paul Crute said strong interest in the school was coming from a range of quarters, including international expatriates and Irish families returning to this country, as well as local families. He said Nord Anglia schools around the world tend to start off with a 65% expatriate student base but to become gradually 50% expat and 50% local.

He wouldn't specify how many students have been signed up, but described the admissions pipeline as pleasing. An open day held in the Radisson hotel on January 20 had attracted a strong turnout, he said.

Crute said the global campus aspect of the school and its international outlook are particularly attractive to prospective parents.

"The IB curriculum intentionalises global mindedness and internationalism in a way that a national curriculum wouldn't, so the kids are encouraged, for example, to read outside their cultural boundaries. All of that is programmed and infused through the curriculum."

MARKET MOVER
PATRIZIA LIBOTTE

Patrizia Libotte is a Dublin-based fund manager with more than 15 years' experience in the investment management industry. She is director of multi-asset funds at Friends First. Magnet Stable is one of the largest funds in the multi-asset range, in terms of assets under management, and is available through Friends First's pension and investment products.

Fund philosophy

"In simple terms, our approach aims to gain exposure to a globally diverse mix of asset classes, styles and managers helping to spread risk and reduce exposure to any one particular asset or risk," said Libotte.

Fundamental to Friends First's philosophy is the belief that there is no all-weather asset class: no one asset class will consistently yield a positive return. Different asset classes behave differently depending on the economic and market environment.

Libotte said: "Diversification, putting together assets that don't experience their ups and downs at the same time, is the only 'free lunch' in investments. We believe this to be the most reliable way to reduce the extent of variation in returns while maintaining returns."

Performance

The Magnet Stable fund aims to achieve medium to long-term capital growth with relative stability of capital. The specific objective of the fund is to maximise returns while keeping the fund's five-year annualised volatility within a range of 5% to 10% per annum.

The fund is designed for investors who value capital preservation, and are comfortable accepting a degree of risk and volatility to seek some degree of appreciation of capital. Since inception in 2010, the fund has returned 5% per year net of annual management charges.

Buying and selling

The Magnet Stable fund is invested across a diversified range of growth and defensive assets such as sovereign and corporate bonds, equities, commercial property, commodities and other alternative strategies.

"Strategic asset allocation is at the core of our portfolio construction approach; we do not engage in tactical asset allocation because we do not believe in the ability to successfully and consistently time markets, ie to switch from equities to defensive assets, and vice versa, in anticipation of major stock market moves. Also, over the long term, the cost of switching investments will invariably lead to higher transaction costs and lower returns."

As of the end of December, 36% of the fund was invested in equities, 20% in fixed income funds and 10% in property.

Outlook

"Our approach is anchored in long-term asset allocation objectives and a disciplined investment process that balances the risks, returns and correlations of various types of investments," said Libotte.

"A decade on from the financial crisis, we have become accustomed to consistently positive investment returns at risk of being complacent, and while we cannot predict when the tide might turn, what we can say with a certain degree of confidence is that if markets do experience more volatility, a diversified portfolio will be more important than ever."

Gary Connolly

Risk models can only lead investors astray

On September 10, 2009, former trader and bestselling author Nassim Taleb testified to the US House of Representatives committee on science and technology on the mathematical model called value at risk (VAR) and its role in the financial crisis.

Taleb had been vocal about the threat posed to the financial system by models in general and VaR in particular. In the wake of the 2008 crisis, his warnings seemed all too prescient.

VAR was popularised in the early 1990s by a few scientists and mathematicians – known as quants in the business – on Wall Street. Its great appeal, to non-quants, is that it expresses risk as a single dollar/euro figure, without the requirement to even bother with percentages. It is a measure of possible loss on a bad day, usually with a 1% probability, so you should expect one every five months, based on 20 trading days in a month.

Taleb feared VAR was a very wrong estimate, because of its analytical foundations – it uses historical data – and the realities of markets, where extreme events occur with far greater frequency than models predict.

Worse still, it can be gamed. You can get a VAR that's very low – all you need is a portfolio of assets that have enjoyed benevolent calm and/or little correlation with each other. The VAR estimate will tell you there is little of concern.

Adjustments to the VAR model to include extreme events are naive, in Taleb's view. There is a link between the harm of the events and their unpredictability.

There are low probability events that are predictable. Financial Times columnist John Kay uses the analogy of tailgating drivers who save minutes on their journey each day, until one day they don't come home. He says that "tailgating" strategies return regular small profits with a low probability of substantial loss. You can't predict when a tailgating motorist will crash, but a crash is one day likely.

At the other end of the spectrum, there are events to which you cannot attach a probability because you cannot conceive of them – Taleb's "black swans". We can't assign a probability that someone will invent a gadget, because to conceive of it is to invent it. The crisis of 2008 was arguably predictable, but may as well have been a black swan for all the utility VAR models provided.

As a measure of this you may recall an interview with David Viniar, then chief financial officer of Goldman Sachs, just as the global financial crisis began to break in 2007. He reported in shock that his firm had experienced "25 standard deviation events, several days in a row". To be fair to Goldman, it was not alone in this.

The distribution on which such claims are generally based would estimate the percentage probability of experiencing a 25 standard deviation event as being roughly a decimal point followed by several lines of this column filled with zeros and then a one.

These events simply do not occur, according to VAR models. What Viniar meant, affording him the benefit of the doubt, is that events fell outside the scope of its models. Or in more direct parlance, the models were wrong. As Kay puts it: "To toss a coin and achieve 100 heads in a row is to witness a bent coin, not a miracle."

Little appears to have changed at Goldman, where Viniar's successor Harvey Schwartz, only a few years ago when the Swiss franc was unpegged against the euro, noted Goldman Sachs's experience as a "20-plus standard deviation" occurrence.

Now that the damage wrought by VAR seems obvious, even prompting an investigation, one might have thought it would be the end of VAR. Quite the opposite.

The new Priips regulation (packaged retail and insurance-based investment products), which came into force in Europe this year, requires providers to produce a KID (key information document). Forgive all the acronyms, the financial services industry is in thrall to them.

And the key concept of risk in these new documents? Yes, it is based on VAR – specifically, value at risk equivalent volatility, or VEV.

The regulatory disclosure that past performance is no guide to the future has been in advertisements for years, and for good reason. The new risk statistics undermine this tenet. The Priips legislation may be extended to an even wider set of investors and assets held in Ucits (undertakings for collective investment in transferable securities). I fear this will not improve investors' understanding of risk. The opposite is more likely.

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