

## **WILTSHIRE COUNCIL**

WILTSHIRE PENSION FUND COMMITTEE  
19 March 2019

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### **AVC Review of Funds**

#### **Purpose of the Report**

1. The purpose of this report is to consider adding additional fund choice to the range of Additional Voluntary Contribution (AVC) options currently offered to members.

#### **Background**

2. An AVC provides an option to members to increase their benefits upon retirement. An AVC runs in tandem with the main LGPS but is separately invested through an insurance company. Prudential is the current in-house AVC provider for Wiltshire Pension Fund.
3. A member has their own personal account and their AVC builds up with their contributions and any return on their investment. Deductions are taken from pay before tax and sent across to the provider making it a tax efficient way to save.
4. A member can choose from a range of investment options depending on their risk profile. The riskier investments generally provide the potential for a higher return.
5. Members can either opt for the default option (If they would rather not make their own investment choice) or the Lifestyle Option should they wish to take more or less risk than the default option. Lifestyle options will target specific outcomes as a member approaches retirement and gets closer to taking their benefits (i.e. members can generally afford to take more risk at the beginning but then switch to less riskier investment options as they approach retirement).
6. At the end of last year officers from WPF met with Prudential and a decision was made to review the wider range of AVC fund choices available to members to ensure that it remains fit for purpose. There were several reasons why this decision was taken;
7. On 5<sup>th</sup> December the Prudential Diversified Growth Fund (which had been used as a standalone fund and by members in the growth phase of the lifestyle option) was closed to new and existing members. Members contributing to this fund were automatically transferred to the Prudential Discretionary Fund on a short-term basis until a more extensive review had taken place.
8. On 1<sup>st</sup> November, 15 members of Dorset Pension Fund AVC moved to Wiltshire Pension Fund following changes in the Fire Authority. Some of these members were contributing to AVC funds that were not previously available to Wiltshire Pension Fund. Prudential agreed to extend the full range to all members so that members moving from Dorset PF can continue to contribute to their current choice of AVC.
9. During 2019 Prudential will be carrying out a wider review of its Lifestyle Options. This includes closure of the Deposit Fund which has been used by members in the protection phase of the Lifestyle option. Prudential has introduced four new Lifestyle strategies for Funds to consider. Details are included in the appendix to this report.
10. Some LGPS schemes (including four in the comparison; Dorset, Somerset, GMPF and Hampshire) have already adopted some of the new strategies. WPF is in one of the first tranches to move across to the new Lifestyle Strategies.

11. The current range of funds provided to Wiltshire members are as follows:

FUND NAME	CHARGES (% each year)	RISK RATING
Prudential Ethical Fund	0.65	Higher
Prudential UK Equity Fund	0.65	Higher
Prudential UK Equity Passive Fund	0.55	Higher
Prudential Global Equity Fund	0.65	Medium to Higher
Prudential International Equity Fund	0.65	Medium to Higher
Prudential Long Term Growth Passive	0.55	Medium to Higher
Prudential Discretionary Fund - <i>(replaces PDGF)</i>	0.65	Medium
Prudential Index-Linked Fund	0.65	Medium
Prudential Long Term Bond Fund	0.55	Medium
Prudential UK Property Fund	0.65	Medium
Prudential With-profits Fund	†	Lower to Medium
Prudential Cash Fund	0.55	Minimal
Prudential Deposit Fund – <i>To be closed</i> <i>(only available as part of a lifestyle option or to existing Deposit Fund Investors)</i>	N/ A*	Minimal

12. The annual management charge for these funds range from 0.55% to 0.85%. These charges are taken directly from the funds.

### **Main Considerations for Committee**

13. Officers have reviewed the current range of fund choices available to members and compared it to other Funds (majority in the Brunel pool plus GMPF, Hampshire and West Midlands Pension Fund). The result of this comparison (along with Fund factsheets) is in the appendix to this report.

#### **14. Islamic Fund**

Four of the other funds in the comparison offer an Islamic Fund ('HSBC Islamic Global Equity Index Fund') in the medium to high risk category. This fund has consistently delivered good positive returns which generally track benchmark. Prudential have confirmed that this is the only Islamic AVC Fund that they offer. This type of Fund is missing from the current range of funds on offer to members. Members should therefore consider adding an Islamic Fund.

#### **15. Low to medium risk Funds**

WPF only offers one AVC fund in the low-medium category compared to an average of 3.5 across the other pension funds listed. Members may therefore want to consider offering more choice in this category. Of the other funds listed we have noted the following...

#### **16. Fixed Interest Fund**

All nine funds in the comparison offer the Prudential Fixed Interest fund. This fund is actively managed against benchmark (FTSE Actuaries UK Conventional Gilts All Stocks Index). Performance of this Fund has generally been positive and follows (slightly exceeding) benchmark. The performance objective of the fund is to outperform benchmark by 0.75% per year (before charges) on a rolling three-year basis. Annualised 3 years to 31/12/18; the fund and benchmark performance were 4.4% and 4.1% respectively (an

outperformance of 0.3% against a target of 0.75%). As it is an actively managed fund, it is expected to rise and fall per the fixed income market it is invested in.

A fixed interest fund may appeal to many and for this reason members may want to consider adding a fund of this type to the list of options available.

#### 17. Prudential Dynamic Growth Lifestyles

Prudential have introduced four new Lifestyle options targeting...

- Retirement Options
- An annuity
- 100% cash
- Drawdown

The four LS options invest in a mix of multi-asset component funds called 'Prudential Dynamic Growth' Funds, each with a different level of risk. Each component fund has its own mix of assets which is managed by the Prudential Portfolio Management Group (PPMG) Limited.

The underlying funds are managed by Blackrock (equities) and M&G (Cash, Fixed-income and Property).

The new Lifestyle options invest in:

- Prudential Dynamic Growth IV Fund (during the growth phase of the lifestyle. This is a medium-risk fund)
- Prudential Dynamic Growth II Fund (during the protection phase of the lifestyle. This is a low-medium risk investment).
- Prudential Cash fund (at the end of the lifecycle. This is a pre-existing stand-alone fund which is already in the current range of available funds).

There are three other Dynamic Growth Funds (PDG I, PDG III and PDG V). These are standalone funds only and are not used by any of the new lifestyle options.

It's important to note that the level of savings achieved can go up as well as down. PPMG will aim to maximise the level of return achieved.

Prudential will need a decision as to which of the lifestyle strategies WPF wishes to adopt by 31<sup>st</sup> March. WPF will also need to assign a default Lifestyle strategy to move all current LS members across to (if a decision is made to adopt more than one of the new strategies). Prudential will then write to the affected members and inform them of the change. They will also be told which default fund their investment will moved across to and given the option to choose an alternative should they choose to do so. Members will be given at least 6 weeks' notice of the new changes. Switch-over is due to take place on 22<sup>nd</sup> July.

Several Funds have already moved across to the new strategies. Most have adopted the cash option which gives members the opportunity to take a tax-free cash lump sum on retirement. Some funds have also adopted annuity or retirement options as an alternative. Drawdown which is not available with the LGPS has been the least popular. This option would be liable to tax and members wishing to invest their AVC investment in this option would have to transfer their funds to a private scheme.

Full details of the lifestyle options and funds are in the appendix.

#### **Financial Implications**

18. There will be no cost to Wiltshire Pension Fund as the charges are deducted directly from the funds that members contribute to.

### **Risk Assessment**

19. A “key features” document and “A Guide to Fund Options” clearly explains the risk profiles of each AVC fund. Members are made aware that the value of investments that make up their plan can go down as well as up.

### **Legal Implications**

20. None have been identified as arising directly from this report.

### **Environmental Impact of the Proposals**

21. As the proposed AVC Fund seeks to invest in good environmental, social and well governed companies, this would have a positive environmental impact.

### **Safeguarding Considerations / Public Health Implications / Equalities Impact**

22. None have been identified as arising directly from this report.

### **Proposals**

23. The Committee is asked to approve the addition of an Islamic AVC Fund to the list of AVC fund choices to members of WPF as this is something we do not offer at present

24. The Committee is asked to approve the addition of the Prudential Fixed-Interest Fund to the list of AVC fund choices to members in order to increase the number of low-medium risk funds available to members.

25. The Committee is asked to consider the four new Lifestyle options and to adopt the cash options strategy for members who wish to take a tax free lump sum on retirement and the retirement options strategy which would suit members (e.g. younger members) who aren't yet sure how they are going to use their pension savings.

26. The Committee is asked to approve the retirement options Lifestyle strategy as the default option into which existing Lifestyle funds will be transferred on 22<sup>nd</sup> July.

It should be noted that Prudential will need to be informed of the Committee decision by the end of March so that they can put in place the measures needed for the switch which is scheduled to take place on 22<sup>nd</sup> July.

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Unpublished documents relied upon in the production of this report:

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