

ITEM NO: 15(d)

Report To:	Pension Fund Management Panel
Date:	18 September 2009
Reporting Officer:	Peter Morris, Director of Pensions
Subject:	SCHEME ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)
Report Summary:	This is the annual report monitoring the AVC investment performance of the Prudential, the Fund's AVC provider.
Recommendations:	That the information in the report be noted.
Links to Community Strategy:	The LGPS contributes to reducing pensioner poverty helping to promote good health and social inclusion.
Policy Implications:	None.
Financial Implications: (Authorised by the Borough Treasurer)	Whilst the Fund is required to offer an AVC Scheme, it is the AVC provider, Prudential, that is responsible for the receipt and investment of AVC contributions. Thus there are no direct financial implications for the Fund.
Recommendations:	That the information in the report be noted.
Legal Implications: (Authorised by the Solicitor to the Fund)	Scheme AVCs are a statutory part of the LGPS.
Risk Management	<p>The Fund is required to appoint an AVC provider. It is important that the provider is credible (e.g. in terms of financial strength) and effective in terms of investment return and quality of administration.</p> <p>Prudential is the major provider of AVC's to LGPS schemes. This report is part of the monitoring process focussing on their investment returns to Scheme members.</p>

ACCESS TO INFORMATION

NON – CONFIDENTIAL


This report does not contain information which warrants its consideration in the absence of the Press or members of the public.


Background Papers:

The Local Government Pension Scheme (Administration) Regulations 2008.

Prudential Group Pension Funds Quarterly Report 1 Quarter 2009

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1. INTRODUCTION

This Prudential is the AVC provider for the Fund. Contributors can elect to pay up to 50% of their pay into the AVC arrangement. The AVC scheme offers three investment options, with-profits, deposit, and unit-linked. The unit-linked option offers a range of funds. This report details the investment performance in the with-profits fund, the deposit fund, and the unit-linked arrangements reported by the Prudential for 2008/2009.

2. VALUE AND PARTICIPATION

As at 31st March 2009 the AVC scheme had 10718 members with total Funds invested in excess of £64million. The majority of the investments are in the with-profits fund. A detailed breakdown is shown in Table 2.1

Table 2.1

Fund	Value (£)	Proportion (%)
With-Profits	60,941,012.47	93.95
Deposit	1,524,333.01	2.35
Cash	245,208.77	0.38
Corporate Bond	33,553.42	0.05
Discretionary	400,030.16	0.62
Fixed Interest	140,715.25	0.22
Global Equity	99,636.40	0.15
Index Linked	176,689.43	0.27
International Equity	117,287.40	0.18
Long Term Growth	2,603.68	0.01
Overseas Equity	8,844.35	0.01
Overseas Equity - passive	3,319.81	0.01
Pre-retirement	20,590.86	0.03
Property	139,355.69	0.21
Retirement Protection	107,608.92	0.17
Socially Responsible	98,856.14	0.15
UK Equity – active	308,841.26	0.48
UK Equity – passive	473,447.33	0.73
UK Equity – specialist	18,833.77	0.03
Total	64,860,768.12	100.00

3. WITH PROFITS

The aim of a with-profits arrangement is to achieve high returns while maintaining security and stability. Returns are added to a with-profits account by way of a bonus system that helps to smooth out the ups and downs of investment performance. The bonuses are in two parts. Firstly there is an annual bonus that is calculated on a daily basis. Secondly there is the terminal bonus that is added to the account at retirement.

On 13 November 2008 the Prudential announced that it would be “reducing final bonus rates on its with-profits policies in response to the sustained downturn across world markets and the continuing poor investment environment”. Typically this would reduce policy values by between 5 per cent and 10 per cent with the expectation that contributors would see the year-on-year value of their policies changing by between +3 per cent and -2 per cent. The

announcement confirmed that annual bonus rates would continue to be added to policies. In March 2009 Prudential announced an annual bonus for 2008/2009 of 2.75%.

Table 3.1 shows current average overall percentage yields for premiums paid into the Prudential with cash accumulation profits account over one, three, five and ten years. The yields include previously declared annual bonuses and the final terminal bonus.

Table 3.1

AVC With Profits – average overall yield % per annum

PERFORMANCE	1 year	3 years	5 years	10 years
AVC Cash Accumulation With Profits Fund	4.0	3.9	6.0	4.55

The with-profits fund is well diversified with a relatively high proportion invested in shares and commercial property with a view to delivering strong returns over the long term. Over five years, it has provided better returns than 16 of the 17 unit trust benchmarks shown in Table 5.1.

The underlying investment returns in each of the last five calendar years are shown in table 3.2.

Table 3.2

AVC with-profits fund – underlying investment returns

2008	2007	2006	2005	2004
-19.7	7.2	12.4	20.00	13.4

Source: Prudential Group Pension Fund Quarterly report 1st quarter 2009

Up to date with-profits data for LGPS in-house AVCs are not readily available. Returns are also subject to change, in part because some companies are announcing interim declarations since their annual declarations in Feb/March. Terminal bonuses also change. Table 3.3 therefore shows general with-profits underlying investment returns, prior to tax, charges and smoothing.

Table 3.3

With-profits fund – comparative data

Insurance company	5 Year Perf	10 Year Perf
Prudential	31.7%	67.2%
Legal & General	27.6%	45.5%
Standard Life	29.7%	44.8%
Clerical Medical	23.9%	42.1%

Source:

4. DEPOSIT

For those members, where certainty of return is important, the deposit account is a popular option. The current practice is to set the interest rate in the Deposit Fund on the first day of each month, in line with the Bank of England base rate at that time. This practice is reviewed each year. Table 4.1 below shows performance achieved at 31 March 2009. The Q1 2009 figure is an annualised figure based on performance between 1 January 2009 and 31 March 2009. The other figures are annualised returns achieved over the last one, three and five years.

Table 4.1

PERFORMANCE	Q1 2009	1 Year	3 years	5 years
AVC Deposit	1.48%	3.94%	4.75%	4.68%

Source: Prudential Group Pension Fund Quarterly report 1st quarter 2009

5. UNIT LINKED

There are also a variety of unit-linked funds on offer to the Scheme member. Table 5.1 below shows the performance of the funds during the first quarter of 2009 and the performance each fund achieved over the last year, the last three years and the last five years. An appropriate benchmarking figure is shown for comparative purposes. A brief description of each fund and its benchmark precedes the table. In 13 out of 17 funds the Prudential either matched or bettered the benchmark.

Cash Fund	Actively managed fund invests in both high quality Floating Rate Notes (FRNs) and short-term deposits. <i>Benchmark: LIBID 7 Day Deposit Rate</i>
Corporate Bond	Actively managed fund investing mainly in Sterling corporate bonds across the range of maturities. <i>Benchmark: iBoxx Sterling Non-Gilts Index</i>
Discretionary Fund	Actively managed traditional balanced approach to investment via a portfolio of UK and overseas equities, bonds property and cash. <i>Benchmark: CAPS Balanced Pooled Fund Median (NET)</i>
Fixed Interest Fund	Actively managed fund invests in British Government gilts and sterling corporate debt issues by UK and overseas borrowers. <i>Benchmark: FTSE A British Government All Stocks Index</i>
Global Equity Fund	Actively managed approach to long-term investment via a diversified Portfolio of UK and overseas equities. <i>Benchmark: 70% FTSE All-Share Index and 30% regional equity indices</i>
Index-Linked Fund	Actively managed fund invests mainly in British Government index-linked stocks, typically those with over five years to maturity. <i>Benchmark: FTSE British Government Over 5 years Index-Linked All-Stocks Index</i>

International Equity Fund	Actively managed fund with assets in all major overseas equity markets <i>Benchmark: Mix of FTSE regional indices</i>
Long Term Growth	Passively managed investments in shares with about 50% UK and 50% overseas roughly in proportion to each region's economic importance. <i>Benchmark: FTSE All-Share Index and mix of overseas regional market indices.</i>
Overseas Equity	The fund invests in companies in all major overseas equity markets roughly in proportion to each region's economic importance. <i>Benchmark: Weighted mix of regional market indices</i>
Overseas Equity Passive	Mostly passively managed investments in overseas equity markets. Regional split may alter periodically to reflect economic and market conditions. <i>Benchmark: Weighted mix of regional market indices</i>
Pre-Retirement Fund	Fund invest in long dated bonds split equally between passively managed UK government gilts and actively managed UK corporate bonds. <i>Benchmark: 50% tracking movement in FTSE British Government bonds, 50% aiming to outperform iBoxx Sterling Non-Gilts index</i>
Property Fund	Actively managed fund invests directly in commercial properties in the UK. <i>Benchmark: CAPS Pooled Fund Property Median (NET)</i>
Retirement Protection Fund	Passively managed fund invests in British Government Gilts with over 15 years to maturity. <i>Benchmark: FTSE British Government Over 15 Years Index</i>
Socially Responsible Fund	Actively managed fund invests in shares from a selected group of UK companies. <i>Benchmark: FTSE All-Share Index Subset</i>
UK Equity Fund	Actively managed "fund of funds". Holds units in several more specialised UK equity funds invested in shares of UK quoted companies. <i>Benchmark: FTSE All-Share Index</i>
UK Equity Passive Fund	Passively managed fund designed to provide an exposure to UK equities by tracking movements in the Index. <i>Benchmark: FTSE All-Share Index</i>
UK Equity Specialist	Equity Actively managed fund working with companies from the FTSE 350 Index and other smaller companies. <i>Benchmark: FTSE All-Share Index</i>

Table 5.1

Performance	Q1 2009	1 year	3 years (annualised)	5 years (annualised)
Cash Fund	-0.6	-1.0	3.1	3.9
<i>Benchmark</i>	<i>0.2</i>	<i>3.7</i>	<i>4.8</i>	<i>4.8</i>
Corporate Bond	-4.2	-4.6	-1.3	2.2
<i>Benchmark</i>	<i>-4.8</i>	<i>-6.2</i>	<i>-1.9</i>	<i>1.6</i>
Discretionary Fund	-7.9	-18.5	-5.7	4.0
<i>Benchmark</i>	<i>-7.9</i>	<i>-20.5</i>	<i>-6.6</i>	<i>3.2</i>
Fixed Interest Fund	-1.7	5.8	4.7	5.4
<i>Benchmark</i>	<i>-0.8</i>	<i>10.3</i>	<i>6.1</i>	<i>6.1</i>
Global Equity Fund	-9.5	-24.9	-8.8	2.4
<i>Benchmark</i>	<i>-9.5</i>	<i>-27.2</i>	<i>-9.0</i>	<i>2.3</i>
Index-Linked Fund	-3.9	-5.3	3.2	4.9
<i>Benchmark</i>	<i>-2.4</i>	<i>-2.8</i>	<i>4.2</i>	<i>5.5</i>
International Equity Fund	-10.0	-21.1	-6.7	4.9
<i>Benchmark</i>	<i>-10.6</i>	<i>-22.6</i>	<i>-6.5</i>	<i>4.1</i>
Long Term Growth	-9.7	-24.8	-7.8	3.2
<i>Benchmark</i>	<i>-9.8</i>	<i>-25.7</i>	<i>-8.2</i>	<i>2.8</i>
Overseas Equity	-9.5	-20.5	-6.4	4.5
<i>Benchmark</i>	<i>-10.5</i>	<i>-22.0</i>	<i>-6.4</i>	<i>3.9</i>
Overseas Equity Passive	-10.5	-21.4	-5.9	4.5
<i>Benchmark</i>	<i>-10.5</i>	<i>-22.0</i>	<i>-6.4</i>	<i>3.9</i>
Pre-Retirement Fund	-5.1	3.2	1.4	4.3
<i>Benchmark</i>	<i>-4.2</i>	<i>2.1</i>	<i>0.5</i>	<i>3.6</i>
Property Fund	-4.6	-23.0	-8.3	2.1
<i>Benchmark</i>	<i>-5.7</i>	<i>-22.8</i>	<i>-7.2</i>	<i>1.9</i>
Retirement Protection Fund	-4.4	8.9	4.3	5.8
<i>Benchmark</i>	<i>-4.5</i>	<i>8.6</i>	<i>4.1</i>	<i>5.7</i>
Socially Responsible Fund	-13.0	-41.0	-17.3	-4.7
<i>Benchmark</i>	<i>-12.7</i>	<i>-38.9</i>	<i>-16.4</i>	<i>-3.8</i>
UK Equity Fund	-9.1	-26.5	-9.7	1.4
<i>Benchmark</i>	<i>-9.1</i>	<i>-29.3</i>	<i>-10.3</i>	<i>1.4</i>
UK Equity Passive Fund	-9.2	-28.7	-9.9	1.5
<i>Benchmark</i>	<i>-9.1</i>	<i>-29.3</i>	<i>-10.2</i>	<i>1.4</i>
UK Specialist Equity	-7.4	-25.3	-6.1	4.5
<i>Benchmark</i>	<i>-9.1</i>	<i>-29.3</i>	<i>-10.2</i>	<i>1.4</i>

Source: Prudential Group Pension Fund Quarterly report 1st quarter 2009

6. SUMMARY

The Prudential's performance continues to be satisfactory.

7. RECOMMENDATION

The Panel is recommended to note the information contained in this report.