

Bath & North East Somerset Council

MEETING: **AVON PENSION FUND COMMITTEE**

MEETING DATE: **10 DECEMBER 2010**

AGENDA
ITEM
NUMBER

TITLE: **Friends Provident (Avon Pension Fund's Fund's AVC Provider) Past Investment Performance Monitoring Report to March 2010 by Mercers**

WARD: 'ALL'

AN OPEN PUBLIC ITEM

List of attachments to this report:

Appendix 1 : Executive Summary (from Friends Provident AVC Past Investment Performance Monitoring Report - full report available on request)

1 ISSUE

- 1.1 It is the responsibility of the Administering Authority to make available to members Additional Voluntary Contributions ("AVCs") and to appoint the provider and decide the range of investment fund options from which the members can select.
- 1.2 Mercers, the Fund's actuary and advisor on AVCs, have produced a report monitoring the investment performance of the AVC funds offered by Friends Provident, the Fund's AVC provider.
- 1.3 The full report runs to 92 pages; however the Executive Summary contains the key findings and recommendations by Mercers and is attached as **Appendix 1**.
- 1.4 Friends Provident were taken over by Resolution's PLC in summer 2009. Mercers have advised on whether this adversely affects the position of FP or the decision to continue offering their funds to members for AVC investment.

2 RECOMMENDATION

2.1 That the Committee notes:

- (i) The content of the Investment Performance Monitoring Report to 31 March 2010 by Mercer on Friends Provident (FP) - the Fund's chosen AVC provider
- (ii) That Mercers are currently undertaking a review of the current AVC investment strategy arrangement with Friends Provident with a view to considering a smaller range of fund options available to members to simplify their choice.
- (iii) That a further report will be brought to Committee in due course with the results of the review and any recommendation
- (iv) That the Fund's actuary has confirmed that it is still prudent to offer FP as the AVC following its takeover by Resolution PLC.

3. FINANCIAL IMPLICATIONS

3.1 The Administering Authority must by law make available to members of the Fund an AVC Provider and must determine the range of investment fund options from which the members can select. The investment performance of these funds must therefore be within an acceptable range otherwise the Fund could be found to be negligent and liable to a fine. Periodic reviews of the provider's investment performance are therefore necessary to monitor this.

4 Additional Voluntary Contributions ("AVCs") – what are they?

4.1 Members may pay additional contributions into the Fund to boost their retirement benefits. Although they can purchase additional pension in multiples of £250, a far more popular choice is to pay money as AVCs. The Fund invests these with a chosen Provider, in the APF's case Friends Provident, and offers members a choice of funds in which to invest.

4.2 At retirement the value of the member's AVC fund will be used to boost retirement benefits. The benefit may be taken as cash or pension within HMRC limits.

5 FP's AVC Funds Past Investment Performance Monitoring Report to March 2010 - BACKGROUND

5.1 The Fund periodically commissions a review of the performance of Friends Provident ("FP"), the chosen AVC provider open to members to invest their AVCs.

5.2 **Why review performance?** Whilst the Avon members choose where to invest their AVCs, it is the responsibility of the Administering Authority to choose the range of investment fund options, from amongst all those available on FP's fund platform, to be offered to members to select from. It is therefore prudent for FP's performance to be regularly monitored to ensure that it is within an acceptable range for the Fund to continue to offer them as the preferred AVC provider.

5.3 As Mercer's Full Report is 92 pages long because it provides a 3 page detailed analysis on *each* of the Funds available for investment. It has not been included with the papers but is available on request is. The Executive Summary of the Report is enclosed as **Appendix 1**.

5.4 **Mercer's Findings ((Executive Summary) - Mercer summarises FP's investment performance** in the Executive Summary and concludes that many of the unit-linked funds have shown negative returns at times over recent years, reflecting the prevailing market volatility. *(Mercer states however, that rather than focussing purely on absolute returns, it is more helpful to consider past performance relative to other funds in the sector.)*

Overall Mercer describes FP's cumulative investment performance relative to other funds as being **generally satisfactory, and in many cases good, over 5 years** with 25 out of the 29 funds showing cumulative performance in the 1st or 2nd quartile.

The report concludes that performance has generally been less good in the shorter term - over 3 years and particularly over 1 year where 12 of the 29 funds have been in the 3rd or 4th quartile. The BGI UK Corporate Bond Index, FP Stewardship Managed and FP Stewardship funds have all consistently had cumulative returns in the 3rd or 4th quartile, across 1, 3 and 5 year periods.

Excessive fund choices In its report, Mercer recommends that Officers undertake a review of the current AVC investment strategy arrangement with Friends Provident with a view to considering a **smaller range of funds choices** to simplify the choice available to the members. Currently there are 29 on offer to APF members. *(After a review in 2006, poor performance from the FP funds prompted the Fund to increase the choice of funds by adding 3 external providers on FP's platform).* Officers agree that a review is required and feel strongly that that the number of funds should be reduced.

5.5 FP “WITH PROFITS” FUND: The Administering Authority decided some years ago to remove the option for new AVC payers contributing to the FP with-profits fund but decided to allow then existing contributors to continue paying into the with profit fund.

5.6 .RESOLUTION PLC TAKEOVER OF FRIENDS PROVIDENT IN 2009

5.6.1. Resolution PLC is a Guernsey based Investment Company who bought FP for £1.86 billion in summer 2009.

5.6.2 Mercers have advised the Fund that FP customers will be largely unaffected by the deal and it believes that there is **no reason why FP funds should not continue to be offered to APF members for AVC Investment.**

5.7 STRATEGIC AVC REVIEW: Mercers are currently undertaking a “Strategic Review” as and will pay particular attention to options for choices of funds available to members to improve transparency. Results of the Review and any recommendations will be brought back to the Committee in due course

6 RISK MANAGEMENT

6.1 This report contains only recommendations to note - no risk assessment is therefore necessary.

7 EQUALITIES

7.1 No equalities impact assessment is required as the Report contains only recommendations to note.

8 CONSULTATION

8.1 This report is primarily for information and therefore consultation is not necessary.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	Previous reviews of FP performance