

## APPENDIX 1 TO AVC MONITORING REPORT

### Avon Pension Fund

### Friends Provident AVCs: Past Investment Performance Monitoring to March 2010

As requested, we have carried out a past investment performance monitoring exercise in relation to the Avon Pension Fund AVC arrangements and we are pleased to report our findings. As part of this document we have included detailed factsheets in relation to individual funds to allow the Administering Authority to consider the performance in more detail if necessary.

#### Executive Summary

##### Unit-Linked Funds

Many of the Friends Provident unit-linked AVC funds invested in by Avon members have shown negative returns at times over recent years, reflecting the prevailing market volatility. Rather than focussing purely on absolute returns, it is more helpful to consider past performance relative to other funds in the sector. If we were to try to summarise the overall picture, we would describe the Friends Provident cumulative investment performance relative to other funds as being generally satisfactory, and in many cases good, over 5 years up to March 2010, with the vast majority of funds (25 out of 29) showing cumulative performance in the 1<sup>st</sup> or 2<sup>nd</sup> quartile (see note below for description), apart from a few funds where performance has been in the 3<sup>rd</sup> or 4<sup>th</sup> quartile (BGI UK Corporate Bond Index, FP European, FP Stewardship Managed and FP Stewardship). Performance has generally been less good over 3 years and particularly over 1 year where 12 of the 29 funds have been in the 3<sup>rd</sup> or 4<sup>th</sup> quartile. The BGI UK Corporate Bond Index, FP Stewardship Managed and FP Stewardship funds have all consistently had cumulative returns in the 3<sup>rd</sup> or 4<sup>th</sup> quartile, across 1, 3 and 5 year periods.

Below is a summary of the cumulative past investment performance for the unit-linked funds. More detail is shown in the factsheets in the Appendix.

Note:

- 1<sup>st</sup> quartile is 'well above median' for the sector;
- 2<sup>nd</sup> quartile is 'around or above median';
- 3<sup>rd</sup> quartile is 'around or below median'; and

4<sup>th</sup> quartile is 'well below median'.

AVC Fund	Total existing AVCs invested as at 5.3.10	%	Quartile for Cumulative Performance over period of		
			1 year	3 years	5 years
BGI Balanced Index	£ 11,899.24	0.17%	3	1	1
BGI Cautious Index	£ 12,533.89	0.18%	3	1	1
BGI European Equity Index	£ 3,940.66	0.06%	2	2	2
BGI Global Equity 50:50 Index	£ 9,682.71	0.14%	2	3	2
BGI Global Equity 60:40 Index	£ 5,447.40	0.08%	2	3	2
BGI Over 15 years UK Gilt Index	£ 2,720.30	0.04%	3	1	1
BGI UK Corporate Bond Index	£ 540.85	0.01%	4	3	3
BGI UK Equity Index	£ 12,399.89	0.18%	2	2	1
BGI UK Index-Linked Gilt Index	£ 11,653.78	0.17%	1	1	1
BGI US Equity Index	£ 183.35	0.00%	2	2	2
BGI World (Ex-UK) Equity Index	£ 1,469.92	0.02%	3	1	2
Baillie Gifford International	£ 9,928.55	0.14%	1	1	1
Baillie Gifford Managed	£ 29,513.49	0.42%	1	1	1
FP Cash	£ 783,853.35	11.28%	2	1	1
FP European	£ 396,268.95	5.70%	1	2	3
FP Fixed Interest	£ 386,591.02	5.56%	2	2	1
FP Global Equity	£ 222,668.37	3.20%	1	1	1
FP Index Linked	£ 156,214.83	2.25%	1	1	1
FP Managed	£ 1,229,055.03	17.68%	3	1	1
FP Newton Balanced	£ 11,884.18	0.17%	4	1	1
FP Newton Income	£ 7,754.00	0.11%	4	1	1
FP North American	£ 164,519.22	2.37%	1	1	1
FP Pacific Basin	£ 213,788.33	3.08%	4	3	1
FP Pre-retirement Fixed Interest	£ 651,964.23	9.38%	3	2	2
FP Property	£ 221,246.13	3.18%	1	2	2
FP Stewardship Managed	£ 594,170.08	8.55%	3	4	4
FP UK Equity	£ 414,047.74	5.96%	2	1	1
FP UK Index Tracking	£ 373,771.44	5.38%	2	1	1
* FP Stewardship	£ 563,076.14	8.10%	4	4	4
** FP With-Profits	£ 449,082.10	6.46%	See separate factsheet		
<b>Total :</b>		<b>£ 6,951,869.17</b>	<b>100.00%</b>		

\* Stewardship Fund is no longer available for further contributions.

\*\* With-profits is closed to new Avon contributors, but currently remains available to existing contributors.

## With-profits

A separate factsheet covering the Friends Provident with-profits fund is attached. In summary:

- The Friends Provident with-profits fund has not been actively marketed by the insurer for a number of years and the fund is beginning to contract relatively quickly.
- The with-profits fund has significantly reduced its equity portfolio, but only after incurring significant market losses.
- The fund has limited working capital, which was a contributory factor in the insurer's decision to sell equities.

- Some Friends Provident with-profits policies have valuable guarantees which would be lost on transfer. The specific position in relation to the Avon AVC with-profits policy should be considered as part of the review referred to below.

### **Next Steps**

In terms of the actions required, in line with our previous discussions, we would recommend that a review of AVC Investment Strategy is now undertaken with a view towards considering a possible smaller range of fund choices to offer to Avon members.

We recommend that the position in relation to with-profits is also considered as part of the review of AVC Investment Strategy and fund range.

We look forward to discussing this report with the Administering Authority to enable the next steps to be put in hand.

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