

# Report of the Director West Yorkshire Pension Fund to the meeting of Joint Advisory Group to be held on 28 January 2021

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## Subject: Review of Additional Voluntary Contribution Providers

### Summary statement:

West Yorkshire Pension Fund has 3 Additional Voluntary Contribution Providers, namely:

- Utmost Life and Pensions (previously Equitable Life),
- Scottish Widows, and
- Prudential.

Annually the West Yorkshire Pension Fund ask Aon's AVC Team to review the performance of the Additional Voluntary Contribution. This report is a follow up to the report provided to July's Joint Advisory Group meeting.

### Recommendations:

It is recommended that the Joint Advisory Group:

1. Approve the removal of the Invesco High Income Fund from the Scottish Widows approved funds and that further advice is obtained from Aon on a replacement.
2. Approve the removal of the ASI Global Absolute Return Strategies Fund from the Scottish Widows approved funds and that a communication is sent to member's regarding the alternative funds available to them.
3. Approve a full review of the Scottish Widows Lifestyle strategy.
4. Approve the removal of the Prudential International Fund from the approved funds.

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## 1. Background

- 1.1 An active scheme member may elect to pay additional voluntary contributions (AVC's) into a scheme established between the administering authority and an approved insurer.
- 1.2 WYPF has three AVC providers, Utmost Life and Pension, Scottish Widows and Prudential.

The contributions paid during the year, fund values and membership information at 31 March 2020 are as follows:

	<b>Utmost Life and Pensions</b>	<b>Scottish Widows</b>	<b>Prudential</b>
Contributions	£7461	£399,969	£5,702,677
Fund Value	£2,173,215	£10,606,533	£20,084,192
<b>Scheme members with an AVC Policy</b>			
31/03/2020	429	953	2,110
31/03/2019	490	1,060	2,047

- 1.3 As Scottish Widows and Utmost Life and Pensions had not provided the necessary information for the July meeting, this report provides the Joint Advisory Group with an update following completion of the 2020 review by Aon's AVC Team. It also includes Aon's views on a replacement of the Prudential International Fund and appointing a new or alternative provider.
- 1.4 Aon continue to view Scottish Widows and Prudential as appropriate providers. They have no concerns over the suitability of Utmost Life and Pensions as a legacy AVC provider at this time.

## 2. Scottish Widows Investment Performance

- 2.1 Aon continues to rate SSgA as a passive fund manager highly. Aon have no concerns over the performance of the SSgA funds included in the approved fund range, or their potential to deliver returns in line with their benchmark index, before charges.
- 2.2 Relative performance of the Scottish Widows Funds has been relatively good, with the Property, Environmental, Corporate Bond and Indexed Stock Funds out-performing their sectors over all periods reported.



- 2.3 Aon have no concerns over the performance or quality of the Pension Protector and Cash Funds. Although neither of these funds out-performed its sector, Aon consider returns to be consistent with both funds' investment objectives and/or expected characteristics.
- 2.4 The Consensus Fund under-performed its sector average over all periods reported and relative performance has deteriorated over more recent periods. Aon do have some concerns over the relative performance of this fund, but they do not recommend the Administering Authority takes any action in response to its under-performance until a longer track record with Schroders is available.
- 2.5 Aon has no major concerns over the relative performance of the BNY Mellon funds; however, the Invesco High Income Fund and the ASI Global Absolute Return Strategies Fund both significantly under-performed in all periods reported. Aon's manager research team down-graded the ASI Global Absolute Return Strategies Fund to 'Sell' in November 2018.
- 2.6 Aon is of the opinion that the Administering Authority should remove both these funds from the approved fund range. Aon suggest:
- The Invesco High Income Fund is replaced with a less specialised actively managed UK equity fund. If required Aon can advise further on a suitable replacement.
  - The ASI Global Absolute Return Strategies Fund is removed, and the alternative actively managed multi-asset funds, i.e. the BNY Mellon Managed Fund and the Scottish Widows Environmental Fund, are highlighted as an alternative option to members currently invested in the ASI Global Absolute Return Strategies Fund.
- 2.7 Although Aon have no concerns over the quality of the SSgA Global Equity 50:50 Index Fund used in the growth phase of the lifestyle strategy, they have previously highlighted the concentration risk caused by the overweight allocation to UK equities in this fund. Aon recommend this fund is replaced in the lifestyle strategy and believe there are two suitable alternative funds the SSgA International Equity Index (which would provide no exposure to UK equities in the growth phase), or the Scottish Widows Pension Portfolio Two Fund, which currently has an allocation to UK equities of c. 25%, but which Scottish Widows plans to reduce further. Aon can provide more detailed recommendations for the lifestyle strategy if required by the Administering Authority.

### **3. Utmost Life and Pension Investment Performance**

- 3.1 Aon believe the policy value uplifts Equitable Life made to the With Profits holdings at closure represented a reasonable compensation for the investment guarantees members were giving up. Former With Profits members have been invested in the Secure Cash Fund since 1 January 2020 (and have therefore been protected from COVID- related market volatility).



3.2 With the exception of the Money Market Fund and the US Equity Fund, relative fund performance of the actively managed funds held by members deteriorated over the year to 31 March 2020. The under-performance of the Managed and the Fund of Investment Trusts Funds was particularly significant over the year to 31 March 2020. Aon do not recommend the Administering Authority takes any action with respect to the under-performing funds at the current time, as longer-term performance of all funds remains in line with the sector average. However, they are likely to recommend action in future, if relative performance of these funds does not improve.

#### **4. Replacement of the Prudential International Fund**

- 4.1 Having considered the funds available through Prudential's contract, Aon have concluded that there are no suitable actively managed replacements.
- 4.2 Aon has therefore recommended the Administering Authority removes the Prudential International Fund and offers members the existing (passively managed) BlackRock Aquila World ex-UK Equity Index as an alternative international equity fund.

#### **5. Appointing a new or alternative provider**

- 5.1 Based upon similar exercises in recent years, Aon believe there would be little interest from providers in offering an alternative or replacement AVC contract to the Administering Authority.
- 5.2 This is because providers who do not offer an AVC proposition for LGPS need to establish a separate scheme for each participating employer. This means that either providers are unable to offer terms, or that the terms they can offer on a commercially viable basis would not be attractive to the Administering Authority (or members). Furthermore, the lack of customisation to LGPS is likely to negatively impact the employers' and members' experience.
- 5.3 Therefore, based upon Aon's knowledge of the market, it does not recommend the Administering Authority consider appointing a new or replacement AVC provider at the current time.

#### **4. Recommendations**

- 4.1 It is recommended that the Joint Advisory Group:
1. Approve the removal of the Invesco High Income Fund from the Scottish Widows approved funds and that further advice is obtained from Aon on a replacement.
  2. Approve the removal of the ASI Global Absolute Return Strategies Fund from the Scottish Widows approved funds and that a communication is sent to member's regarding the alternative funds available to them.
  3. Approve a full review of the Scottish Widows Lifestyle strategy.
  4. Approve the removal of the Prudential International Fund from the approved funds.

