Appx 1

2023 Review of the AVC arrangements

City of Bradford Metropolitan District Council

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Date: 5 January 2024

For professional clients only.

Introduction

The City of Bradford Metropolitan District Council AVC arrangements are held within the West Yorkshire Pension Fund ('the Fund'). The Administering Authority has requested that Aon carries out its annual review of the AVC arrangements. Our findings are set out in this report.

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Scope of this review

This report covers the following areas:

- A summary of AVC membership and funds under management as at 31 March 2023
- Provider financial strength ratings
- Our views on administration capability
- Fund performance of the approved funds versus benchmarks or sector average to 31 March 2023
- Views on the suitability of current fund range including our views on investment management capability[1]
- Competitiveness of charging structures
- Standard of communications, and
- Our overall view on suitability as AVC providers.

Legal & General has tentatively entered the LGPS AVC market and we set out our thoughts on this in Appendix 1.

We have also provided details of any relevant provider or regulatory developments since the last AVC review at Appendix 2.

The AVC arrangements may be summarised as follows:

Provider	Status	Investment options
Prudential	Open to new members and future contributions	Two lifestyle strategies and a range of unit-linked funds
Scottish Widows		One lifestyle strategy and a range of unit-linked funds (the unapproved funds are closed to new money)
Utmost Life and Pensions (Utmost)	Closed to new members but open to future contributions from existing members	The 'investing by age' strategy and a range of unit-linked funds

Source: Providers

[1] Where Aon's investment manager research team do not research a fund, our assessment of the quality and suitability of the fund is based upon our more general views of the investment managers and past performance analysis.

Executive summary

The AVC arrangements – at a glance……..

Membership and fund values

The table below confirms membership numbers and assets under management for the West Yorkshire Pension Fund's AVC arrangements and contributions paid over the year, where available.

Membership data has been sourced directly from Prudential and the Utmost summary reports provided by the Administering Authority.

We have not shown total data, as we have been unable to obtain any information from Scottish Widows.

Prudential	**31 March 2023**
Members	3,329
Contributions (excluding transfers in)	£9,881,187
Fund Value	£35,189,646

Scottish Widows	**31 March 2023**
Members	Not available (N/A)
Contributions	N/A
Fund Value	N/A

Utmost	**5 April 2023**
Members	307
Contributions	£27,706
Fund Value	£1,629,682

Number of members includes life cover only members and contributions shown include those paid for life cover, where applicable.

Observations

Prudential

Prudential remains the dominant LGPS AVC provider, and it has stated it remains committed to this market, despite experiencing significant service disruption following the migration to the Diligenta BANCS administration platform in late 2020. The issues resulting from the migration have now been resolved and Prudential has largely returned to 'business as usual' service standards.

Prudential, and its fund management partners, remain financially strong, and we have no concerns over provider financial strength or security of assets.

Charges are materially higher than current market rates for arrangements of a similar size, but we consider them reasonable, taking account of the additional tasks LGPS AVC providers undertake and the complexity of the arrangements. A number of years ago, Prudential was considering the feasibility of adopting scheme-specific pricing but appears not to have progressed this.

The range of externally managed funds Prudential offers has been significantly reduced by Prudential in recent years but we consider the range of funds offered to be suitable.

Relative performance of the funds offered was acceptable over the year to 31 March 2023, though only the International Equity Fund met its out-performance target, and the UK Equity Fund under-performed its benchmark over 1, 3 and 5 years. Gilt funds suffered significant losses over this reporting period, due to market conditions.

There has been a large increase in the number of members invested with Prudential over the year to 31 March 2023. We would expect any members interested in paying AVCs to choose Prudential over Scottish Widows, given the lack of useful information Scottish Widows provides to members via the microsite.

Scottish Widows

Scottish Widows' AVC proposition is not as well tailored to LGPS as Prudential's.

Scottish Widows and its fund management partners are financially strong, and we have no concerns over provider financial strength or security of assets.

Charges are higher than current market rates, but they are slightly lower than the charges on the Prudential arrangement. We therefore consider them reasonable, taking account of the additional tasks LGPS AVC providers are expected to undertake and the complexity of the arrangements.

Service has been particularly poor since Scottish Widows migrated the administration of older policies (including the Fund's AVC arrangements) to Diligenta in August 2022. We have been unable to obtain any data from Scottish Widows for this review, despite our request being made over five weeks ago, and our regular follow up calls to Scottish Widows to escalate matters. We have raised a formal complaint about the way in which our data request for this review has been dealt with.

We understand Scottish Widows has been unable to confirm to the Administering Authority when year-end data will be available as it is still working to correct member records, despite initial assurance this work would be complete by 31 December 2022. We believe there is a significant risk that payments made to members will be delayed or incorrect whilst this work is ongoing.

Scottish Widows still offers access to a range of externally managed funds, and we have no concerns over the investment management capabilities of the fund management partners that replaced Aberdeen Standard Life - Schroders, and BlackRock.

Performance of most funds over this period was in line with expectations. The abrdn Global Absolute Return Strategies Fund continued to significantly under-perform, but this Fund has now been merged into the abrdn Diversified Growth and Income Fund. We await confirmation from Scottish Widows whether it will use the merged fund.

We generally consider the quality of Scottish Widows' reporting to be behind peers.

The microsite that Scottish Widows provides for the Fund is well laid out, but it is not well maintained by Scottish Widows and we believe this represents a risk that members will receive the incorrect or insufficient information to be able to make decisions about their AVC funds.

Utmost

The Utmost arrangement is closed to new members and therefore continues to reduce in size over time.

We have no concerns over provider financial strength, security of assets or standards of administration, though we acknowledge Utmost does not tailor AVC arrangements to LGPS (or any other pension scheme) and reporting is very basic.

Utmost does not offer scheme-specific pricing. Charges are higher than current market rates and those on the Fund's Scottish Widows arrangement but in line with those on the Prudential arrangement.

We have no concerns over the quality and suitability of the investment options, in view of the fact this is a closed arrangement.

Recommendations

Prudential

Overall, we consider Prudential's LGPS AVC proposition to be fit for purpose and recommend it is maintained.

We believe the names of the lifestyle options no longer accurately reflect their investment approach and we suggest the Administering Authority considers whether they should be re-named to avoid any confusion. For example, the passive lifestyle option could be re-named the growth-focused lifestyle option and the active lifestyle option could be re-named the multi-asset lifestyle option. Alternatively, the Administering Authority could consider adopting Prudential's 'off the shelf' lifestyle strategies, now that Prudential offers a cash-targeting option.

Scottish Widows

At the current time, we do not regard the Scottish Widows arrangement to be fit for purpose.

We believe service issues have been exacerbated by the platform migration, but Scottish Widows was very slow to respond and update documentation prior to this event, and LGPS AVC arrangements are clearly not a business focus for Scottish Widows.

We recommend the Administering Authority either sets a deadline by which Scottish Widows must resolve ongoing issues, or considers replacing Scottish Widows as an AVC provider (please refer to Appendix 1 for further information on likely options).

Utmost

We have identified no issues with this closed arrangement, and recommend it is maintained.

Prudential

The Prudential arrangement (policy reference L038) is open to new members.

Membership, contributions and fund values

The table below provides a summary of the arrangement as at 31 March 2023, compared, where possible, to 31 March 2022 and 31 March 2021.

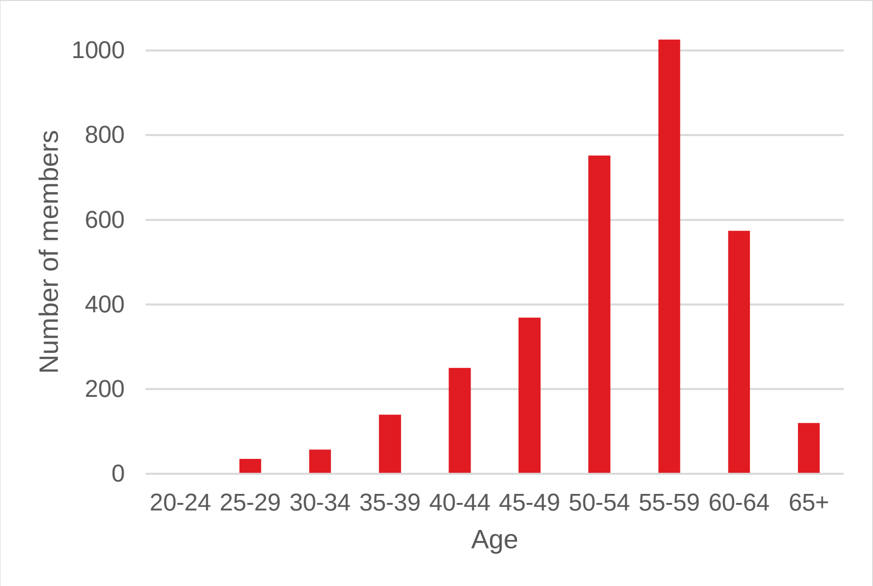
	31 March 2023	31 March 2022	31 March 2021
Members	3,326	1,368	2,484
Assets under management	£35,189,646	£30,856,548	£26,767,248
Contributions	£9,881,187	£8,501,941	N/A
Transfers in	£461,439	£30,326	N/A
Claims	£5,330,647	£5,306,754	N/A

Source: Prudential

- The number of members in the AVC arrangement reported by Prudential has shown a significant increase over the period to 31 March 2023 however we believe it is more likely the number of members reported by Prudential as at 31 March 2022 was incorrect.
- Contributions during the year ending 31 March 2023 were 16% higher than those paid during the year ending 31 March 2022.
- Assets under management fell by c.£680K after allowing for contributions, transfers in and claims paid out.
- Claims were broadly unchanged, compared to the previous year.

Age profile

The chart below illustrates the age profile of the Prudential membership.



Source: Prudential

- The youngest member is age 20 and the oldest is 74.
- 52% of members (1,720) are of minimum pension age (age 55) or older.

AVC fund range

There are currently 16 funds available to new and existing members.

The Prudential Deposit Fund closed to new money on 31 May 2017 but remains available to members who invested into the Fund prior to this date. As at 31 March 2023, there were 414 members and £3.2m invested in the Deposit Fund. Two members held a total of £21,000 in the With Profits Cash Accumulation Fund. We understand the With Profits holdings are a result of transfers in.

The table on the next page confirms membership numbers and fund values for the AVC arrangement, as at 31 March 2023. Members and assets invested in the lifestyle strategies are reported under the underlying funds in the table below.

Asset class	Fund name	Fund value (£)	Number of members
Equities	Prudential Dynamic Global Equity Passive[2]	8,028,603	2,986
	BlackRock Aquila World ex.UK Index	1,241,066	263
	HSBC Islamic Global Equity Index	1,087,462	201
	LGIM Ethical Global Equity Index	1,061,981	225
	BlackRock Aquila UK Equity Index	841,974	207
	Prudential International Equity	413,271	178
	Prudential UK Equity	401,889	207
	BlackRock Aquila Emerging Markets Equity	251,467	150
	Prudential Positive Impact[3]	165,502	104
Multi-Asset	BlackRock Aquila Consensus	3,376,512	509
	Prudential Dynamic Growth IV	3,025,363	761
	Prudential Dynamic Growth I[4]	630,942	214
	Prudential With-Profits Cash Accumulation Fund	20,990[5]	2
Corporate Bond	BlackRock Aquila All Stocks Corporate Bond Index	2,416,996	591
Gilts	Prudential Index Linked Passive	1,035,375	375
	BlackRock Aquila Over 15 Years UK Gilt Index	341,550	211
Cash	Prudential Cash	7,625,739	1,754
	Prudential Deposit Fund	3,222,966	414
	Total	**35,189,646**	**3,329[6]**

Source: Prudential.

Summary

Take up of all available funds is reasonably high, and c60% of assets are invested in funds with good capital growth potential.

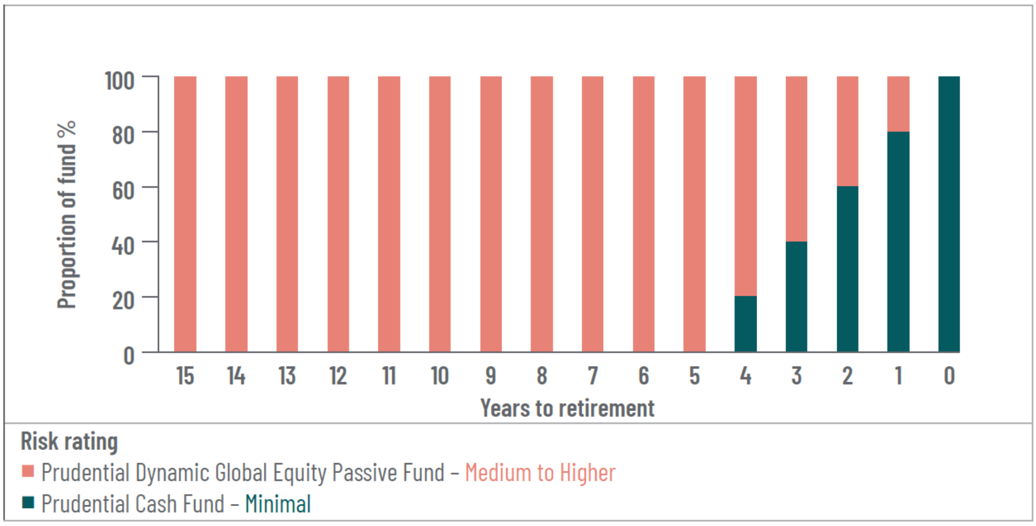
[2] This Fund replaced the BlackRock Global Equity 50:50 Index Fund
[3] This Fund replaced the Prudential Ethical Fund
[4] This Fund replaced the Prudential UK Property Fund
[5] Does not include any terminal bonus that would have been payable on the valuation date
[6] Many members invest in more than one fund, but are counted only once in the total

Lifestyle options

There are two bespoke lifestyle options available to members of the Prudential arrangement.

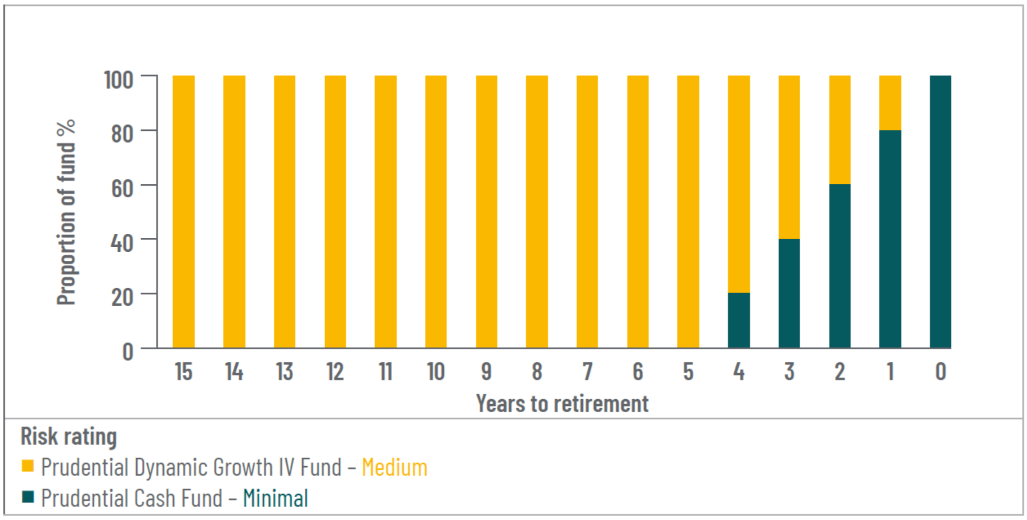
The **passive lifestyle option** invests in the Prudential Dynamic Global Equity Passive Fund in the 'growth' phase. It commences switching five years prior to a member's selected retirement age into the Cash Fund, such that 100% is invested in the Cash Fund at the member's selected retirement age.

The structure of this lifestyle option is illustrated in the chart below.



The **active lifestyle option** available to members invests in the Prudential Dynamic Growth IV Fund in the 'growth' phase. It commences switching five years prior to a member's selected retirement age into the Cash Fund, so that 100% is invested in the latter fund at the member's selected retirement age.

The structure of this lifestyle option is illustrated in the chart below.



The level of active management within the two lifestyle options is now similar, as a result of the fund closures Prudential has made since these strategies were designed.

The decisions regarding asset allocation within the Dynamic Global Equity Passive Fund and the Dynamic Growth IV Fund are active but the funds achieve some or all of their asset exposures through passively managed funds. The investment objective of the Dynamic Global Equity Passive Fund is to provide exposure to UK and overseas equities (although it currently has a c.10% allocation to cash), whilst the Dynamic Growth IV Fund aims to invest between 40% and 80% in equities.

Both options switch to the actively managed Cash Fund as retirement approaches.

Although we have no concerns over the structure of the lifestyle options, we believe their names are potentially misleading to members. We consider solutions to this in the next section 'suitability of investment options'.

Fund performance

The table below shows the performance of the unit-linked funds, and the Prudential Deposit Fund, in which members were invested over 1, 3 and 5 years to 31 March 2023. We have also shown whether funds are actively managed (A) or passively managed (P).

Fund performance reported is net of fees against the benchmark for each fund (see Appendix 3). Relative performance may not sum due to rounding.

Fund	5 years % p.a.			3 years % p.a.			1 year %		
	Fund	Bmk	Rel	Fund	Bmk	Rel	Fund	Bmk	Rel
Equities									
BlackRock Aquila Emerging Markets Equity (P)	1.0	1.6	**-0.6**	7.7	7.9	**-0.2**	-7.1	-4.9	**-2.2**
BlackRock Aquila World ex.UK Index (P)	10.7	10.7	**0.0**	16.9	16.4	**0.5**	-3.7	-1.3	**-2.4**
Prudential International Equity (A)	6.5	7.7	**-1.3**	15.1	13.7	**1.3**	1.9	1.1	**0.8**
Prudential Dynamic Global Equity Passive (P)				14.5	14.1	**0.4**	0.7	1.8	**-1.1**
HSBC Islamic Global Equity Index (P)	14.5	15.7	**-1.2**	17.6	17.6	**0.0**	-4.0	-2.5	**-1.5**
LGIM Ethical Global Equity Index (P)	11.5	12.2	**-0.7**	18.5	17.8	**0.6**	-0.2	1.0	**-1.2**
Prudential Positive Impact (A)				14.5	16.0	**-1.5**	1.5	-0.9	**2.4**
BlackRock Aquila UK Equity Index (P)	4.6	5.0	**-0.4**	14.7	13.8	**0.9**	2.3	2.9	**-0.6**
Prudential UK Equity (A)	3.5	5.0	**-1.6**	12.2	13.8	**-1.7**	-0.9	2.9	**-3.8**

Multi-Asset									
BlackRock Aquila Consensus[7] (P)	5.4	5.6	**-0.2**	9.4	9.2	**0.2**	-1.9	-0.4	**-1.5**
Prudential Dynamic Growth IV[8] (A)	3.9	4.3	**-0.4**	8.3	7.5	**0.8**	-2.3	-1.4	**-0.9**
Prudential Dynamic Growth I[8] (A))	1.6	1.8	**-0.2**	2.4	1.6	**0.8**	-5.1	-4.8	**-0.3**
Corporate Bonds									
BlackRock Aquila All Stocks Corporate Bond Index (P)	-1.2	-0.9	**-0.3**	-3.8	-3.1	**-0.7**	-10.7	-10.2	**-0.5**
Gilts									
BlackRock Aquila Over 15 Years UK Gilt Index (P)	-6.3	-6.4	**0.1**	-16.6	-16.4	**-0.2**	-30.3	-29.7	**-0.6**
Prudential Index Linked Passive (P)	-4.6	-4.1	**-0.5**	-9.8	-9.1	**-0.7**	-30.7	-30.1	**-0.6**
Cash									
Prudential Cash (A)	0.2	0.6	**-0.5**	0.3	0.7	**-0.5**	1.7	2.2	**-0.6**
Prudential Deposit (A)	0.8	0.8	**0.0**	0.8	0.9	**-0.1**	2.1	2.3	**-0.2**

Source: Prudential

[7] We have reported this Fund as a *passively managed* fund to be consistent with previous reports however, although asset allocation is achieved through passively managed funds, asset allocation decisions are active.

[8] We have reported this Fund as an *actively managed* fund and whilst asset allocation decisions are active, asset allocation is achieved through active and passively managed funds.

Fund performance and investment capability commentary

> The year to 31 March 2023 saw difficult market conditions, as global equities showed a loss over the year, suffering a sharp sell-off over the first six months, as geopolitical risk continued to take centre stage with Russia's ongoing invasion of Ukraine and central banks sharply tightening monetary policy in response to elevated inflationary pressure. The UK gilt curve rose across all maturities over the year as inflationary concerns drove yields higher and in September 2022, the Bank of England announced an emergency £65bn bond-buying programme to stabilise the government debt market after an unexpected expansionary fiscal package was announced, causing a considerable spike in yields.

Prudential funds

The underlying fund manager of Prudential's internally managed funds is M&G Treasury & Investment Office, although many of the underlying component funds of the Dynamic Global Equity Passive, Dynamic Growth IV and Dynamic Growth I Funds are managed by BlackRock.

Aon's global investment manager research team does not currently undertake active research on any of the Prudential funds members invest in. This is because their research process is tailored to occupational pension schemes that wish to invest in 'best of breed' funds in each asset class, rather than the wider universe offered by insurance companies. Our assessment of the quality and suitability of these funds is therefore based upon our more general views of the investment managers' capabilities and past performance analysis, rather than in depth analysis of each fund.

Although we have no major concerns over the investment capabilities of Prudential's underlying managers. Generally, we believe Prudential lags its peers on taking risks associated with Environmental, Social and Governance (ESG) factors into account in its overall investment strategy, but the Fund offers two ESG funds to members who recognise the importance of such factors.

Two of the actively managed funds offered to members have a specified outperformance target, as shown in the table below:

Fund	Outperformance target (% p.a. before charges, on a rolling 3-year basis)
International Equity	1.0
UK Equity	0.75 – 1.00

Source: Prudential

The **International Equity** Fund achieved its target over the 3-year period and was 1.4% ahead of its benchmark over the 1 year period, however it . under-performed over the 5-year period. Absolute returns were positive over all periods reported above though, not surprisingly they failed to keep pace with UK inflation over the year to 31 March 2023.

The **UK Equity** Fund failed to meet its performance target and it underperformed its benchmark over all periods. Over 1 year, this Fund suffered a loss and lagged its benchmark by 3.8% after charges.

The **Positive Impact** Fund aims to out-perform its MSCI All World Index benchmark over the longer term (5 years+) whilst investing in companies that aim to have a positive societal impact through addressing the world's major social and environmental challenges. It was ahead of the benchmark after charges over the year, but behind over 3 years. This isolated period of under-performance does not give us cause for concern – the Fund holds a relatively concentrated portfolio of stocks and we are comfortable with the reasons given by Prudential for under-performance i.e. stock selection in the technology sector, and to a lesser extent in the utilities and industrials sectors, as well as lack of exposure to the energy sector, detracted from returns.

As mentioned in the previous section, M&G makes active asset allocation decisions for the **Dynamic Growth IV** and the **Dynamic Growth I** Funds, though it uses predominantly passively managed funds to achieve the asset allocation. We would expect performance to be in line with the composite benchmarks, which are based upon each Fund's asset allocation. Before charges, these funds have performed broadly in line with their benchmarks over 1 and 5 years. Over 3 years, they have out-performed their benchmarks. This does not give us cause for concern, as returns were ahead of the benchmark, and markets were particularly volatile over this period.

The **Cash** Fund provided a return in line with its benchmark before charges over all periods reported above, and returns have increased significantly as interest rates have risen over the year to 31 March 2023. The **Deposit** Fund has provided returns broadly in line with the Bank of England base rate. We believe the returns on both funds will have met members' expectations, though they have obviously not kept pace with inflation.

Members invest in two passively managed Prudential funds, the Dynamic Global Equity Passive Fund and the Index-Linked Passive Fund.

The **Dynamic Global Equity Passive** Fund is structured as a fund of funds. It is made up of a range of predominantly BlackRock passive and JP Morgan 'sustainable future' funds. Although it did not track its benchmark over periods reported here, being slightly ahead before charges over 3 years and under-performing over the year, Aon's investment manager research team rate BlackRock highly as a passive fund manager, and we have no major concerns over the investment capabilities of JP Morgan, though we do not consider them to be market-leading in terms of sustainable investing.

The **Index-Linked Passive** Fund tracked its benchmark before charges over all periods reported above, it has therefore met its investment objective. However, it has suffered a loss over all periods reported above and losses over the year were particularly significant due to the UK 'gilt crisis'.

Externally managed funds:

All externally managed funds available to members are now passively managed, as Prudential has gradually withdrawn access to external actively managed funds on its platform in recent years.

The fund performance reported by Prudential for the external passive funds indicates a far higher tracking difference than that reported for the underlying funds, particularly over the shorter term for some funds. However, we are satisfied with the explanation that Prudential provides for this discrepancy (i.e., the Prudential funds may hold an element of cash due to the short delay between new investments being received by the Prudential fund and being placed in the underlying investment). We also believe differences in the time of day the Prudential funds are priced, relative to the benchmark index is a factor here. This is a common issue for external passively managed funds and it does not give us cause for concern as long as a 'look through' to the underlying funds shows they are closely tracking their benchmark.

BlackRock Aquila Funds - We have a high regard for BlackRock as a passive fund manager and Aon's Investment Manager Research Team has confirmed its 'buy' rating for BlackRock's index tracking funds. They believe that the firm combines a strong culture of risk management with high quality systems and that BlackRock's scale and structure allows it to closely track a wide range of equity indices on a cost-effective basis.

Returns on the underlying funds tracked the benchmark closely before charges and we are therefore comfortable that members investing in these funds through the Prudential arrangement will achieve gross returns in line with the benchmark over the longer term.

Prudential reports returns on the **BlackRock Consensus** Fund against the ABI mixed investments 40-85% Shares sector average. The Fund seeks to invest in a range of assets with weightings that may reflect the asset allocation of the ABI sector, but it is not managed against this. Returns on the underlying Fund were ahead of or in line with the sector average over all periods reported above.

LGIM Ethical Global Equity Index – Aon's Investment Manager Research Team rates LGIM's capabilities as a passive fund manager highly and this fund is 'buy' rated by Aon on this basis. We believe LGIM has the scale and structure to track a wide range of equity indices and it has an experienced and capable passive management team which takes a pragmatic approach to index tracking within strict stock and sector tolerances. Returns on the underlying Ethical Global Equity Fund have been in line with the benchmark before charges over all periods reported above. This Fund provided the best return of all funds held through the Prudential arrangement over 3 years to 31 March 2023, though it lagged the other global equity funds over the year.

HSBC Islamic Global Equity Index – Aon's Investment Manager Research Team does not research this Fund however, it meets Islamic investment principles, as interpreted and laid down by the HSBC Global Asset Management Shariah Committee (an independent committee, that consists of two internationally renowned Islamic scholars) that oversees investment in the Fund to ensure compliance with Islamic principles. Tracking difference for the underlying fund is c.+/-1% p.a. which we consider acceptable and returns have been broadly in line with global equity markets.

Summary

Our investment manager research team rate BlackRock and LGIM's capabilities as passive fund managers highly. They do not research any of the Prudential funds members invest in but we have no major concerns over the investment capabilities of the underlying managers.

Our past performance analysis reported here has raised no major concerns over the quality of funds held.

Suitability of investment options

All funds held through the Prudential arrangement are invested in regulated markets, dealt daily and are liquid (the Dynamic Growth funds have a small allocation to property but this is not expected to have a material impact on the liquidity of the funds overall).

Members have access to the main liquid asset classes, this is now predominantly through passively managed funds. Access to external actively managed funds has gradually been removed, as a result of the fund closures made by Prudential in recent years. The only true actively managed funds offered are the Prudential International Equity, UK Equity, Positive Impact and Cash Funds. We have no concerns over the lack of actively managed funds on offer, as such funds are at risk of under-performing, though passive funds obviously offer no potential for out-performance.

Investment options include two lifestyle strategies, an active and a passive Environmental, Social and Governance (ESG) fund and a Shariah fund. We therefore believe the investment options are capable of satisfying members' investment objectives.

Our view remains that members investing through a lifestyle strategy should invest in growth assets, such as equities, in the early stages. The rationale for this is that these assets are expected to provide better capital growth over the long term, and members are able to withstand the increased volatility associated with such investments, as their fund has time to recover before they take benefits. The passive lifestyle option offered through the AVC arrangement is well-aligned with our investment thinking in this respect. We believe better member outcomes could be achieved by the introduction of a multi-asset transition phase to the passive lifestyle option, which might also allow the switch to cash to take place closer to retirement and therefore minimise the drag on investment returns caused by investing in cash further from retirement.

The active lifestyle option uses the Dynamic Growth IV Fund in the growth phase and this Fund targets an equity allocation of between 40 and 80%. Furthermore, this Fund only invests in traditional asset classes, though it has scope to invest in other assets if deemed appropriate by the manager and regulations. We believe the lower allocation to growth assets, combined with lack of exposure to alternative assets in this Fund is sub-optimal. However, we acknowledge that members with a lower appetite for investment risk may be more comfortable investing in this strategy.

We understand members of the Fund can use their AVCs as the first source of tax-free cash entitlement from the LGPS and/or use AVCs to provide additional pension from the LGPS. We therefore believe the asset allocation of the lifestyle options at retirement targets the format in which members are most likely to take these benefits (i.e. cash) and is therefore appropriate.

The names of the lifestyle options may now be considered misleading, as a result of the fund changes made by Prudential since they were designed:

- The passive lifestyle option invests in the actively managed Cash Fund in the risk reduction phase, and

- The Dynamic Growth IV Fund invests in a number passively managed funds, as well as active funds, to achieve its target asset allocation.

We suggest the Administering Authority considers whether the lifestyle options should be re-named to avoid any confusion. For example, the passive lifestyle option could be re-named the growth-focused lifestyle option and the active lifestyle option could be re-named the multi-asset lifestyle option.

Alternatively, the Administering Authority could consider adopting Prudential's 'off the shelf' lifestyle strategies, now that Prudential offers a cash-targeting option.

Summary

We believe that the investment options are capable of satisfying members' investment objectives but there is scope to improve the lifestyle options and to re-name them to avoid misleading members about their investment approach. Alternatively, Prudential's off the shelf lifestyle strategies could be used.

Provider financial strength

Since the insurance business was de-merged from Prudential plc, M&G plc has been permitted by the Prudential Regulation Authority to prepare a single Group Solvency and Financial Condition Report covering M&G plc, Prudential Assurance Company Limited and Prudential Pensions Limited. The Solvency II Coverage Ratio reported for M&G plc was 205% as at 31 December 2022.

We subscribe to AKG Financial Analytics Limited ('AKG') for financial strength ratings. AKG is an independent actuarial consultancy specialising in the provision of ratings, information and market assistance to the financial services industry. AKG currently rates Prudential's overall financial strength as A (superior). This is the highest rating available.

Prudential's financial strength is rated A+ by Standard & Poor's i.e. a strong company that may have some issues in the face of business and financial challenges.

Summary

We have no concerns over Prudential's financial strength.

Charges

The Total Expense Ratio ('TER') that members pay for each fund is shown in the table below:

Fund name	TER (%)
Prudential Dynamic Global Equity Passive	0.54
BlackRock Aquila UK Equity Index	0.62
BlackRock Aquila World ex.UK Index	0.63
HSBC Islamic Global Equity Index	0.80
LGIM Ethical Global Equity Index	0.85
Prudential UK Equity	0.66
Prudential International Equity	0.69
BlackRock Aquila Emerging Markets Equity	0.80
Prudential Positive Impact	0.66
BlackRock Aquila Consensus	0.63
Prudential Dynamic Growth IV	0.63
Prudential Dynamic Growth I	0.63
BlackRock Aquila All Stocks Corporate Bond Index[9]	0.63
Prudential Index Linked Passive	0.56
BlackRock Aquila Over 15 Years UK Gilt Index[4]	0.62
Prudential Deposit Fund	Not applicable[10]
Prudential Cash	0.55

Source: Prudential

Prudential offers LGPS-specific pricing for unit-linked funds, which is more competitive than its standard rates. In our experience, charges for unit-linked funds are in line with LGPS arrangements offered by other providers and with other providers' legacy arrangements, though they are higher than current market rates for non-LGPS arrangements (Prudential has a reputation for relatively high charges compared to other insurers for non-LGPS AVC arrangements).

This reflects the fact that within LGPS, the AVC provider deals with multiple employers and payrolls and carries out a number of tasks carried out by employers or the scheme administrators in non-LGPS schemes, such as joining new members. This makes LGPS AVC arrangements more expensive to administer, and less commercially attractive to providers. In view of this, we regard the charges on the arrangement to be reasonable, given the complexity of LGPS arrangements and the additional tasks carried out by Prudential.

Summary

We regard the charges on the arrangement to be reasonable, given the complexity of LGPS arrangements and the additional tasks carried out by Prudential.

[9] Prudential previously announced that it intended to close this Fund but has taken no action to do so to date

[10] The Prudential Deposit Fund is not subject to any explicit charges, the rate of interest declared is net of the costs of running the Fund.

Administration capability

Prudential's outsourcing model of operation is relatively mature (it initially outsourced policy administration to Capita in 2008), including increasing volumes of administration offshored to India. In 2018, it announced it was replacing Capita as its outsource partner with Diligenta (the Financial Conduct Authority-regulated business of TATA Consultancy Services). This move was a key part of Prudential's ambition to become a lower-cost digital organisation, with Diligenta also becoming responsible for some of Prudential's IT infrastructure.

Migration to the Diligenta BANCS platform took place in Q4 2020. This project resulted in significant disruption to policy administration and customer service. It took over two years for Prudential to resolve issues resulting from the migration, including clearing the backlog of work and reconciling policy details. Prudential reported itself to the Pensions Regulator and was proactive paying financial redress to members dis-advantaged by poor service and delays, however it was very difficult to engage with during this time, as it had previously removed the majority of its client relationship managers and wait times on the telephone helpline for clients and members were very long.

Prudential has since focused on clearing the backlog and returning to its usual service standards and our recent experience indicates this has now been achieved for the vast majority of schemes however we understand its wider support for LGPS has not yet been re-established.

Summary

In our experience, issues caused by the migration to the Diligenta platform have largely been resolved and Prudential has returned to business as usual service, though it currently offers far less support to LGPS Funds than it did historically.

Communications and reporting

The Fund's members benefit from Prudential's customisation to the LGPS. We believe the suite of communications tailored to LGPS clients is of good quality, with relevant information set out in a clear manner. For example, the total charges on unit-linked funds are very clearly disclosed in the Fund-specific investment guide.

Prudential stopped offering worksite marketing services to participating employers a number of years ago and has since significantly reduced the number of account managers available to support employers and Administering Authorities, with the majority of queries directed to its AVC administration team.

Prudential has given no indication that its level of commitment to LGPS AVCs has fallen, though it is likely its offering will remain pared back compared to what has been provided historically, as it focuses on reducing costs.

We are yet to be convinced that the improvement in member experience cited as one of the key reasons for moving to the Diligenta platform has been achieved.

Summary

We regard the quality of communications and reporting by Prudential to be relatively good, though we have not seen any significant positive impact as a result of the platform migration.

Overall conclusion

We believe Prudential remains a suitable provider for LGPS AVCs for a number of reasons:

- its market share of LGPS AVC policies and stated ongoing commitment to this market,
- its knowledge and experience of LGPS and the level of tailoring to LGPS it provides, and
- its ability to enable a large number of employers to participate in a single AVC arrangement.

Prudential's financially strength is rated highly and our review has raised no major concerns over investment or administration capability, charges or communications and reporting. However, we consider Prudential to be behind many of its peers in taking account of ESG risks and the range of fund it offers has contracted significantly in recent years.

We recommend the Administering Authority considers the suitability of the names and structure of the lifestyle options offered through the Prudential arrangement.

Scottish Widows

The Scottish Widows arrangement (policy reference P000024425) is open to new members.

Membership, contributions and fund values

Scottish Widows has not provided any data we requested for the purposes of this review We have not therefore been able to report a summary of the arrangement as at 31 March 2023. The limited data we were provided, as at 31 March 2022 is shown in the table below.

	31 March 2022
Members	747
Assets under management	£10,239,878[11]
Contributions	£436,690
Transfers in	Not available
Claims	Not available

Source: Scottish Widows

Age profile

Scottish Widows has not provided the age profile of the Fund's membership.

AVC fund range

Scottish Widow has not provided information on the funds held, or the number of members and assets invested for this review.

We understand there are 14 funds and one lifestyle strategy available to new members (the approved fund range).

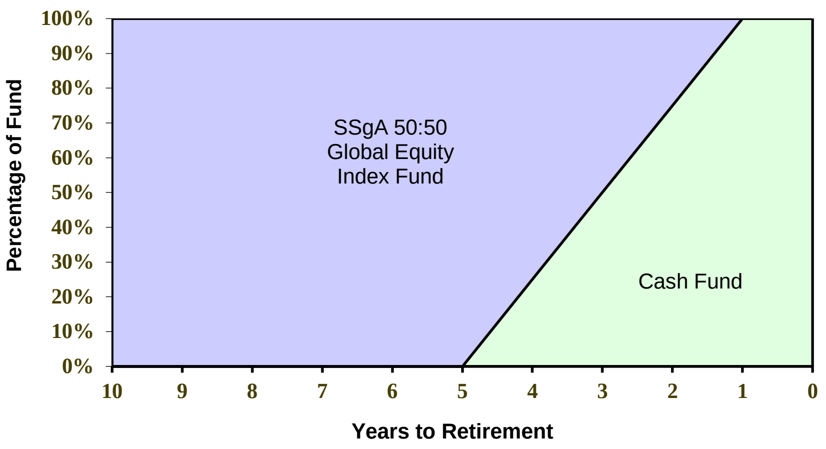
Members also invest in 'unapproved' funds, including a legacy lifestyle strategy. We have not reported on unapproved funds, as the Administering Authority does not formally approve or monitor them. We understand members are aware of this.

[11] Includes With Profits terminal bonus of £462,807 that would have been payable on transfer as at 31 March 2022

Lifestyle option

There is one approved lifestyle option available to members of the Scottish Widows arrangement. It is a bespoke strategy which invests in the SSgA 50:50 Global Equity Index Fund in the ‘growth phase’ lasting until 5 years before retirement. It then switches into the Cash Fund, so that 100% is invested in the Cash Fund one year prior to the member's selected retirement age.

The structure of this lifestyle option is illustrated in the chart below.



Fund performance

The table below shows the performance of the approved funds, in which members were invested over 1, 3 and 5 years to 31 March 2023. We have also shown whether funds are actively managed (A) or passively managed (P).

Fund performance reported is net of fees. For most funds, Scottish Widows reports performance against the ABI sector average, where available we have reported the benchmark returns in the table below, for funds that have a benchmark. Details of performance comparators are provided in Appendix 3. Relative performance may not sum due to rounding.

Fund	5 years % p.a.			3 years % p.a.			1 year %		
	Fund	Bmk	Rel	Fund	Bmk	Rel	Fund	Bmk	Rel
Equities									
BNY Mellon Global Equity (A)	9.9	10.2	**-0.3**	13.0	16.0	**-3.5**	-3.6	-0.9	**-2.7**
Invesco High Income[12] (A)	-2.8	2.7	**-5.5**	10.4	12.2	**-1.8**	0.3	-1.2	**1.5**
Environmental (A)	7.7	5.0	**2.7**	11.1	13.8	**-2.7**	2.9	2.9	**0.0**
SSgA International Equity Index (P)	10.3	11.1	**-0.8**	15.2	17.0	**-1.8**	-4.1	-1.0	**-3.1**
SSgA 50:50 Global Equity Index (P)	5.7	7.9	**-2.2**	12.9	13.8	**-0.9**	-0.3	-2.7	**2.4**
SSgA UK Equity Index (P)	3.9	5.0	**-1.1**	12.8	13.8	**-1.0**	1.3	2.9	**-1.6**
Property									
Property (A)	0.9	-0.2	**1.0**	0.4	-0.7	**1.0**	-19.4	-12.8	**-6.7**

[12] Scottish Widows previously announced its intention to close this Fund but we understand the closure has not yet taken place.

Multi-Asset									
Consensus[13] (A)	4.4	3.8	**0.6**	10.8	7.5	**3.3**	-2.0	-4.6	**2.6**
BNY Mellon Managed (A)	5.6	3.8	**1.8**	10.7	7.5	**3.2**	-0.7	-4.6	**3.9**
abrdn Global Absolute Return Strategies[14] (A)	-3.3	5.6	**-8.9**	-4.2	5.7	**-9.9**	-10.0	7.2	**-17.2**
Corporate Bonds& Gilts									
Pension Protector (A)	-4.5	-5.2	**0.7**	-9.6	-13.0	**3.4**	-24.0	-25.6	**1.7**
Corporate Bond (A)	-1.5	-0.9	**-0.6**	-3.9	-2.5	**-1.4**	-12.9	-10.1	**-2.8**
Indexed Stock (A)	-3.8	-3.2	**-0.6**	-9.3	-7.6	**-1.7**	-26.2	-26.7	**0.5**
Cash									
Cash[15] (A)	0.2	0.6	**-0.4**	0.3	0.7	**-0.4**	1.7	2.2	**-0.5**

Source: Financial Express Analytics

[13] We have reported this Fund as an actively managed fund to be consistent with previous reports, however although asset allocation decisions are active, asset allocation is achieved through passively managed funds.

[14] Abrdn closed this Fund in October 2023, but Scottish Widows has not confirmed where it redirected assets held.

[15] This Fund has no benchmark and is placed in the ABI unclassified sector, which makes sector comparisons meaningless, we have therefore shown SONIA as a performance comparator.

Fund performance and investment capability commentary

Scottish Widows funds

Scottish Widows' actively managed funds are now predominantly managed by Schroders. Aon's investment manager research team do not research any of the Scottish Widows funds members invest in, however they do 'Buy' rate a number of Schroders' actively managed strategies and as such we have no concerns over its active management capabilities in general.

The funds with a significant allocation to growth assets i.e., the Property, Consensus and Environmental funds, and the Indexed Stock fund provided a positive return over all periods reported above.

The **Environmental** Fund aims to out-perform the FTSE All Share by 3% p.a. before charges on a rolling 3-year basis. It invests predominantly (at least 80%) in UK shares but can also invest overseas, seeking to invest in companies supporting positive practices in energy transition, environmental infrastructure, circular economy and those with high standards in sustainable environmental practice. It met its investment objective over the 5-year period reported above but lagged the FTSE All Share over 3 years and was in line with the Index over 1 year. This is to be expected, given the performance of traditional energy stocks over these more recent periods.

The benchmark for the **Property** Fund is the MSCI UK Quarterly Property Index, however Scottish Widows does not publish benchmark returns, therefore the performance comparator shown above is the ABI UK Direct Property sector average. Absolute returns on this Fund were marginally positive and ahead of the sector average over 3 and 5 years. Over the year, the Fund suffered a loss of almost 20%, and under-performed the sector average by 6.7% as capital values depreciated and the higher interest rate environment slowed transaction activity. We also note that the Fund has a c36% allocation to industrial property, and this was the worst-performing sector over the year to 31 March 2023.

The **Consensus** Fund is made up of a number of BlackRock, abrdn and State Street passively managed funds, and our investment manager research team rate BlackRock and State Street highly as passive fund managers. We therefore have no concerns over the quality of the majority of underlying components of this Fund. It provided positive absolute returns over 3 and 5 years and was ahead of its sector average over all reported periods.

The **Pension Protector** Fund suffered a loss but it was ahead of its sector over all periods reported above. Its investment objective is to provide a return consistent with variations in market annuity rates, with the aim of reducing annuity conversion risk. Aon does not monitor the performance of this Fund against level annuity rate changes, as very few of our clients use it as a pre-retirement fund in annuity matching strategies however, returns on this Fund have been in line with those for other funds that we do monitor on this basis and as such we are reasonably comfortable that the Pension Protector Fund has protected the level annuity-buying power of assets over this period.

The **Corporate Bond** Fund suffered a loss and underperformed its sector average over all periods, reported above. However, losses were less than those suffered by gilt funds.

The **Indexed Stock** Fund suffered a loss over all periods reported above, as a result of difficult market conditions. It lagged its benchmark index over 3 and 5 years but was slightly ahead over one year.

The **Cash** Fund has no benchmark and is placed in the unclassified sector therefore we have reported performance compared to SONIA. On this basis, returns are in line with short-term interest rates before charges.

Externally managed funds:

Our investment manager research team does not research any of the external actively managed funds offered through the Scottish Widows arrangement however they do 'Buy' rate a number of BNY Mellon actively managed strategies and as such we have no concerns over its active management capabilities in general.

The **BNY Mellon (formerly Newton) Global Equity** Fund under-performed its MSCI All-World Index over all periods reported above, but absolute returns were broadly in line with the global equity sector average.

The **BNY Mellon (formerly Newton) Managed** Fund out-performed its sector average over all periods reported above periods. This Fund achieved a positive return over 3 and 5 years, though it suffered a slight loss over the year.

The **Invesco High Income** Fund out-performed the ABI UK All Companies sector average over the year to 31 March 2023, after a number of years of under-performance, as income stocks tend to do better in difficult market conditions. Longer-term returns are still significantly behind the sector average. Scottish Widows has announced its intention to close this Fund but as far as we can ascertain, has not yet confirmed the closure date or the replacement fund. Although we have previously recommended this Fund be replaced with a less specialised active UK equity fund, if the Administering Authority has not actioned this recommendation, we recommend this Fund is retained at the current time and that the Administering Authority considers the suitability of the replacement fund suggested by Scottish Widows when this is confirmed.

The **abrdn Global Absolute Return Strategies** Fund has continued to significantly under-perform its cash-plus performance target over periods reported here. On 28 September 2023, an extraordinary general meeting was held for the abrdn Global Absolute Return Strategies Fund, during which a vote was held on the extraordinary resolution to merge the Fund into the abrdn Diversified Growth & Income Fund. Following a 75% majority vote, the merger became effective on 1 December 2023. Scottish Widows has yet to communicate their plan regarding how to move forward, however we expect they will suggest an alternative fund option. We recommend the Administering Authority considers the suitability of the replacement fund suggested by Scottish Widows when this is confirmed.

Our investment manager research team rates State Street's passive fund management capabilities highly and therefore we have no concerns over the quality of the underlying State Street funds. State Street has updated its passive funds to incorporate ESG-screening but we have been unable to ascertain the level of screening which applies to the funds Scottish Widows offers access to.

Although the Scottish Widows SSgA International Equity Index Fund did not track its benchmark index, the underlying SSgA Fund did and we therefore believe the apparent tracking difference is due to differences in the time of day the Fund is priced, relative to the index and the pricing basis of the Scottish Widows Fund. Over the longer-term, we are comfortable that members invested in this Fund will achieve returns in line with the benchmark index before charges.

The Scottish Widows SSgA 50:50 Global Equity Index Fund is a fund of funds made up of a portfolio of SSgA regional equity funds. Scottish Widows' factsheet states the fund is invested 50% in the UK and 50% overseas, split equally between the US, Europe and the Far East, but it does not publish any benchmark index performance. Returns on this Fund have lagged those of the ABI global equity sector average over 3 and 5 years, but were ahead over 1 year. This relative performance is likely to be explained by the Fund's over-weight allocation to UK equities, rather than any issues with quality.

The SW SSgA UK Equity Index lagged the FTSE All Share Index by between 1.0 and 1.6% p.a. over periods reported above. The underlying fund

We regard the tracking error of the **SSgA Funds** to be within an acceptable margin before charges over the periods reported above, taking account of the fact that the Scottish Widows funds may be priced at a different time of day to the benchmark, and returns reported incorporate swings in the pricing basis of the fund.

Summary

Our investment manager research team rate BlackRock and SSgAs capabilities as passive fund managers highly. They do not research any of the Scottish Widows funds members invest in but we have no major concerns over the investment capabilities of the underlying managers.

Our past performance analysis reported here has raised concerns only over the quality of the abrdn Global Absolute Return Strategies Fund, but this Fund has since been merged into the abrdn Diversified Growth & Income Fund.

Suitability of investment options

All funds are invested in regulated markets, are dealt daily and, with the exception of the Property Fund, are liquid.

The range of funds offered through the Scottish Widows arrangement provides access to the main asset classes (including property), both active and passively managed funds, an environmental fund and a lifestyle strategy. We therefore believe the investment options are capable of satisfying most members' investment objectives, however the member investment guide is not available via the Scottish Widows WYPF website therefore it would be difficult for members to consider their investment options.

The approved fund range does not currently include a Shariah fund. Scottish Widows does have a Shariah fund available (the Specialist Global Equity Fund). The Administering Authority could consider adding this Fund to the approved fund range, but we do not believe there is a need to do this as the Prudential arrangement offers access to a Shariah Fund.

The lifestyle strategy aligns relatively well with our view that members should invest in growth assets, such as equities, in the early stages as these assets are expected to provide capital growth over the long term, and members are able to withstand the increased volatility associated with such investments, as their fund has time to recover before they take benefits. We also believe that the asset allocation of the bespoke lifestyle strategy at selected retirement age targets the format in which members are most likely to take these benefits and is therefore appropriate. However, the strategy has a fixed over-weight allocation (relative to market capitalisation) to UK equities in the growth phase. We believe this represents concentration risk and it has acted as a drag on performance at times in the past. We therefore favour a more global approach to provide greater diversification and better long-term capital growth potential. We have therefore previously recommended that the Administering Authority considers replacing the SSgA 50:50 Global Equity Index Fund within the bespoke lifestyle strategy.

Scottish Widows does not offer a passively managed global equity fund without fixed geographic weightings. So, although one solution would be to use both the SSgA International and UK Index Funds in the growth phase (if Scottish Widows was prepared to re-balance funds regularly), we believe a more pragmatic approach would be to consider a Scottish Widows 'off the shelf' lifestyle strategy, such as the Adventurous Pension Investment Approach targeting lump sum. Use of this lifestyle strategy would also address our previous recommendation to introduce a transition phase to increase asset diversification as retirement approaches.

Summary

We believe that the investment options are likely to be capable of satisfying members' investment objectives but we would prefer a less specialist active UK equity fund and we believe that there is scope to improve the lifestyle option, or to replace it with an off the shelf lifestyle strategy.

Provider financial strength

Scottish Widows' reported a solvency coverage ratio of 175% as at 31 December 2022.

AKG upgraded Scottish Widows' overall financial strength to A (superior) in August 2021, recognising that Scottish Widows Ltd represents the UK long term life insurance business of Lloyds Banking Group plc and is the key provider of life assurance and pensions in the Group. Furthermore, the purchase of the Zurich's workplace business is demonstrative of a growth and development focus in key customer areas. Solvency coverage remained good throughout the COVID-19 pandemic.

The rating from AKG is the highest rating available and, as such, we have no concerns over Scottish Widow's financial strength.

Summary

We have no concerns over Scottish Widow's financial strength.

Charges

The AVC arrangement benefits from a discount of 0.40% p.a. on Scottish Widows' standard total annual fund charge ('TAFC'). The TAFC is the sum of:

1. the Scottish Widows Annual Management Charge,
2. the External Fund Management Charge, if applicable
3. the Multi-Manager Fund Management Charge, if applicable, and
4. an allowance for any Other Expenses, if applicable.

The TAFC on approved funds, including the 0.4% discount, are set out in the table below:

Fund name	TAFC with discount (%)
BNY Mellon Global Equity	0.93
Invesco High Income	1.52
Property	1.188
Consensus	0.60
BNY Mellon Managed	0.787
abrdn Global Absolute Return Strategies	1.449
Environmental	0.60
Pension Protector	0.60
Corporate Bond	0.60
Indexed Stock	0.60
Cash	0.60
SSgA International Equity Index	0.604
SSgA 50:50 Global Equity Index	0.60
SSgA UK Equity Index	0.60

Source: Scottish Widows

The basic level of charges on the Scottish Widows AVC arrangement is higher than current market rates for non-LGPS arrangements, but slightly lower than the charges on the Fund's arrangement with Prudential. As such, we consider the level of charges paid by members of this arrangement to be reasonable.

Some externally managed funds are subject to much higher charges and we consider it unlikely they provide value for members.

Summary

Charges for internal / passive funds are slightly lower than those on the Prudential arrangement and we consider them reasonable, given the complexity of LGPS arrangements and the additional tasks carried out by Scottish Widows. Charges on some externally managed funds are high.

Administration capability

We have generally found Scottish Widows to be slow and inflexible when responding to information requests relating to the Fund's AVC arrangement.

Service has been particularly poor since Scottish Widows migrated the administration of older policies (including the Fund's AVC arrangements) to Diligenta in August 2022. We understand Scottish Widows has been unable to confirm to the Administering Authority when year-end data will be available as it is still working to correct member records, despite initial assurance this work would be complete by 31 December 2022. We believe there is a significant risk that payments made to members will be delayed or incorrect whilst this work is ongoing. We have been unable to obtain any data from Scottish Widows for this review, despite our request being made over five weeks ago, and our regular follow up calls to Scottish Widows to escalate matters.

The volume of complaints to Scottish Widows has been reported in the financial press and earlier this year, Scottish Widows' Independent Governance Committee reported that "*while the quality of administrative services had been improving prior to 2022, a higher volume of telephone calls and increases in demand affected customers' experience towards the end of the year, as a result of the migration / outsourcing of policies to the Diligenta platform. Service standard targets were not met over 2022 and service levels varied greatly between products. Scottish Widows has increased recruitment and training in early 2023 and introduced a Web Chat service to aid in customer assistance. There is still room for improvement in the quality of service available.*"

We recommend the Administering Authority continues to monitor the situation. If service standards do not improve, consideration could be given to closing the Scottish Widows arrangement to new members, to reduce the risk of members (and the Administering Authority) receiving poor standards of service however this would remove any choice of provider for members wishing to start paying AVCs, unless an alternative was put in place.

Summary

Service has been particularly poor since administration was migrated to Diligenta.

We believe there is a significant risk that payments made to members will be delayed or incorrect whilst this work is ongoing.

Communications and reporting

Scottish Widows has invested heavily in its member website in recent years, and one of the key reasons given for migrating legacy policies to the Diligenta platform is improvement in members' digital experience.

Scottish Widows provides a microsite for the Fund, which is accessible via the WYPT microsite, or via an internet search engine. In our opinion, communication materials available through the microsite are of reasonably good quality and where provided, relevant information is set out in a clear manner but it is not particularly well tailored to LGPS, or occupational pension schemes in general. Furthermore, the microsite is not well maintained by Scottish Widows and we believe this represents a risk that members will receive the incorrect or insufficient information to be able to make decisions about their AVC funds. We generally consider the quality of Scottish Widows' reporting to be behind peers.

We consider it poor governance practice that Scottish Widows does not specify a benchmark for the SSgA 50:50 Global Equity Index Fund and that it has not updated the names of the externally managed funds (from Newton to BNY Mellon and from ASI to abrdn) as this can make it difficult for members to find further information about the underlying funds. Communication regarding fund closures has also been poor, with Scottish Widows announcing its intention to close funds but not providing any follow up information.

Historically, Scottish Widows has provided governance reports for LGPS AVC arrangements on a quarterly basis. However, these were very basic in terms of the management information provided and lacked structure. As last year, we have been unable to obtain copies of any recent governance reports and Scottish Widows has not confirmed whether no longer provides governance reports, or if production has been temporarily impacted by the platform migration.

Summary

We regard the quality of communications and reporting by Scottish Widows to be very poor at the current time.

Overall conclusion

At the current time, we do not consider the Scottish Widows arrangement to be fit for purpose.

We have no concerns regarding financial strength, core fund charges, or the range of funds offered to members.

We do have concerns over ongoing service issues that have been exacerbated by the migration to Diligenta, (although Scottish Widows was very slow to respond and update documentation prior to this event). We also have concerns over the quality of governance (keeping the microsite up to date and the quality of investment information available to members).

We recommend the Administering Authority either sets a deadline by which Scottish Widows must resolve ongoing issues, or considers replacing Scottish Widows as an AVC provider (please refer to Appendix 1 for further information on likely options).

Utmost

The former Equitable Life AVC arrangement (policy reference E0364) was transferred to Utmost Life and Pensions on 1 January 2020.

Membership, contributions and fund values

Utmost uses a reporting date of 5 April therefore, the table below provides a summary of the arrangement as at 5 April 2023, compared to 5 April 2022.

	5 April 2023	5 April 2022
Members with AVCs	307	334
Assets under management	£1,657,351	£1,980,415
Contributions	£27,706	£14,783
Claims	£230,964	£209,065

- Assets under management have decreased by c.16% over the year and the number of members with an AVC fund has fallen by 8%.
- Contributions paid during the year ending 5 April 2023 were 87% higher than those paid during the previous year.
- Contributions reporting for the year ending 5 April 2023 include £1,119 life assurance premium for 18 members, compared to £1,138 for 19 members the previous year.
- Claims were broadly consistent to those paid the previous year.

AVC fund range

Utmost offers 13 unit-linked funds and members of the Fund invest in 11 of these.

The table on the next page confirms the value invested in each fund, as at 6April 2023 (the financial summary report provided by Utmost does not report the number of members invested in each fund).

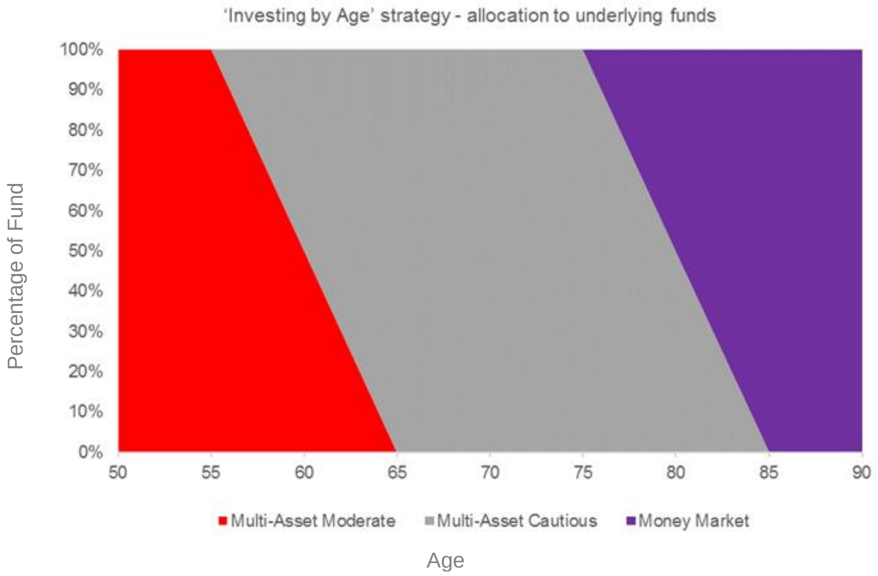
Asset class	Fund name	Fund value
Equities	Global Equity	£58,105
	UK Equity	£13,104
	US Equity	£2,758
	UK FTSE All Share Index Tracking	£1,888
Multi-Asset	Multi-Asset Moderate (IbAS)	£936,777
	Multi-Asset Cautious (IbAS)	£565,658
	Managed	£11,846
	Multi-Asset Cautious (self-select)	£9,178
	Multi-Asset Moderate (self-select)	£6,438
	Multi-Asset Growth	£5,754
Corporate Bond	Sterling Corporate Bond	£736
Gilts	UK Government Bond	£10,944
Cash	Money Market (self-select)	£6,308
	Money Market (IbAS)	£189
	Total	**£1,629,682**

Source: Utmost. Totals may not sum due to rounding.

Investing by Age Strategy

The ‘Investing by Age’ Strategy was the ‘default’ strategy proposed by Equitable Life for funds transferred from the With Profits Fund when it closed.

The structure of this Strategy is illustrated in the chart below.



Source: Aon, based upon information from Utmost

As at 6 April 2023, 92% of the assets held with Utmost were invested in this Strategy.

Fund performance

The table below shows the performance of the unit-linked funds in which members were invested over 1, 3 and 5 years to 31 March 2023. Fund performance reported is net of fees against the ABI sector average return (with the exception of the UK FTSE All Share Tracker which is reported against the FTSE All Share Index), relative performance may not sum due to rounding. The new Utmost funds have been available since 1 January 2020; therefore, five-year performance is not yet available. We have also shown whether funds are actively managed (A) or passively managed (P).

Fund	5 years % p.a.			3 years % p.a.			1 year %		
	Fund	Bmk	Rel	Fund	Bmk	Rel	Fund	Bmk	Rel
Equities									
Global Equity (A)	9.6	7.9	**1.8**	15.7	13.8	**2.0**	-2.0	-2.7	**0.7**
US Equity (A)	12.4	11.5	**0.9**	16.5	15.7	**0.9**	-5.9	-6.8	**0.8**
UK Equity (A)	3.8	2.7	**1.1**	13.6	12.2	**1.5**	1.5	-1.2	**2.7**
UK FTSE All Share Tracker (P)	4.5	5.0	**-0.6**	13.6	13.8	**-0.2**	1.9	2.9	**-1.0**
Multi-Asset									
Multi-Asset Growth (A)				8.9	10.3	**-1.5**	-4.8	-3.8	**-1.1**
Multi-Asset Moderate (A)				6.2	7.5	**-1.3**	-5.9	-4.6	**-1.3**
Managed (A)	4.0	3.8	**0.2**	9.3	7.5	**1.8**	-1.9	-4.6	**2.7**
Multi-Asset Cautious (A)				0.9	0.5	**0.4**	-7.8	-6.9	**-0.9**
Corporate Bonds									
Sterling Corporate Bond (A)				-3.1	-2.5	**-0.7**	-10.4	-10.4	**0.0**

Gilts									
UK Government Bond (A)	-3.3	-4.0	**0.6**	-9.6	-10.2	**0.6**	-16.5	-17.2	**0.6**
Cash									
Money Market (A)	0.3	0.2	**0.2**	0.4	0.2	**0.2**	1.8	1.3	**0.5**

Source: Financial Express Analytics

Fund performance and investment capability commentary

The predominant underlying fund manager of the former Equitable Life funds is abrdn, whilst the new Utmost funds are managed by JP Morgan Asset Management.

Aon's investment manager research team do not research any of the funds members invest in, neither do they 'buy' rate any strategies offered by the underlying managers as they are not regarded as 'best of breed' in any particular asset class, however we have no major concerns with respect to the overall investment capabilities of the underlying managers.

The actively managed **Global, US and UK Equity** funds out-performed their sector average over all periods reported above. The Performance of the majority of funds, relative to the ABI sector average reported here, has been strong over the year. The **UK FTSE All Share Tracker** Fund tracked its benchmark index within an acceptable margin before charges over periods reported here.

The relative performance of the new multi-asset funds has been mediocre, with the **Multi-Asset Growth** and **Moderate** funds under-performing their sector average over 1 and 3 years, and the **Multi-Asset Cautious** Funds under-performing over the year, though it was marginally ahead over 3 years. Returns for the Multi-Asset Moderate Fund over the 3-year period were in line with those assumed by Equitable Life in its 'fairness' projections and we believe over the longer term both the Multi-Asset Moderate and Cautious Funds have the potential to achieve the returns required to ensure members would not be worse off as a result of the closure of the With Profits Fund.

The **Managed** Fund out-performed its sector average over all periods reported above.

The **Sterling Corporate Bond** was slightly behind its sector average over 3 years but performed in line with the sector over the year. Since launch on 1 January 2020 until 31 March 2023, this Fund has experienced a loss of 12.5% however this has been due to market conditions rather than the quality of the fund.

The **UK Government Bond** Fund has out-performed its sector average over all periods reported above, though it has experienced a loss over all periods reported above due to market conditions.

The **Money Market** Fund out-performed its sector average and provided a positive return after charges over all periods reported above, with returns reaching 1.8% over the year to 31 March 2023, as a result of rising interest rates.

Suitability of investment options

All funds are invested in regulated markets, are dealt daily and are liquid.

The investment options offered through the Utmost arrangement provide access to the main liquid asset classes, and the Investing by Age Strategy.

The Investing by Age Strategy automatically reduces investment risk as members get older however it has some limitations:

- Asset allocation is determined by age attained rather than term to selected retirement age and
- It provides no flexibility for members to choose the age at which their fund is de-risked.

The strategy retains a multi-asset approach until members are age 75 and is therefore best suited to members who access their funds by flexi-access drawdown. We believe the Fund's members are more likely to access their AVC funds as cash at the same time they access their main scheme pension. This means that the at-retirement asset allocation of this Strategy is not well-aligned to how members are expected to access funds, however there is no alternative strategy available.

From a member point of view, the key investment objective of the multi-asset funds underlying the Investing by Age strategy is to provide sufficient returns to ensure members are not worse off at retirement than if they had remained invested in the With Profits Fund. Although the performance history is too short to draw any meaningful conclusions over the quality of these funds, we believe the asset allocation of these funds remains capable of achieving the returns required to meet the investment objective over the longer term.

Members have access to only one passively managed fund, the UK FTSE All Share Tracker, and there is no ESG, Shariah or Property Fund.

The range of funds available may not be able to satisfy the needs of all members, and the Investing by Age Strategy is not ideally suited to an AVC arrangement however we believe the investment options are adequate considering the closed nature of this arrangement.

Provider financial strength

AKG rates Utmost's financial strength as B (strong).

Utmost Group reported a Solvency II Coverage Ratio of 191% as at 31 December 2022 (177% as at 31 December 2021).

We have no concerns over provider financial strength.

Charges

The charging structure for this arrangement remains unchanged from that of the Equitable Life policy. Charges are not scheme-specific and so there is no scope for the Administering Authority to negotiate lower charges.

The TER is capped at the annual management charge ('AMC') so Utmost absorbs any additional expenses.

The AMC for each fund is shown in the table below:

Fund name	AMC (%)
Global Equity	0.75
US Equity	0.75
UK Equity	0.75
UK FTSE All Share Index Tracking	0.50
Multi-Asset Growth	0.75
Multi-Asset Moderate	0.75
Managed	0.75
Multi-Asset Cautious	0.75
Sterling Corporate Bond	0.75
UK Government Bond	0.50
Money Market	0.50

Source: Utmost Life and Pensions

In our experience, charges are higher than current market rates, but in line with the legacy arrangements of other providers.

Administration capability

The administration team is relatively small and members are experienced and knowledgeable.

Target service standards are 5 to 10 working days for most tasks. Utmost has confirmed that it met all target service standards over 2022. This reflects our experience, which is that Utmost operates well within these standards, and service has been good, taking account of the challenges of operating an older platform.

Communications and reporting

Utmost provides a standard offering across all schemes, it's communications and reporting is not tailored to the scheme, whether that be LGPS or any other occupational scheme. Reporting governing bodies of schemes is limited to the annual summary financial statement which provides the information required for the Report & Accounts.

The Utmost website includes a lot of useful information and is, in our opinion, well set out and 'user friendly'. Online access to policy information is not available to AVC members, but it has recently been introduced for personal pension policyholders, and we understand it may be offered to members of group schemes at some point in future.

Overall conclusion

Reporting to the Administering Authority is relatively basic but standards of service are generally good and charges are in line with other legacy arrangements.

The investment options are rather limited but relative performance of most funds has been strong over periods reported here and we have not identified any under-performance that requires action at the current time.

In summary, this review has identified no major concerns over the suitability of Utmost as a legacy AVC provider to the Fund and we recommend the arrangement is maintained.

Appendix 1 – LGPS AVC providers

National LGPS Framework for AVCs

We understand that the intention is to introduce a framework for LGPS AVC providers, and advisers in the very near future.

The plan is also to include a framework for companies that support employers with providing shared cost AVCs for their employees (e.g. AVCWise) however at this stage, it's not clear if this will be a separate framework or a separate lot on the same framework.

Legal & General LGPS AVC Proposition

Legal & General has now formally entered the LGPS AVC market and is running arrangements for three Funds and having discussions with a number of others. A summary of Legal & General's offering can be found here

Legal & General is pricing each potential LGPS arrangement individually and is keen to fully understand how each Fund is operated before considering whether its proposition is right for the Fund in question, so it may not offer terms for all Funds.

We believe Legal & General has numerous strengths that makes its proposition attractive including its range of ESG funds, its in-house administration platform, market share of (DB and DC) pension assets and strong commitment to UK DC pensions.

Given the size of the Fund's arrangements, we believe Legal & General may be interested in providing terms for these arrangements and we recommend the Administering Authority considers at least an initial conversation with Legal & General, or progresses discussions with alternative providers as soon as the National framework comes into effect.

Appendix 2 – regulatory update

McCloud Remedy

The McCloud Remedy will remove the age discrimination that resulted from older members receiving transitional protection when the LGPS changes from final salary to career average. It covers the period from 1 April 2014 to 31 March 2022 and became effective on 1 October 2023.

Mansion House Speech

In his 10 July speech, the Chancellor included a significant section on pensions outlining several separate initiatives with the aim of seeking to ensure the best possible outcomes for pension savers, prioritising a strong and diversified gilt market and strengthening the UK's competitive position as a leading financial centre. Following the speech, several consultations and calls for evidence commenced and the outcomes of some long-standing consultations were published – further developments are expected in the run-up to the autumn statement.

To 'lead by example' the Chancellor said the government will consult on accelerating the consolidation of LGPS assets and doubling the LGPS allocations in private equity (to 10%) and invite views on setting a direction that each asset pool should exceed £50 billion of assets. This consultation has a deadline of 2 October (rather than the common deadline of 5 September for the other consultations).

Pensions dashboards

The government has announced that additional time is needed to deliver pensions dashboards. It says that the framework remains fit for purpose and dashboards are still going ahead. The only thing that is going to change is the connection deadlines. This means that the current staging timeline needs to be revised - we understand that all schemes' connection deadlines will be delayed.

The DWP will legislate at the earliest opportunity to amend the connection deadlines in its pensions dashboard regulations to 31 October 2026. In due course, the Financial Conduct Authority will make a corresponding change to the deadlines in its dashboard rules for providers.

The Pensions Dashboards Programme has published answers to some FAQs, including on the cause of the delay, and what providers and schemes can be doing to prepare in the meantime. The Pensions Regulator has updated its initial pensions dashboard guidance and revised its checklist to help schemes continue with their preparations.

Spring Budget pension changes

The Spring Budget included significant changes to pensions taxation - the annual allowance has increased from £40,000 to £60,000 and the lifetime allowance is to be abolished. An ITG note has been produced. Measures to implement these announcements are included in the Finance (No. 2) Bill.

It has been widely reported that the Labour Party has committed to overturning the government's changes if it wins power at the next general election.

Changes to Statutory Money Purchase Illustrations

Following consultation, the Financial Reporting Council has released version 5.0 of Technical Memorandum 1 that will apply for any Statutory Money Purchase Illustrations issued from 1 October 2023. TM1 will also apply to projections of DC pots and estimated retirement income shown on pensions dashboards.

The changes include standardising the accumulation rate assumptions and the form of annuitisation. Fund accumulation rate assumptions are to be determined by volatility groupings rather than using the expected returns from asset classes as set by the provider/adviser. The rationale for the change is to ensure consistency in the way illustrations are determined by different providers/advisers and between different types of pension schemes. The changes are significant and are likely to lead to results for some members that are very different from those calculated under the current AS TM1 version.

Review of State Pension Age

In March the DWP published the outcome of the government's second review of SPA. The government's 2017 review proposed that the rise in SPA from 67 to 68 should be brought forward to 2037-2039. However, it has decided to make no changes at this time. A further review to reconsider the rise to age 68 will take place within two years of the next Parliament.

Helping DC investment in illiquid assets

The Financial Conduct Authority has given regulatory approval for Schroders to launch the UK's first Long-term Asset Fund (LTAF) - open-ended investment vehicles designed to help pension funds to invest in private equity and other illiquid assets. Aon's paper 'illiquid investments – background and developments has more on the LTAF regime, if this is of interest.

Appendix 3 – fund performance comparators

Fund	Performance comparator reported
Prudential	
Prudential Dynamic Global Equity Passive	Internal composite benchmark
Prudential International Equity	Internal composite benchmark
BlackRock Aquila World ex.UK Index	FTSE All-World Developed ex-UK Index
HSBC Islamic Global Equity Index	Dow Jones Islamic Titans 100 Index
LGIM Ethical Global Equity Index	FTSE4Good Global Equity Index
Prudential Positive Impact	MSCI ACWI Index
Prudential UK Equity	FTSE All Share
BlackRock Aquila UK Equity Index	FTSE All Share
BlackRock Aquila Emerging Markets Equity	MSCI Global Emerging Markets Index
BlackRock Aquila Consensus	Composite benchmark
Prudential Dynamic Growth IV	Internal composite benchmark
Prudential Dynamic Growth II	Internal composite benchmark
Prudential Dynamic Growth I	Internal composite benchmark
BlackRock Aquila All Stocks Corporate Bond Index	iBoxx Sterling Non-Gilts Index
Prudential Index Linked Passive	iBoxx UK Gilt Inflation-Linked Over 5 Year Index
BlackRock Aquila Over 15 Years UK Gilt Index	FTSE Actuaries UK Conventional Gilts Over 15 Years Index
Prudential Cash	SONIA
Prudential Deposit	Bank of England base rate
Scottish Widows	
BNY Mellon Global Equity	MSCI ACWI Index
Invesco High Income	ABI UK All Companies sector average
Property	ABI UK Direct Property sector average
Consensus	ABI Mixed Investments 40-85% Shares sector average
BNY Mellon Managed	ABI Mixed Investments 40-85% Shares sector average
abrdn Global Absolute Return Strategies	SONIA plus 5%
Environmental	FTSE All Share Index
Pension Protector	ABI Sterling Long Bond sector average
Corporate Bond	ABI Sterling Corporate Bond sector average
Indexed Stock	FTSE Actuaries UK Index Linked All Stocks Index
Cash	SONIA
SSgA International Equity Index	FTSE World ex UK
SSgA 50:50 Global Equity Index	ABI global equities sector average
SSgA UK Equity Index	FTSE All Share*

Source: Providers and Financial Express

*underlying fund benchmark is FTSE All-Share ex Controversies ex CW Index

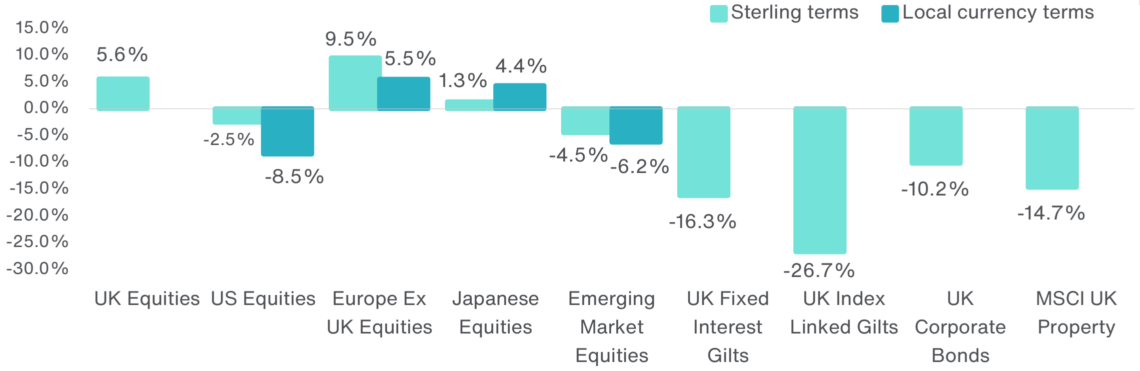
Fund	Performance comparator reported
Utmost	
Global Equity	ABI Global Equities sector average
UK Equity	ABI UK All Companies sector average
US Equity	ABI North America Equities sector average
UK FTSE All Share Tracker	FTSE All Share Index
Managed	ABI Mixed Investments 40-85% Shares sector average
Multi-Asset Moderate	ABI Mixed Investments 40-85% Shares sector average
Multi-Asset Cautious	ABI Mixed Investments 0-35% Shares sector average
Money Market	ABI Money Market sector average

Source: Providers and Financial Express

Appendix 4 – Aon market commentary

Index Returns

1-Year index returns to 31 March 2023.



Source: FactSet, MSCI (Equities, Property), iBoxx (Corporate Bonds), FTSE (Gilts)

Global equities generated negative returns over the last twelve months, suffering a sharp sell-off over the first six months, as geopolitical risk continued to take centre stage with Russia's ongoing invasion of Ukraine and central banks sharply tightening monetary policy in response to elevated inflationary pressures. However, equity markets recouped more than half of the losses over the last six months of the year as markets felt confident that a deep recession would be avoided, and investor concerns on tighter monetary policy abated.

Geopolitical tension remained elevated. In June 2022, the European Union (EU) agreed to implement the sixth package of sanctions on Russia. The package includes removing Sberbank, Russia's largest bank, from the SWIFT cross-border payment system and a ban on sea-borne oil purchases from Russia, which is almost two-thirds of Europe's imports from Russia. In September 2022, the Russia-Ukraine conflict escalated after Moscow announced the annexation of four regions in south-eastern Ukraine - Donetsk, Luhansk, Kherson, and Zaporizhzhia. President Vladimir Putin vowed to use "all the means" to defend the annexed territories. The European Union (EU) decided to implement a price cap on seaborne Russian oil while the US imposed sanctions on the governor of Russia's central bank. The US unveiled its plans to impose fresh sanctions on more than 200 entities throughout Europe, Asia, and the Middle East "that are supporting Russia's war effort" in February 2023. Russian President Vladimir Putin announced on 21 February 2023 that Russia would suspend its nuclear weapons treaty with the US and also unveiled its plans to deploy tactical nuclear weapons in Belarus by July in March 2023. Russia cut oil production by 500,000 barrels a day in response to a price cap imposed by Western nations. Elsewhere, the US imposed a ban on five Chinese entities from acquiring US technology and put 28 Chinese groups allegedly in breach of US sanctions on a trade blacklist. In a series of coordinated actions following a G7 meeting in February 2023, the UK also announced sanctions on selected Chinese entities, whilst the EU and Japan finalised similar trade bans. US-China trade tensions saw further escalation as Japan and the Netherlands entered into a trilateral agreement with the US that restricts exports of chip manufacturing tools to China. The agreement is designed to hinder the Chinese military's ability to develop advanced weapons.

On a global sector level, Energy (11.0%) was the only sector to generate a positive return in local currency terms. Real Estate (-17.8%) was the worst-performing sector, followed by Communication Services (-14.2%) and Consumer Discretionary (-10.5%).

US equities were the worst performer over the year, falling 8.5% in local currency terms. Equities sold off sharply in 2022 as elevated inflation and expectations for higher interest rates weighed on the region, leading to the underperformance of sectors such as Information Technology and Consumer Discretionary. Following SVB's collapse in March 2023, investors shrugged off short-lived concerns over the banking sector and priced in a quicker end to the sharpest tightening cycle in recent memory. For a major part of last year, the US dollar exhibited strength due to its status as a safe haven, improving returns in sterling terms.

UK equities were the best-performing equity market over the year, rising 5.6%. Performance was supported the heavy-weighted energy sector as fears over the supply of energy grew as a result of the conflict in Ukraine. The energy sector was the best performer with a return of 22.5%. Economically sensitive sectors outperformed, with the industrials and consumer discretionary sectors returning 9.8% and 9.0% respectively.

Emerging markets (EM) were the second worst-performing market in local currency terms over the last twelve months, falling 6.2%. Increases in interest rates by major central banks and a strong dollar resulted in EM returns lagging other markets. Brazilian (-12.8%) and South Korean (-7.6%) equities underperformed while Chinese (-3.1%) and Indian (-4.2%) equities were among the best performers. Brazil experienced anti-government riots amidst softening economic data whilst Indian markets is the midst of allegations of share price manipulation and fraud at a major conglomerate in the country.

The UK gilt curve rose across all maturities over the year as inflationary concerns drove yields higher. In September 2022, the BoE temporarily announced an emergency £65bn bond-buying programme to stabilise the government debt market after an unexpected expansionary fiscal package was announced. The package increased investor concern over the sustainability of public finances, resulting in a considerable spike in yields. The sharpness of the sell-off was exacerbated by the forced unwinding of LDI positions, as UK pension schemes worked to provide collateral to LDI managers following sharp yield increases. However, in the fourth quarter, yields fell back across the curve following a government U-turn on fiscal policy and Liz Truss' resignation as prime minister.

Later, in Q1 2023, the UK nominal gilt curve fell across all maturities except for the shortest end of the curve, as markets priced in additional rate increases in the immediate future but a lower terminal rate thereafter. Overall, according to FTSE All-Stocks indices, UK fixed-interest gilts fell by 16.3% and index-linked gilts fell by 26.7% over the last twelve months.

Credit markets declined over the past twelve months. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, widened by 37bps to 167bps. The index declined 10.2% as rising gilt yields and widening spreads outweighed the income yield.

Sterling ended the twelve months 2.6% lower on a trade-weighted basis.

Over the last year, the BoE raised its benchmark interest rate cumulatively by 350bps to 4.25%. The BoE noted that the need for further monetary policy tightening would depend on future evidence concerning the persistence of price pressures. Meanwhile, the BoE became the first major central bank to actively start to unwind quantitative easing as it sold £750mn of government bonds in November 2022. The US Federal Reserve (Fed) increased its benchmark interest rate by 450bps to a range of 4.75%-5%, the highest level since 2007. In Q1 2023, the Federal Open Market Committee (FOMC) dropped its previous warning that "ongoing increases" would be needed to bring soaring inflation under control, instead noting that "some additional policy firming may be appropriate". The European Central Bank (ECB) raised its deposit rates by 350bps to 3.0% over the year, its highest level in 14 years. The ECB announced plans to start shrinking the €5tn of bonds it purchased over the last eight years from March 2023.

The MSCI UK property index returned -14.7% over the year as capital values depreciated, following sharply higher capitalisation rates over the last year. The income return was 5.0% but the 18.8% decrease in capital values weighed over. The retail, office, and industrials sectors fell 7.8%, 13.2%, and 21.2% respectively.

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Appendix 5 – AKG ratings

AKG's objective is to provide a simple broad-brush indication of the general financial strength of a company.

In addition to an assessment of the company's ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders' expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company's ability to survive in its current form for the long term.

The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company's particular strengths and weaknesses in respect of its key product areas.

The rating considers those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital base and free asset position, With Profits realistic balance sheet position, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, image and strategy.

A	**Superior**
B+	**Very strong**
B	**Strong**
B-	**Satisfactory**
C	**Weak**
D	**Very Weak**

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