

AVC Monitoring Report

Clwyd Pension Fund

November 2024

The report is not for publication as it contains exempt information relating to the financial or business affairs of a particular person as defined in paragraph 3 of Schedule 12A of the Local Government Act 1972 and publication is not in the public interest.

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AVC Valuation



Overview – Valuation

AVC Provider	2024 Asset Value	2023 Asset Values	Unit-linked / With profits	Guarantees applying	2024 Number of Members ²	2023 Number of Members ³
Utmost	£284,200	£282,002	Unit-linked	No guarantees applied	40 Unit-linked	43 Unit-linked
Prudential ¹	7,314,786	£6,332,493	Unit-linked (c.61%) With-profits (c.39%)	With profits guaranteed bonuses depending on date purchased	432 Unit-linked 296 With-profits	375 Unit-linked 290 With-profits
Overall Total	£7,598,986	£6,614,495				

Source: Prudential, Utmost.

Note: Utmost 2024 values as at July 2024. Utmost 2023 values as at November 2023. Prudential 2024 values as at June 2024. Prudential 2023 values as at March 2023.

- 1) The asset value includes Terminal Bonus (2023 c. £739,691 and 2024 c.£736,993) applied for the With Profit funds. This bonus, which is only applied at the time benefits become payable, is not guaranteed. The asset value also accounts for any Market Value Reduction (MVR).
- 2) Member splits: Utmost data as at July 2024. Prudential data as at June 2024.
- 3) Member splits: Utmost data as at November 2023. Prudential data as at March 2023.

Performance and charges



Prudential – Fund Performance

Prudential have confirmed that the following unit linked funds are invested in by members of the Fund:

Fund	Annualised Performance (%)	1 Year (%)		3 Year (% p.a.)		5 Year (% p.a.)*	
	Benchmark	Fund	B'mark	Fund	B'mark	Fund	B'mark
UK Equity Passive	FTSE All-Share Index	14.6	12.4	7.1	6.8	5.2	4.9
UK Equity	FTSE All-Share Index	12.1	12.4	3.4	6.8	4.0	4.9
Global Equity	Composite	13.4	13.3	4.8	5.8	5.6	6.0
International Equity	Composite	15.7	14.6	6.9	4.2	8.0	7.7
Positive Impact	MSCI ACWI Index	3.4	19.9	1.3	8.4	n/a	n/a
Discretionary	Composite	11.7	10.8	2.2	3.5	4.1	4.8
Dynamic Growth I	Composite	8.1	8.0	-1.3	-1.3	1.4	0.9
Dynamic Growth II	Composite	8.6	8.8	-0.2	-0.1	2.2	1.8
Dynamic Growth IV	Composite	9.8	10.5	1.7	2.3	3.7	3.8
Fixed Interest	iBoxx Sterling Gilts Index	4.6	3.8	-8.4	-9.4	-4.4	-5.2
Index-Linked	iBoxx UK Gilt Inflation-Linked Over 5 Year Index	-2.0	-2.2	-14.6	-14.7	-8.0	-8.1
Long-Term Gilt Passive	iBoxx Sterling Gilts (15+) Index	0.2	0.2	-16.9	-17.0	-9.5	-9.6
Cash Fund	SONIA 7 Days	4.6	4.7	2.4	2.3	1.4	1.2
Deposit Fund	Bank of England Base Rate	5.2	5.2	2.8	2.9	1.8	1.9

Source: Prudential. Performance as at 30/06/2024 Net of fees for funds invested by members. Benchmark returns have been adjusted for the impact of fees to allow for better comparison.

5 year performance data unavailable for the Prudential Positive Impact Fund.

Note: Funds that have performed within an acceptable tolerance range or outperformed are highlighted green. Funds that have underperformed are highlighted orange

Comments and Considerations

The majority of the funds have outperformed their respective benchmarks over the 1 and 5 year periods. The Positive Impact fund has underperformed its benchmark over the 1 and 3 year periods, however this is consistent with similar funds managed by other providers.

Prudential – Fund Charges

Charges to July 2024	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) ¹
UK Equity Passive	0.55	0.56	0.63
UK Equity	0.61	0.62	0.32
Global Equity	0.65	0.67	0.20
International Equity	0.65	0.68	0.09
Positive Impact	0.65	0.66	0.00
Discretionary	0.65	0.67	0.13
Dynamic Growth I	0.62	0.63	-0.04
Dynamic Growth II	0.62	0.63	-0.04
Dynamic Growth IV	0.62	0.63	0.00
Fixed Interest	0.65	0.66	0.02
Index-Linked	0.65	0.66	-0.01
Long-Term Gilt Passive	0.55	0.56	0.01
Cash	0.55	0.55	0.03
Deposit	N/A	N/A	0.00

Source: Prudential as at July 2024. TER covers all costs to the provider.

¹ Transaction costs over the year to 30/06/2023.

Transaction costs are calculated using 'slippage cost' methodology. This compares the price of the stocks being traded when a transaction was fulfilled with the price at which the transaction was requested. Market movements during any delay in transacting may be positive or negative and may also outweigh other explicit transaction costs. For this reason, overall transaction costs calculated on the slippage method can be negative as well as positive. A negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

With Profits funds

Prudential With Profits Cash Accumulation Fund – valuations, historic bonus rates and charges

Fund	Number of Members	Fund Value	Terminal Bonus	Market Value Reduction	Transfer Value
With Profits Cash Accumulation Fund	145	£1,658,044	£720,450	£11,501	£2,366,993
With Profits Cash Accumulation Fund Series 2	151	£459,131	£16,543	£3,470	£472,204

- The **Fund Value** is the sum of members' contributions and regular bonuses paid. The recent regular bonus rates are noted in the table below. This value is generally guaranteed (unless a Market Value Reduction applies – see below).
- The **Terminal Bonus** can vary over time and it is not guaranteed.
- Some members are subject to a **Market Value Reduction** (“MVR”). An MVR may be applied if funds are withdrawn at a date other than member's pre-selected retirement date, or on death. Therefore, if an affected member decided to transfer their investments in the fund before their pre-selected retirement date, the MVR would be deducted.
- Therefore, the **Transfer Value** is the sum of the Fund Value and Terminal Bonus with any MVR deducted.

Regular bonus history	2020 (% p.a.)	2021 (% p.a.)	2022 (% p.a.)	2023 (% p.a.)	2024 (% p.a.)
With Profits Cash Accumulation Fund	1.25	1.00	1.00	1.50	2.50
With Profits Cash Accumulation Fund Series 2	1.25	1.00	1.00	1.50	2.50

- Members invested in the With Profits Cash Accumulation Fund(s) may benefit from guaranteed regular bonuses:
 - A minimum regular bonus rate of 4.75% applies to all contributions paid in scheme years ending before 15 March 1997.
 - A minimum regular bonus rate of 2.50% applies to all contributions paid for scheme years ending between 15 March 1997 and 30 December 2003.

Charges to 15 March 2024 for the With Profits Cash Accumulation Fund (Series 2 included)	Fund charge (% p.a.)	Transaction costs (% p.a.)
	0.96	0.17

Source: Prudential

Note: Fund data as at 30/06/2024. Bonus rate data as 15/03/2024. Transaction costs for the year to 30/06/2023. Please note the fund charge is allowed for in the bonus rates quoted above.

Utmost – Fund Charges & Performance

Utmost have confirmed that the following unit linked funds are invested in by members of the Fund:

Charges to 31 March 2024	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.)
Managed	0.75	0.87	0.02
Multi-Asset Growth	0.75	0.92	0.00
Money Market	0.50	0.52	0.00

Source: Utmost. Performance and Fund charges as at 01/07/2024. Transaction costs for the year to 31/12/2023.

The table below shows performance to 1 July 2024:

Fund	Annualised Performance (%)	1 Year (%)		3 Year (% p.a.)		5 Year (% p.a.)	
		Sector Comparator	Fund	Sector	Fund	Sector	Fund
Managed	ABI Mixed Investments (40-85%)	13.7	11.9	4.7	2.4	4.8	4.4
Multi-Asset Growth ¹	ABI Flexible Investment	15.8	13.2	4.4	3.6	n/a	n/a
Money Market	ABI Deposit & Treasury	5.0	4.4	2.5	2.2	1.4	1.5

Source: Utmost, from provider website. Performance as at 1 July 2024 net of fees for funds invested by members.

¹⁾ Performance not available 5 years. Fund inception was 01/01/2020.

Comments and Considerations

Performance for the unit linked funds has been broadly in line with or above the sector comparator over all reported periods. More details on the use of ABI sectors as comparators and potential drawbacks are show in the appendix.

Mercer Commentary – AVC Provider



Prudential Assurance Company (M&G) Unit Linked

Prudential is the life insurance and pensions provider within the M&G Group. Service performance has continued to show gradual improvement since the pandemic. Prudential makes a lot of investment data available online but response times for non-standard queries can cause delays.



Ownership and Background

Prudential acquired Scottish Amicable in 1997 which continued to exist as a separate brand owned by Prudential until 2001.

In 2019, Prudential plc separated its UK operations and, as a result of this separation, Prudential UK is now owned by M&G plc. M&G is the UK's oldest fund management business which launched the UK's first unit trust in 1934.

Prudential Assurance Company Ltd with profits Sub-Fund is open and is the largest with profits fund in the UK. The Scottish Amicable Insurance Fund is now closed.



Current Issues

Service performance has continued to show gradual improvement with the majority of processes being completed within SLA targets.

Call response times standards are currently being maintained.

The work to increase the level of online data provision and interaction with clients, as well as the roll-out of a self-service website is progressing.

<https://www.pru.co.uk/existing-customers/products/additional-voluntary-contributions/>



Prudential Assurance Company (M&G)

With Profits AVC Business

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[Prudential with profits Fund | Investment Guide](#)



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Fund Management

The Prudential Portfolio Management Group, part of the M&G Treasury and Investment Office, is responsible for the strategic and asset management of the with profits funds.

Assets are managed by a range of external managers together with M&G Investment Managers. Governance oversight is provided by the with profits Committee.

The Committee is appointed by the Prudential Assurance Company Board and will have at least three members, all independent and external.



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With Profits Fund Assessment: Prudential Assurance Company Ltd with profits Sub Fund (Sterling OB business)

Note this includes:

- Prudential with profits Cash Accumulation Fund
- Prudential with profits Cash Accumulation Fund Series 2

Future Performance



September 2024

Utmost Life & Pensions (ULP)

Unit Linked

Utmost Life & Pensions was established in 2017 as a newly authorised UK life company run off' specialist – expected to be the operational base for further acquisitions of traditional books of life business. Response times to requests for information can be lengthy.



Ownership and Background

Whilst the firm traces its roots back to 1911, ULP was established in 2017 by Utmost UK Group Holdings Ltd. (UUGH) as a newly authorised UK life company 'run off' specialist – expected to be the operational base for further acquisitions of traditional books of life business. The first of these transactions was announced in June 2018 with the agreement with Equitable Life to transfer all of Equitable's business to ULP – which completed on 1 January 2020 and significantly increased ULP's size.

ULP has no external new business, and the only new business written in 2022 were annuities, sold to existing customers on the vesting of their pension savings contracts (including contracts with GAOs and the Flexible Drawdown product)



Current Issues

Response times to requests for information can be lengthy. In common with most of their peers, updates in respect of developments in respect of the fund range are intermittent.

Note: Immediately prior to their transfer to Utmost, the Equitable with profits policies were converted to unit linked. The company's growth focus includes enhancing its product offering and resources, with a view to widening the choice available to customers seeking to access their pension savings.

[Home \(utmost.co.uk\)](https://www.utmost.co.uk)

<https://www.utmost.co.uk/about-us/history-and-facts/information-about-equitable-life-scheme-and-transfer/>



Next Steps

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Next Steps

It is recommended that AVC members are sent a communication to remind them of their AVCs, the purpose of AVCs and the choices available to them. This is also an opportunity to flag up any concerns on investment performance if applicable.

It should be noted that members in with profits funds with Prudential have terminal bonuses applying on their policies, which are not guaranteed. Market Value Adjustments may also be applied at the point of withdrawal. **Members should be periodically reminded of characteristics of with profits funds and the risk of disinvesting before maturity.**

We also recommend continuing to undertake annual monitoring of their AVCs.

Date of next review
September 2025

More generally, we recommend that the Fund regularly reviews the AVCs held, to check whether members have drawn on their Defined Benefit funds. If this is the case, they may benefit from a reminder that their AVCs are still available and invested.

Please note: This report does not contain regulated investment advice or regulated non-investment related advice. It sets out recommendations deemed appropriate based on the analysis provided in this presentation. Any actions to be taken from these recommendations need to be accompanied by regulated advice in accordance with Section 36 of the Pensions Act 1995.

Appendix



Unit Linked Funds

What are Unit Linked Funds?

- Members purchase units in funds which invest according to their particular objective.
- Returns to members are in the form of changes in the value of the unit price.
- Members realise a profit or a loss from an investment when the units in the fund are sold.
- Within the Clwyd Pension Fund, members are invested in 14 unit linked funds with Prudential and 5 with Utmost.



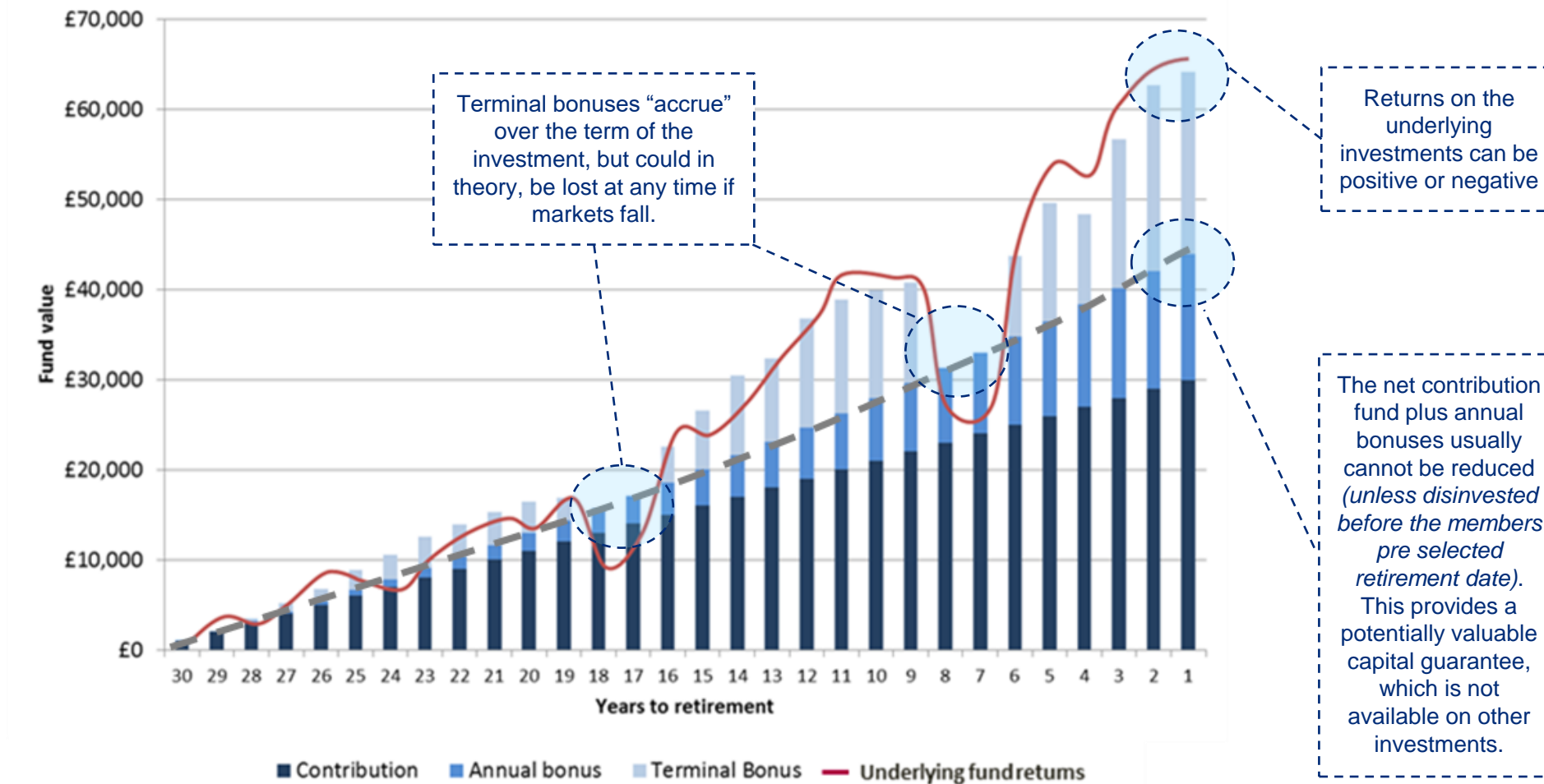
What should we consider when reviewing?

- Tracking error and performance, relative to stated benchmarks, of the funds.
- Any potential value-add from the managers e.g. online services etc.
- Fund charges.
- Mercer ratings, if available.



Overview of typical With-Profit Funds

The chart below sets out the progression of a member's fund value throughout the lifetime of a typical with profits investment. The figures shown are for illustrative purposes only.



Overview of typical With-Profit Funds

The Positives

- with profits funds are typically considered to be a fairly secure medium to long-term investment with reasonable potential performance from a pooled mix of assets including equities, property, bonds and cash.
- The costs of running with profits fund are largely deducted from the fund and what is left over is available to be paid to the with profits investors as “bonuses”:
 - **Annual (Reversionary) bonus**: which may or may not be partially guaranteed, and
 - **Terminal (Final) bonus**: a final bonus may be added on disinvestment (switch, transfer, retirement or death) depending on the performance of the underlying fund. These bonuses are payable by most (but not all) with profits funds.
- To avoid big changes in the size of bonuses each year, the insurer will hold back some of the return from ‘good’ years to provide a reasonable return during ‘bad’ years. This is known as “smoothing”.
- Older policies (typically pre 1990) may provide **Guaranteed Annuity Rates (GARs)** or other pension guarantees (which can be very valuable), more recent policies (up to around 2003) may also provide a **Guaranteed Interest Rate (GIR)**. These may have been withdrawn or reduced for more recent new contributors or contribution increments.



Overview of typical With-Profit Funds

The Less Positives

- **Annual Bonuses** are a poor indicator of performance. Minimising guaranteed bonuses reduces the proportion of the with profits fund which insurers have to invest cautiously (to protect their solvency position). On the other hand, low bonuses may just reflect poor underlying investment performance and/or low solvency reserves.
- **Terminal / Final bonuses** can be a huge proportion of the overall return and, in theory at least, they could be withdrawn overnight.
- Guarantees (within the with profits fund rather than a specific policy) can necessitate a more cautious underlying investment strategy, to maintain the insurer's solvency. This can severely restrain future investment performance for other policyholders too.
- Insurers can impose a **Market Value Reduction (MVR)** if disinvestment is other than (usually) the pre-selected retirement date or prior death. This could more than negate a terminal bonus.
- Historically, payout examples were provided via insurers' regulatory returns, but these ceased to be available in 2017 due to the Solvency II Directive.



AVCs – Why this requires attention

Case Study

Client had a 1,000 person DB Scheme. AVC arrangements were not reviewed over many years

The Scheme had AVCs with:

- Prudential
- Phoenix Life

AVC investments with Phoenix Life were invested in Deposit Funds, and had been since 1998 without the Client undertaking a review on suitability

A Phoenix Life member made a complaint through his IFA citing the Client was not delivering the required level of AVC governance

The Ombudsman ruled in favour of the member which involved significant investigative time from the Client and their advisors

An agreed compensation amount was paid to the member by the Client. All other members invested in the Deposit Fund over this period of time were also included for a compensation payment.

The cost of investigation work to resolve the complaint was £35,000.

The compensation cost for all affected members was £140,000

The Client then reviewed all AVC arrangements. Issues identified were AVC members that had taken main scheme benefits, members who had died, unsuitable investment choices, poor member communications.

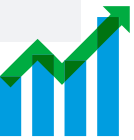
Changes were made as a result of the AVC review including consolidating to 2 AVC providers. Members achieved better outcomes and risks to Client reduced.



ABI Sector Benchmarks

What are ABI sector benchmarks?

The Association of British Insurers (“ABI”) maintains a range of sector benchmarks for unit linked life and pension funds. As at October 2022, there were 34 ABI sector benchmarks. ABI sector benchmarks are **peer group benchmarks**. The ABI has full discretion to set and update ABI sector definitions. An independent third party, Refinitiv, categorises unit linked life and pension funds into the sectors and monitors sectors to ensure that funds are categorised correctly on an ongoing basis. The ABI sector benchmarks are designed to facilitate comparisons between similar unit linked life and pension funds.



What are the drawbacks of ABI sector benchmarks?

- In order to create peer groups, ABI sets minimum and maximum exposure limits to certain asset classes within each sector benchmark. In practice, ABI sector definitions are **very broad**, for example:
 - Equity sector benchmarks are typically required to invest at least 80% of assets in equities. The benchmark does not specify how the remainder is to be invested so up to 20% of the fund could be invested in any other asset class.
 - “Mixed Investment” sector benchmarks are even broader. Funds within the Mixed Investment 40-85% Shares benchmark may invest anywhere between 40% and 85% of their assets in equities with the remainder unspecified.
 - “Flexible Investment” sector has no asset class limits and affords managers significant asset allocation discretion – the dispersion of funds in this sector may be sufficiently broad as to reduce its value for relative performance assessment purposes.
- ABI sector criteria may at times **overlap**. One fund may meet the requirements of more than one benchmark.
- ABI reserves the right to **change sector definitions at any time** and without prior notice.

Due to these factors, **funds within the same peer group may exhibit significant dispersion of risk and return characteristics**. A fund benchmarked against an ABI sector may have returns that differ vastly from its sector.



With Profits AKG Ratings

The ratings shown are provided by AKG Financial Analytics Limited (AKG), and are contained within AKG's latest UK Life Office with profits Report. They are shown here with AKG's prior consent. Further information on AKG's with profits Report is available at:

<https://www.akg.co.uk/information/reports/with-profits-reports>.

Providers are ranked out of 5 (with 5 being the highest rated) against their competitors (those with profits funds which are broadly comparable).

Financial Strength: This is an assessment of the position and ability of a with profits fund to maintain the operational characteristics specifically required for customers.

Future Performance: The potential for future performance is made up of a variety of different factors including current investment philosophy, Company and, if available, fund-level solvency coverage position, overall size of the company, its with profits fund and its capital base, bonus philosophy and Estate distribution.

Transparency: Given there is no industry wide standard when evaluating transparency and openness AKG take a number of criteria into account. including approach to communications (for example in run off) to enable customers to make informed decisions, the extent to which they are subject to independent audit and review as well as the amount, quality and timeliness of information to the various stakeholders.

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