# Northern Ireland Local Government Officers' Superannuation Committee

# AVC Investment Policy

## 1. Introduction

1.1 Members of the Local Government Pension Scheme Northern Ireland (LGPS NI) may elect under the Local Government Pension Scheme Regulations (Northern Ireland) 2014 to pay additional voluntary contributions (AVCs) into a scheme established under contract by NILGOSC. The purpose of this AVC Investment Policy is to set out how NILGOSC will maintain and manage the investments in the AVC Scheme.

1.2 NILGOSC's investment powers are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as amended).

## 2. AVC Providers

2.1 NILGOSC's AVC Scheme is currently administered by the Prudential Assurance Company Limited (Prudential). Some members remain invested in AVCs through the previous AVC provider, Utmost Life and Pensions (previously the Equitable Life Society before the assets were transferred to Utmost Life and Pensions on 1 January 2020), but the Utmost Life and Pensions arrangement is closed to new members. A list of available Utmost Life and Pensions funds is provided in Appendix 1.

2.2 The AVC provider is appointed on the basis of being able to provide a range of investment funds that meet the needs of the members in terms of investment risk. The provider's management and administrative charges should be deemed to be reasonable and the provider must also be able to provide a good quality customer service.

2.3 NILGOSC will monitor the suitability of the AVC provider on an annual basis and share its assessment with the AVC Scheme members.

## 3. Selecting and Managing AVC Investments

3.1 NILGOSC will identify the range of investment funds that are available within its AVC Scheme in order to provide a choice to members; however, NILGOSC will not make investment choices on behalf of its members.

3.2 Members choose which funds they want to invest their money in, from the fund range available. Different funds offer investment in different asset classes, including equities, bonds, multi-asset and cash. Ethical and faith-based funds are included in the list of available funds. Each fund has its own level of potential growth and risk. Usually, funds with more potential for growth carry more risk. The performance of funds is not guaranteed as the value of units can go up as well as down. If it goes down, members could have less in their AVC fund than they paid in. Therefore, it is important that members understand the types of funds and the investment risk associated with them before making a decision to invest their AVCs. NILGOSC is not authorised to provide advice in this regard.

3.3 The full list of open funds available for investment through NILGOSC's AVC Scheme is provided in Prudential's Fund Guide for NILGOSC. Members can choose to invest in up to a maximum of 10 funds. All of the available funds are managed on Prudential's behalf by the specified fund manager. **These funds should not be confused with the same or a similarly-named fund** or unit trust offered independently by any of the managers. Details of Prudential closed funds that members may remain invested in are also available in Prudential's Fund Guide for NILGOSC.

3.4 NILGOSC will review the list of investment funds available on an annual basis to ensure that the range provides adequate choice to the AVC Scheme members. New funds will be added to the list of available funds if NILGOSC determines that doing so would provide members with a more appropriate range of investment choices. Equally, funds may be removed from the list if it is determined that inclusion does not enhance the choices available. If a fund is removed from the list, it will no longer be available for new investment but may continue to be available to existing investors to continue to hold their investment.

3.5 NILGOSC will report annually to AVC Scheme members on any fund added or removed from the list of investment funds available. Members directly affected by a change will be notified at the time and will be presented with options as appropriate.

## 4. Fees

4.1 The AVC providers will levy a single charge to cover both investment costs and administration costs. For most funds this is by way of an Annual Management Charge (AMC) deducted from each investment fund. The AMC for each fund is published in literature provided by the AVC providers and is available from their websites.

4.2 NILGOSC will review the level of charges for each fund on an annual basis as the level of charges is a criterion in assessing the suitability of the AVC provider. NILGOSC will also inform all AVC Scheme members, in addition to any publications issued by the AVC provider, of the AMC for each investment fund on an annual basis.

4.3 NILGOSC will not levy any additional charges directly to AVC Scheme members for the services which it provides for the administration and management of the AVC Scheme.

## 5. Fund Performance

5.1 NILGOSC will review the investment performance for each fund on an annual basis as the level of performance is a criterion in assessing the suitability of an AVC provider. NILGOSC will also inform all AVC Scheme members of the performance for each investment fund on an annual basis.

## 6. Investment Choices and Risk

6.1 AVCs are an investment and, as with any other type of investment, there is an element of risk. The benefits that a member will ultimately receive will depend on various factors, such as the contributions made and the funds in which money is invested. NILGOSC's AVC Scheme offers a range of funds for its members to choose from so they can invest their money depending on their individual circumstances and attitude to risk.

6.2 Growth from an AVC investment cannot be achieved without exposure to some risk and it is important for members to understand and decide on the level of risk they are willing to take. The higher the risk the greater the

potential for return over the long term, but also the greater the potential for loss in the short term. It is also important to realise that being too cautious can also put an investment at risk as it may not grow quickly enough to keep up with inflation.

6.3 There are various types of asset classes that AVCs can be invested in and each asset class has a different level of risk and potential return. In order to help members choose the right funds and understand the associated levels of risk, Prudential assigns each of its funds a risk rating according to the different asset classes they invest in, as available to review in Prudential's Fund Guide for NILGOSC.

Risk ratings are classified as follows:

| Risk rating | Description |
|---|---|
| **Higher Risk** | These are the specialist equity funds that focus on set geographical regions or a particular type of share, such as shares of smaller companies or those that conform to certain criteria. |
| **Medium to Higher Risk** | These funds offer a diverse geographical spread of equity investment with a specialist focus (e.g. ethical). The equity funds within this category will have a greater overseas exposure and underlying volatility than the 'Medium Risk' funds. |
| **Medium Risk** | These funds may invest in multi-asset strategies with a higher weighting in equities (or with significant derivative use), while funds investing mainly in property, high yield or government bonds (such as UK Gilts), are also in this category. |
| **Lower to Medium Risk** | These funds may invest in corporate bonds or multi-asset strategies with a higher weighting in corporate bonds (and other comparable strategies). |
| **Lower Risk** | These funds may invest in assets, combination of assets or defensive strategies, where the chances of values falling and rising are likely to lie between those of funds investing in money market instruments and funds investing solely in corporate bonds. |
| **Minimal Risk** | These funds may invest in a combination of deposits, money market instruments and other types of interest-bearing securities. |

6.4 Prudential's risk ratings are based on its expectations of future volatility (i.e. how much the value of the fund could rise or fall). The risk ratings are reviewed regularly and may change in the future. Further detail on Prudential's risk ratings is set out in Prudential's Fund Guide for NILGOSC.

6.5 Lifestyling is an AVC investment option that enables members to automatically switch their AVC money between specified funds as they get closer to retirement. The aim is to reduce risk nearer retirement, provide long-term growth and help to protect against changes in the cost of turning an AVC fund into an income and lump sum benefits. Details of the available lifestyle options are set out in Prudential's Fund Guide for NILGOSC.

## 7. Compliance

7.1 NILGOSC will review this AVC Investment Policy every three years or sooner if there is a change in the policy or any of the areas covered by the statement.

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**Appendix 1**

## Utmost Life and Pensions Funds – Closed to new members

There are 14 funds and one lifestyle strategy available to existing members:

| Fund Name | Asset Class | Actively or Passively Managed | Annual Management Charge (%) |
|---|---|---|---|
| **UK FTSE All Share Tracker** | Equities | Passive | 0.50 |
| **UK Equity** | Equities | Active | 0.75 |
| **Asia Pacific Equity** | Equities | Active | 0.75 |
| **European Equity** | Equities | Active | 0.75 |
| **Global Equity** | Equities | Active | 0.75 |
| **US Equity** | Equities | Active | 0.75 |
| **Managed** | Multi-Asset | Active | 0.75 |
| **Multi-Asset Cautious*** | Multi-Asset | Active | 0.75 |
| **Multi-Asset Moderate*** | Multi-Asset | Active | 0.75 |
| **Multi-Asset Growth** | Multi-Asset | Active | 0.75 |
| **Sterling Corporate Bond** | Bonds | Active | 0.75 |
| **UK Government Bond** | Bonds | Active | 0.50 |
| **US Dollar Global Bond** | Bonds | Active | 0.50 |
| **Money Market*** | Cash/Money Market | Active | 0.50 |

** Denotes funds that are also used within the Investing by Age Strategy.*

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## Appendix 1

The Investing by Age Strategy automatically transitions from the Multi-Asset Moderate Fund to the Multi-Asset Cautious Fund and eventually to the Money Market Fund. The table below shows how the Investing by Age Strategy gradually transitions through its underlying funds.

| **Age** | **Investing by Age strategy - underlying funds** |
|---|---|
| **Under 55** | Multi-Asset Moderate Fund only |
| **55 to under 65** | Gradual switch to Multi-Asset Cautious Fund |
| **65 to under 75** | Multi-Asset Cautious Fund only |
| **75 to under 85** | Gradual switch to the Money Market Fund |
| **85 and over** | Money Market Fund only |