June 2018

ICI Pension Fund - AVC Overview

This provides an overview of the AVC investment funds offered by the ICI Pension Fund. You will find this guide useful if you want to understand more about the investments funds available to you or want to review your fund choices.

Background

Additional Voluntary Contributions (AVCs) are a way of topping up your pension. Some members chose to pay contributions over and above the normal Fund contributions to provide extra benefits. This option stopped on 5 April 2006. If you still have an AVC pot this will remain invested as you instructed. There are various options available to you with regards to the form of benefits your AVC provides. These are explained in the leaflets held in: **www.icipensionfund.org.uk/library-and-forms/**

Charges

There is an Annual Management Charge to cover the cost of the administration and investment of your AVCs, which is a percentage of your annual fund value and is allowed for in the unit fund prices. Fund managers may also charge an additional expense on top to cover fees for registrars, trustees, auditors and regulators and safe custody charges. These are allowed for in each fund's unit price.

Current investment options

This is a list of the Clerical Medical (CM) AVC investment funds that are available to choose from:

Fund Name	Description and risk	Charges
CM BlackRock Cash Lifestyle	Initially invested in the BlackRock UK Equity Index, BlackRock World (ex UK) Equity Index, BlackRock Over 5 Years Index Linked Gilt and BlackRock Corporate Bond Index Funds. Five years from your normal retirement date your pension will gradually move from all of these funds to the Clerical Medical Cash fund, so that at retirement, all assets are invested in cash.	0.495%
CM BlackRock Balanced Lifestyle	Initially invested in the Blackrock UK Equity Index, BlackRock World (ex UK) Equity Index, BlackRock Over 5 Years Index Linked Gilt and BlackRock Corporate Bond Index Funds Ten years from your normal retirement date your pension fund will gradually move to the BlackRock Corporate Bond Index and BlackRock over 15 Years Gilt Index Funds. Five years from your normal retirement date your pension fund will gradually move to the Clerical Medical Cash, BlackRock Corporate Bond Index and BlackRock Over 15 Years Gilt Index Funds.	0.495%
CM BlackRock World (Ex UK) Equity Fund	To invest in the shares of overseas companies, (Europe, Japan, Far East, US and Canadian markets) according to market capitalisation weightings. Within each of those markets, the fund aims to generate returns consistent with those of each country's primary share market. This fund aims to achieve a return in line with the FTSE All- World Developed ex-UK Index.	0.495%
CM BlackRock UK Equity Fund	Aims to achieve long-term growth by investing in the shares of UK companies in order to achieve a return that is consistent with that of the FTSE All-Share Index.	0.495%
CM BlackRock Over 15 Year Gilt Fund	To invest in UK government fixed income securities (gilts) that have a maturity period of 15 years or longer. The fund aims to achieve a return consistent with the FTSE UK Gilts Over 15 Years Index, which is widely regarded as the benchmark for UK pension fund investment in the longer dated end of the UK gilt market.	0.495%
CM BlackRock Over 5 Year Index Linked Gilt Fund	The fund invests in UK government index-linked securities (index-linked gilts) that have a maturity period of 5 years or longer. The fund aims to achieve a return consistent with the FTSE UK Gilts Index-Linked Over 5 Years Index, which is widely regarded as the benchmark for UK pension fund investment in the longer dated end of the UK index-linked gilt market.	0.495%
CM Cash Fund	The fund aims to give an attractive rate of return on short term deposit instruments as well as the liquidity required in a short term investment. The fund invests in cash deposits and other forms of interest bearing money instruments where the capital is at low risk - normally in the UK.	0.495%

The table shows the annual fund charges for each of the funds available for your AVCs. The charges may increase or decrease from time to time.

The AVC funds currently selected could change in the future if the Trustee and its advisers feel that alternative funds or investment managers should be made available.

Your investment decisions

If you are not sure which fund(s) your AVC pot is invested in, look at your last annual statement. It is important that you review your investment decision from time to time.

When making any investment decision, your objective may depend largely on when you intend to use your AVC fund and what you want to use it to provide.

You're probably already familiar with warnings that the value of investments can go down as well as up. The tendency of a particular fund to rise and fall in value is reflected in its 'volatility'. A more volatile fund (one with higher investment risk) will tend to see frequent and sometimes sharp rises and falls while a less volatile fund (one with lower investment risk) is likely to rise and fall in value more slowly.

Financial advice

The AVC Overview has been prepared as a guide for members about the AVC options available to them. It should not be seen as recommending a particular course of action. It is your responsibility to choose investment funds and options which suit your own needs and circumstances.

If you are not sure about making decisions about your investment options, you may want to take advice from an independent financial adviser to help you decide on whether to join and the investment approach best suited to your own personal circumstances. You can find a local financial adviser by visiting **www.moneyadviceservice.org.uk/en/articles/choosing-a-financial-adviser**.

Every effort has been made to ensure that the information in this document is accurate. If there is any difference between this information and the Trust Deed and Rules, then the Trust Deed and Rules take priority.

Decide your attitude to risk

Different people wish to take different levels of risk with their savings, which is sometimes called their attitude to risk. Some are naturally cautious while others are willing to take more of a risk with a view to getting a better return. There are many ways to describe attitude to risk. Here we use three which could be described as follows:

- A cautious investor is someone who wants investments to be less volatile so that they won't fall in value very much, if at all, and who accepts that in the long run their fund may not be worth as much as it might have been if they had taken more risk.
- A balanced investor is someone who is prepared to take short-term falls in return for the potential of long-term growth.
- An opportunity investor is someone who understands and accepts much higher degrees of risk in return for higher potential long-term growth, and with this comes greater volatility.

It may well be that your attitude to risk will change over time or indeed might be affected by other investments that you have.

There is a clear link between the level of risk you are prepared to take and the potential long-term growth that the AVC funds in which you choose to invest your AVC payments will achieve. All investments carry an element of risk. As a general rule:

- Low risk – usually associated with lower potential growth prospects and aiming for lower volatility.
- High risk – usually associated with the aim of higher potential growth prospects and associated with higher volatility.

When you review your AVC funds you need to make sure that you are clear about the different types of risk involved. Each AVC fund has a different level of risk and potential future investment performance, so you need to choose your funds carefully depending on your attitude to risk and your personal circumstances.

The main types of risk you need to consider when saving for your retirement are:

Inflation risk

This is the risk that your investments won't grow quickly enough to keep up with the increase in the cost of living (inflation). Over time, inflation may reduce the buying power of money. If you do not seek a high enough level of growth then it is possible that the value of your investments could fall behind price and salary inflation. This risk is likely to be more of a concern if you have many years to go until you are planning to take your benefits and could reduce the eventual buying power of your AVC pot.

Investment risk

This is the risk that your AVCs may drop in value. The size of your AVC savings when you take your benefits will depend partly on the performance of the funds into which you invest your AVCs and how much risk you are prepared to take with your choice of funds. Generally, the more risk you take, the greater the potential reward. Some investments (for example shares – also known as equities) are likely to be more volatile than others. This means their prices can change in value more quickly and by larger amounts than other investments. If you will be taking your AVC benefits in the next few years, you might wish to ensure that you reduce your exposure to volatile investment funds to avoid sharp falls in the value of your AVCs with little time for the value to recover. As a general rule, the longer the period over which you invest, the more risk you may be willing to take.

Lost opportunity risk

This is the risk that you invest too cautiously (i.e. in funds with a low investment risk). Over the long-term, less volatile investments tend to produce lower growth. If you are investing in a low risk fund, then you may see smaller changes in the day to day value of your AVC pot than you would in a more volatile fund, but the end value of your AVC savings is likely to be smaller in a less volatile fund. There will also be a greater risk of the value of your AVC savings being eroded by inflation in a less volatile fund.

Annuity risk

When you take your pension benefits, you may use part or all of your AVC savings to provide a pension to be paid to you for the rest of your life (also called an annuity). The cost of converting your AVC savings to an annuity (the annuity rate) varies from time to time depending on, amongst other things, the prices of Government and corporate bonds.

Currency exchange risk

If you choose a fund that invests in overseas assets, changes in exchange rates between currencies may also cause the value of your AVC funds to fall or rise.

What else may influence the way you invest?

If you have built up significant savings outside of your pension, or if you have already built up a significant amount of pension in the Fund, then you may be prepared to take more risk than someone for whom this forms a major part of their retirement planning.

Likewise, somebody who is, for example, 20 years or so away from retirement, or who expects to draw on their investment later in retirement, may be more willing to take a more adventurous view because they have some time and there is potential for investment markets to recover if there is a fall.

Somebody who is within, say, ten years of retirement may take a more cautious view to try and avoid the possibility of a sudden market downturn because they have less time for a potential recovery in investment markets.

You may have other reasons for choosing a particular investment fund, or funds, so when making a decision you should also consider your personal circumstances and seek financial advice.

It is important to familiarise yourself with the different asset types that your AVC may be invested in. In general, funds tend to be made up of three main types of investment and these are described in more detail on the right:

Equities

Equities are shares in companies. In the past they have grown in value more than bonds, gilts or cash over longer periods. However, they can go up and down in value, sometimes significantly. Equities are likely to carry the most 'investment risk'. A member might want to choose a fund that invests mainly in equities if they are aiming for higher long-term returns and can accept the risks of loss of capital and fluctuating value. You may be more willing to invest mainly in equities if, for example, your retirement is still some way off or you have other secure investments or your AVCs are only a small part of your retirement savings.

Bonds and gilts

Bonds are loans to a Government, company or other organisations. UK Government bonds are called 'gilts'. The level of investment risk falls somewhere between cash and equities.

Assuming the bond issuer does not default, the return on your investment over the lifetime of the bond is the interest you receive on the loan. This interest can either be 'fixed' (for example 5%) or 'index-linked' (which means it varies in line with inflation).

Bonds and gilts are traded on the stock market so their value can go down or up, although probably by less than the value of equities. Bonds generally have a maturity date (when the loan is repaid) and bond funds usually hold a mix of bonds with different maturity dates. Bond prices usually fall when interest rates rise (and vice versa).

In the past, bonds and gilts have given lower returns over the longer period than equities, but they are generally less volatile – i.e. they are not so prone to large short-term fluctuations in value.

Cash

Cash funds invest in short-term interest bearing investments, short-term bonds and other money market instruments. The value of an investment in cash can occasionally fall in the short term, although cash investments typically have the lowest capital risk of the main asset classes.

Returns on cash funds over the longer term may not keep pace with inflation, so the buying power of your investment may reduce. They can provide good security for your pension savings if you are about to retire, but may not provide good long-term returns.

Your level of involvement

When deciding on where to invest your AVC savings, you have two basic choices – do you opt for one of the Lifestyle options or make your own fund choices? You cannot mix a Lifestyle option and your own choices.

The Lifestyle options

Lifestyle is an investment strategy for members who do not wish to actively manage their AVC investments. How your AVCs are invested will change over time and is based on how close you are to your selected retirement age.

Lifestyling is an investment option that is basically made up of two phases. The first phase (or "growth" phase) is where you aim to grow the size of your AVC pot, typically by investing in higher risk funds. In the second phase (or "protection" phase) your investments are switched automatically, into lower risk funds to help protect the value of your AVC pot.

The switches between funds are designed so that the investment in each fund within the lifestyle option is maintained at the fixed proportions set out for each lifestyle. The funds being used, their risk ratings and the point where your fund value will start automatic switching.

If you choose a Lifestyle Option, all of your AVC savings will be invested in that option and you will not be able to select any other investment funds. You can switch all of your savings out of this option at any time.

Your selected retirement age is the age which you have chosen for Lifestyle switching. If you change your selected retirement age having selected the Lifestyle option once you are within 10 or 5 years (depending on which Lifestyle option you have chosen) years of your (old or new) selected retirement age, your AVC funds will be immediately adjusted to your new selected retirement age.

Your own fund choices

If you want to manage your AVC savings more actively, you can choose from one or more of the AVC funds available, to create your own investment mix. You will need to monitor the performance of your chosen AVC funds and regularly review the investment mix, especially as you get closer to taking your benefits. You will, therefore, have to make any decisions to move all or part of your AVC savings from one fund to another.

Each year we will send you a statement showing how your AVCs are performing. By using these yearly statements you can take a longterm view and get a good idea of how fund prices and the value of your AVC savings are changing.

If you're thinking about switching your AVC pot into different funds, take time to weigh up all of the factors you considered when making your original fund choices.

Contact details

For more information about your AVC pot, please contact the Fund Administrator.

Email: ici@willistowerswatson.com

Write to: ICIPF, PO Box 545, Redhill, Surrey, RH1 1YX

Phone: 0800 916 8021 From 09:00 - 17:00 Monday to Friday (Not bank holidays)

Online: www.icipensionfund.org.uk