**Cambridgeshire Pension Fund – communication to members of the Prudential AVC arrangement**

# The Cambridgeshire Pension Fund (‘the Fund’)

**Your Additional Voluntary Contributions (‘AVCs’) invested with Prudential**

A number of our members have chosen to pay contributions into an AVC arrangement to increase their overall level of benefits from the Fund.

AVC benefits are calculated in a different way to the main benefits in the Fund, they are ‘*defined contribution*’ benefits, which means the value of AVCs depends upon:

* the amount paid into the AVC arrangement; and
* the investment returns on those AVCs after deduction of any charges.

The Administering Authority of the Fund regularly reviews the Fund’s AVC arrangements to ensure they remain fit for purpose. The most recent review was carried out by the Administering Authority’s investment advisers in autumn 2023. The review did not raise any concerns regarding the suitability of the current AVC arrangements. However, our advisers did comment on the performance of some of the funds members invest in.

More details about your current AVC investments can be found in the latest annual benefit statement you received. Alternatively, you can access information via the Prudential website, if you have registered for online access (see details at the end of this letter).

The purpose of this letter is to tell you about the observations made by the Administering Authority’s advisers in relation to investment performance, so that you can consider if your current investments are still right for you.

**Important** -Neither the Administering Authority nor anyone else connected to the Fund can provide financial advice or guidance to members and none of the information in this letter constitutes financial advice or guidance.

If you are unsure about any aspect of your pension planning, you should obtain independent financial advice. The Moneyhelper website provides information in relation to finding a financial adviser at: [Choosing a financial adviser | MoneyHelper](https://www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser)

Before you appoint anyone, you should check that the adviser is suitably qualified and authorised. You can do this online at [Financial Services Register | FCA](https://www.fca.org.uk/firms/financial-services-register) or by phoning the Financial Conduct Authority helpline on 0800 111 6768.

# Returns on cash have not kept pace with inflation

# *Relevant if your AVCs are invested in the Prudential Cash Fund or the Prudential Deposit Fund*

The Prudential Cash Fund and the Prudential Deposit Fund aim to provide a return in line with interest rates. For AVCs invested in the Deposit Fund, once interest is added, it cannot be removed if funds remain invested until the policy maturity date (so the amount held in the Deposit Fund cannot go down).

The high rates of inflation we have experienced over the past year or so mean that there has been a significant difference between the returns on the Prudential Cash and Deposit Funds and the pace at which prices are rising. This means the ‘buying power’ of AVCs invested in these funds is falling.

If you invest in the Prudential Cash Fund or the Prudential Deposit Fund, your AVCs are exposed to very little investment risk. If you are close to retirement, or you have very little appetite to take investment risk, you may decide the fact that the value of your AVCs is unlikely to fall is your key priority and therefore these funds might be right for you.

However, if you are comfortable taking some investment risk in return for the potential to achieve capital growth above the rate of inflation, then you may wish to consider the other investment options available to you.

You should be aware that the Deposit Fund is closed to money coming in so, if you switch out of this Fund, you will not be able to switch back into it at a later date.

# Bond investments have been volatile

# *Relevant if your AVCs are invested in the Prudential Fixed Interest Fund, Index-Linked, Long Term Bond or the Long Term Gilt Passive Fund*

Historically corporate bonds (loans to companies) and government bonds / Gilts (loans to the UK Government) have been considered a more stable investment, compared to investments that go up and down a lot, such as equities. However, returns from Gilts in particular have been far more volatile in recent years due to the extreme market events experienced over this period, such as the COVID-19 pandemic, uncertainty over Brexit, the ‘mini budget’ in September 2022 and increasing Bank of England interest rates to combat high inflation.

If your AVCs are invested in the funds listed above, you will have seen their value fall significantly.

# Despite suffering losses, investing in these funds is likely to remain an effective way of protecting the power of your AVCs to buy an annuity. Although none of these funds specifically aim to target annuity prices, annuity rates are affected by gilt yields and interest rates, amongst other things. This means that when the Prudential Fixed Interest, Long Term Bond or Long Term Gilt Passive Funds fall in value, the price of a level annuity tends to go down, so the amount of guaranteed income that can be bought with the fund stays broadly the same. This is also true of the Prudential Index-Linked Fund and index-linked annuity rates.

# Actively managed equity fund underperformance

***Relevant if your AVCs are invested in the Prudential UK Equity Fund***

The Prudential UK Equity Fund generated positive returns over 1,3 and 5 years to 30 June 2023. However, returns were consistently below the Fund’s benchmark and the Fund did not achieve its performance objective.

The Prudential UK Equity Passive Fund is available through the Fund’s AVC arrangement. Unlike the UK Equity Fund, the Prudential UK Equity Passive Fund does not have the potential to out-perform the FTSE All Share benchmark, but it does carry a much lower risk of under-performing the benchmark.

**Action required**

You should review the investment strategy for your AVCs regularly to make sure it remains suited to your requirements.

You can switch to different funds at any time by contacting Prudential using the contact details in the investment guide for the Fund’s AVC arrangement.

The investment guide sets out the options available to you, and the risks associated with each investment option. It also contains a link to Prudential’s fund factsheets, which provide further information on each fund, including past performance.

**Remember that the past performance of a fund is no guide to future performance, which cannot be guaranteed in advance.**

Please also remember that the Prudential Deposit Fund is closed to money in.

You can access the [**Fund’s investment guide here**](https://www.mandg.com/dam/pru/shared/documents/en/lavs1006501.pdf) or [**register for online access to your AVCs here**](http://www.mandg.com/pru/workplace-pensions/employees/public-sector-avc-schemes/local-gov).