

Title Initials Surname
FULL ADDRESS

19 July 2019
NILGOSC Ref.

Dear Title Surname

New Prudential Lifestyle Fund to replace all existing Prudential AVC Lifestyle Funds

We wrote to you on 1 July 2019 to inform you of changes to the Prudential Lifestyle Funds. Please accept our apologies as there was a minor error on page 2 of the letter explaining the new fund. Whilst the error did not present the new fund as materially different, please disregard the first letter and instead use this letter in making your decision. The information that is different to that in the original letter you received is shown in red on page 2.

You are currently invested in the NILGOSC AVC Scheme with Prudential and are invested in one of the five existing Lifestyle Funds. A joint decision has been made by NILGOSC and Prudential to close all existing Lifestyle Funds available to NILGOSC members and to automatically switch members' investments and future contributions to a newly created fund called the **Global Equity Encashment Target Lifestyle Fund**. Prudential will also be writing to you separately regarding this change.

The existing Lifestyle Funds available to NILGOSC members are no longer considered to be optimal investment options for NILGOSC members for the following reasons:

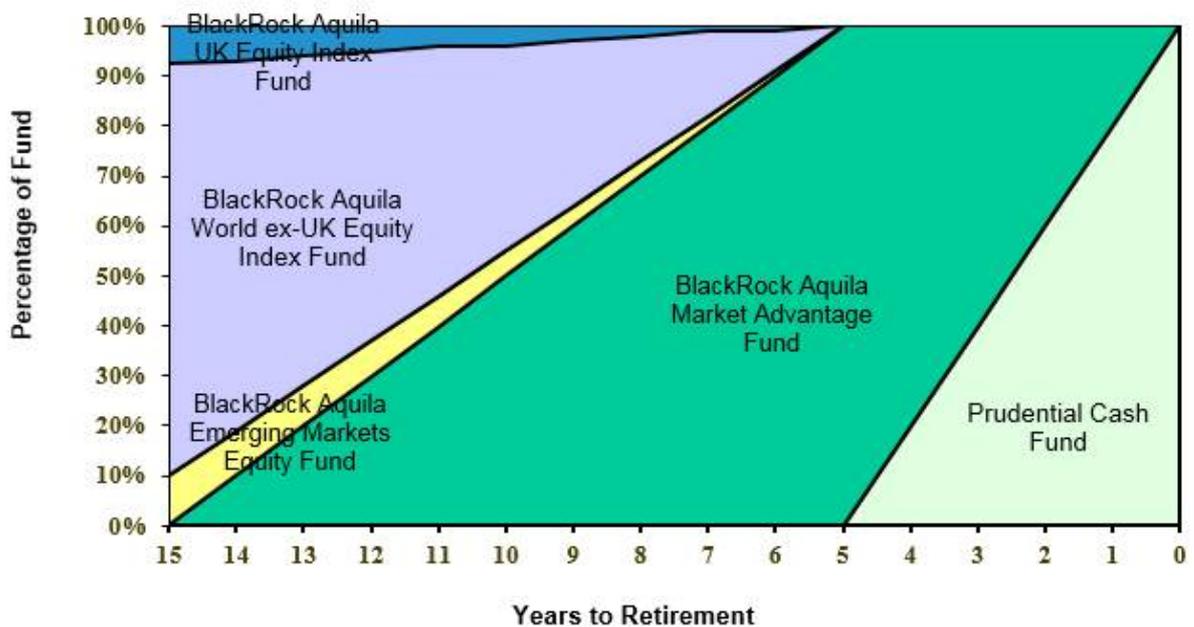
- The split of assets is not on a global market capitalised basis which means that the weighting of individual stocks, sectors and countries does not reflect that of global financial markets. This in turn affects the risk, return and volatility of the lifestyle funds.
- The BlackRock Aquila 50/50 lifestyle fund and Optimiser funds (Lifestyle Option 6, Lifestyle Option 8 and Lifestyle Option 10) only invest in UK markets which exposes members to UK market concentration risks, when it is better over the longer term to diversify and invest in multiple sectors and countries.
- The BlackRock Aquila 50/50 lifestyle fund has no transition phase which exposes members to a high level of concentrated equities in the approach to retirement which increases volatility and the potential variation in member retirement outcomes.
- The Optimiser Options (Lifestyle Options 6, 8 and 10) were established a long time ago and no longer fit the current pension environment due to their annuity focus and the risk associated with only investing in UK equities.
- Prudential has removed the Deposit Fund from its list of available funds. The Deposit Fund was used during the final stage of the current NILGOSC Lifestyle and BlackRock Aquila 50/50 lifestyle funds.

In light of the above, NILGOSC and Prudential have decided to close all existing lifestyle funds and create a new lifestyle fund with an amended growth phase to reflect a market capitalisation weighting. This change will reduce concentration risk and will also reduce

volatility during the approach to retirement by extending the transition into lower risk investments via a multi-asset fund. The new lifestyle fund will also invest in the Prudential Cash Fund rather than the Deposit fund that is used in existing lifestyle options, following its closure.

Global Equity Encashment Target Lifestyle Fund

NILGOSC, together with its investment adviser, Aon Hewitt, and Prudential have developed a replacement lifestyle fund for NILGOSC members. The new fund operates on a global market capitalised basis where the weighting of each stock, sector and geography is determined by the value of the index components, has a suitable transition period approaching retirement and uses the Prudential Cash Fund rather than the Prudential Deposit Fund. This new fund will be called the “Global Equity Encashment Target Lifestyle Fund” and is illustrated in the chart below, which shows how the fund will change your investments during the 15 years prior to retirement:



The new fund will initially invest 10% in the BlackRock Aquila Emerging Markets Equity Fund, **82.5% in the BlackRock Aquila World ex-UK Equity Index fund and 7.5% in the BlackRock Aquila UK Equity Index fund**. It commences switching fifteen years prior to a member’s selected retirement date (SRD) into the BlackRock Aquila Market Advantage fund and finally, five years before SRD, begins to switch into the Prudential Cash fund. The new fund is detailed in the Fund Guide available on the Prudential website at <https://www.pru.co.uk/pdf/AVCK0512.pdf> along with the factsheets for the five underlying funds shown on the chart above.

This new lifestyle fund will reduce concentration risk for members by introducing more diversification and will also reduce volatility during the approach to retirement by extending the transition into a lower risk multi-asset fund.

The cost implications of the changes to the lifestyle funds will depend on which fund you are currently invested in and will therefore vary. Full details of charges are available in the ‘Fund Guide’ available on the Prudential website. The table below provides a high level comparison of existing lifestyle funds with the Global Equity Encashment Target Lifestyle Fund.

Comparison of Global Equity Encashment Target Lifestyle Fund Charges against Existing Funds:

Fund	Growth Phase Charges	Peak Charge 5yrs pre SRD	Charge at SRD	Comment
Global Equity Encashment Target	0.665%	0.85%	0.55%	
NILGOSC Lifestyle Fund	0.665%	0.85%	0.0%	The funds used in the growth phase have the same charge as the new option. There is a difference at retirement because currently the Deposit Fund has no explicit charge. Prudential is removing this option which will require a switch to the replacement Cash Fund.
BlackRock Aquila 50/50 to deposit Lifestyle Fund	0.65%	0.65%	0.0%	The new fund has an allocation to the Prudential BlackRock Aquila Emerging Markets Equity Fund which is more expensive and results in a slightly higher charge (0.015%) during the growth phase. The new fund also has an allocation to the Prudential BlackRock Aquila Market Advantage Fund which has the highest charge of the sub-funds and results in a higher charge of 0.2% at 5 years from SRD. However, this is a gradual increase over a 10 year period which then decreases over the subsequent 5 years. The difference to charges at retirement is because the Deposit Fund had no explicit charge however Prudential is removing this option requiring a switch to the replacement Cash Fund. Overall the marginal increase during the growth phase is justified by the additional diversity and growth potential, while the additional cost during the approach to retirement is essentially for the risk management that the fund brings which is considered worthwhile.
Optimiser Lifestyle Options (Option 6, Option 8 and Option 10)	0.55%	0.55%	0.55%	These legacy "Optimiser lifestyle" options used Prudential's passive funds and so the charge was 0.55% throughout. This is 0.115% lower than the growth phase of the new lifestyle fund, but members will end up far more diversified utilising a global strategy as opposed to a concentrated UK only strategy, which has been detrimental over the last decade. The higher peak charge (0.3%) in the proposed new option reflects these risk management benefits. The charge at retirement remains the same at 0.55%. Overall the higher charges throughout the transition period to retirement are considered justifiable given the greater growth potential and diversification to help manage volatility. The new retirement target of encashment as opposed to annuity is more appropriate for members and lower risk.

Schedule for Changes

The new Global Equity Encashment Target Lifestyle fund became available to NILGOSC members during June 2019.

Your existing Lifestyle Fund investment(s) and future contributions will automatically be switched to the new Global Equity Encashment Target Lifestyle Fund on 27 August 2019. Prudential will write to you directly to confirm that the switch is complete.

We recommend that members carefully review their fund choice and ensure that the new Global Equity Encashment Target Lifestyle Fund is suitable for their needs, and if it is not that they consider switching their investments to an alternative available fund.

If you wish to choose a different fund, please contact Prudential on 0345 6000 343 before 12 August 2019 to stop your investments being automatically switched. If you decide at a later date that you wish to be in a different fund you can contact Prudential directly to move your investments to any of the funds available to NILGOSC members. You can also request a switch to a different fund via your online AVC account that can be accessed via www.pruetire.co.uk.

Prudential has a dedicated website that provides a wealth of information on AVC arrangements, which is accessible at: www.pru.co.uk/localgov. The website has been updated recently as a single site for all Local Government Pension Schemes and has been updated to be more user friendly and mobile optimised.

All members invested in AVCs are encouraged to read the 'Key Features' document on this website, which provides important information, including the key risks and benefits of investing in the AVC Scheme. This should be read in conjunction with the 'Guide to Fund Options' document referred to above. Factsheets on all the funds available within the NILGOSC AVC Scheme can be found in the 'View your Funds' section of the website at: http://www.pru.co.uk/rz/localgov/northern-ireland/get_started

Further information on the AVC Scheme, including the investment performance of funds in the approved AVC range can be found on the Members' section of the NILGOSC website at: <http://www.nilgosc.org.uk/additional-voluntary-contribution>.

If you require any further information in relation to your AVC fund, the Pensions Administration Team at NILGOSC is happy to help with your questions, but please remember that NILGOSC staff cannot give you financial advice about your investments. The Pensions Administration Team can be contacted on 0345 3197 325 or by email at info@nilgosc.org.uk.

Yours sincerely,



Louise Hickland
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