

PERFORMANCE OF CURRENT BTPS AVC PROVIDERS

1. Introduction

As part of the good management of BTPS, the Trustee reviews annually the relative performance of the Scheme's Additional Voluntary Contribution (AVC) providers. A major review of AVC providers was last undertaken in 2001/2002, and a number of new investment options were introduced and some options withdrawn to new contributors.

In October 2007 Barclays Global Investors' funds were closed to future contributions due to concerns about performance. At the same time, Hermes Assured's funds were transferred to equivalent funds with Legal & General. This was not because of Hermes' performance, but was because of their withdrawal from the passive investment market. No further changes are currently planned.

2. Current Investment Options

Currently the AVC investment options are:-

- Abbey National deposit fund
- Equitable Life with-profits - (only available to existing contributors)
- Equitable Life unit-linked managed fund – now known as Halifax Life managed fund (managed by Clerical Medical) – (only available to existing contributors)
- Standard Life with-profits
- Legal & General UK Equities index tracker
- Legal & General Global Equity fixed weights (50:50) index tracker
- BGI UK Equities active fund (closed to future contributions)
- BGI Global Equities active fund (closed to future contributions)

Appendix 1 contains an extract from Watson Wyatt's DC Governance Survey 2007 and includes charts showing the performance to 1 March 2007 of those With Profits AVC funds which participated in the survey. The Standard Life with-profits fund is included but no figures for the Equitable Life with-profits fund are available, as they did not contribute to the survey.

Performance figures for the unitised funds which did not participate in Watson Wyatt's survey are provided by the managers themselves and are set out in sections 7 and 8 below.

3. Abbey National

Shown below are the returns per annum from the Abbey National AVC deposit fund and the median of similar funds included in a survey by the actuarial firm Watson Wyatt. These returns are based on regular contributions of £100 per month. Interest is applied to these funds and they are viewed as very safe investment options as they are not susceptible to stock market volatility.

	Returns to 1 March 2007		
	3 Years % pa	5 Years % pa	10 Years % pa
Abbey National AVC Deposit Fund	3.9	3.8	4.1
AVC Deposit Fund median	4.0	3.8	4.1

The Abbey National returns are consistently around the median for similar AVC funds. The returns for such AVC funds tend to be closely bunched.

4. Equitable Life With-Profits Fund

Equitable Life's with-profits fund has suffered severe problems since December 2001 when it was closed to new business. Members of BTPS who have been contributing to this fund may continue contributions if they wish. However, members cannot contribute to this fund if they have not done so previously. Watson Wyatt's advice, sent to members in the past, suggested no further contributions should be made to Equitable's with-profits fund. Members are advised to seek independent financial advice.

Equitable Life has not participated in Watson Wyatt's annual AVC survey. We have no similar information to compare them with other with-profits funds that participate in the survey, and it is very difficult for Watson Wyatt to estimate performance without assistance from Equitable Life. Equitable Life makes announcements regarding its bonuses but does not produce any information that can be compared to other firms participating in Watson Wyatt's survey.

5. Equitable Life Managed Fund

Although Equitable Life has not participated in Watson Wyatt's survey, Watson Wyatt has derived some figures to show the estimated performance of the Equitable Life managed fund, which is now known as the Halifax Life managed fund. It is actually managed by Clerical Medical.

The returns per annum from this fund and the median of the managed funds included in Watson Wyatt's survey are shown below, based on regular contributions of £100 per month.

Returns to 1 March 2007			
	3 Years % pa	5 Years % pa	10 Years % pa
Halifax Life Managed Fund	5.41	7.69	4.73
Managed Fund median	13.4	12.3	6.2

This fund's returns fall below the median over 3, 5 and 10 years, and the underperformance has worsened in the last few years. As the performance of this fund has deteriorated over recent years compared to other similar funds the Trustees decided in 2005 that members should not be allowed to pay AVCs to this fund unless they are already contributing to it.

6. Standard Life With-Profits Fund

Standard Life's with-profits fund has produced good returns relative to other similar funds over the 3 years, 5 years and 10 years to 1 March 2007, as shown in the charts in Appendix 1. They are comfortably ahead of the median for all periods.

Returns to 1 March 2007			
	3 Years % pa	5 Years % pa	10 Years % pa
Standard Life With-Profits Fund	10.4	8.5	6.6
Survey median	8.1	7.6	4.5

7. Hermes Assured / BGI Equities Funds

Watson Wyatt's reports do not cover Hermes Assured and Barclays Global Investors' Equities funds, as the survey concentrates on managed funds, with-profits funds and cash funds. The following performance figures have been provided by the managers themselves.

UK Equities Funds

Returns to 31 March 2007

	1 Year %	3 Years % pa	Since Inception % pa
Hermes Assured UK Equities	11.2	18.0	6.6
Benchmark – FTSE All Share	11.1	18.0	6.6
BGI UK Equities	7.7	16.2	13.5
Benchmark – FTSE All Share	11.1	18.0	14.4

Global Equities Funds (50% in UK/50% overseas)

Returns to 31 March 2007

	1 Year %	3 Years % pa	Since Inception % pa
Hermes Assured Global Equities	7.5	16.5	5.1
Hermes Assured's Benchmark	7.3	16.3	4.8
BGI Global Equities	6.6	16.4	14.1
BGI's Benchmark	8.0	16.6	13.9

Notes

1. The inception dates for the funds were:

Hermes Assured UK Equities Fund – April 2001
BGI UK Equities Fund – August 2002
Hermes Assured Global Equities Fund – June 2001
BGI Global Equities Fund – August 2002

2. Hermes Assured and BGI construct their benchmarks for the global equities funds with slightly different weightings to the various global markets, hence the different figures.

Hermes Assured's performance against its objectives has been very good. However, the performance of the Barclays Global Investors Funds, particularly the UK Fund, has deteriorated in recent years. The Hermes Assured funds were transferred to Legal & General in October 2007 as a result of Hermes ceasing its index tracking business. The Trustee also decided that from November 2007 members would no longer be allowed to contribute to the BGI funds due to the underperformance and the loss of confidence in BGI.

8. Legal & General's funds

BTPS contributions to L&G began in November 2007. However, the historical performance of the funds (net of fees) is set out below for information.

Returns to 30 September 2007

	1 Year %	3 Years % pa	5 Years % pa
Global Equities (50:50) Index Fund	12.9	17.0	16.5
Benchmark – Composite	13.0	17.0	16.5
UK Equities Index Fund	12.1	17.0	16.7
Benchmark – FTSE All-Share	12.2	17.1	16.8

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Pensions Secretariat
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Appendix 1 – Extract from Watson Wyatt’s DC Governance Survey 2007 on performance results for with profits funds.

We asked the providers to give us details of accumulated fund values at maturity, taking account of the charges applied for clients of Watson Wyatt, assuming contributions of £25 per month and £100 per month. Data for the with-profits policies illustrated have been gathered together in the following graphs. Performance has been measured over three, five and 10 year periods to 1 march 2007.

We have split the figures to separately identify those providers whose AVC funds are open to new schemes and those now closed to new contracts, but continue to operate for existing schemes. Median with-profits fund figures are also shown in each table, and for comparison purposes, we have also shown the performance of the median bank/building society deposit fund and the median managed fund, calculated on the same basis.

When reviewing the results the following points should be borne in mind:

Not all providers’ contracts have been available for sufficient time for results to be available for the relevant time period. As a result, no performance information is shown in these cases.

No response was received from several life companies that previously contributed to the survey but that are now closed to new business, such as Equitable Life, Royal and Sun Alliance and Scottish Mutual so they have not been included in our survey.

Whilst every care is taken to ensure that the data shown in this survey is correct, Watson Wyatt is reliant on the accuracy of the information provided to us.

With-Profits fund performance - £25 per month contribution.



Figure 4a | Three-year performance to 1 March 2007 based on a contribution of £25 per month

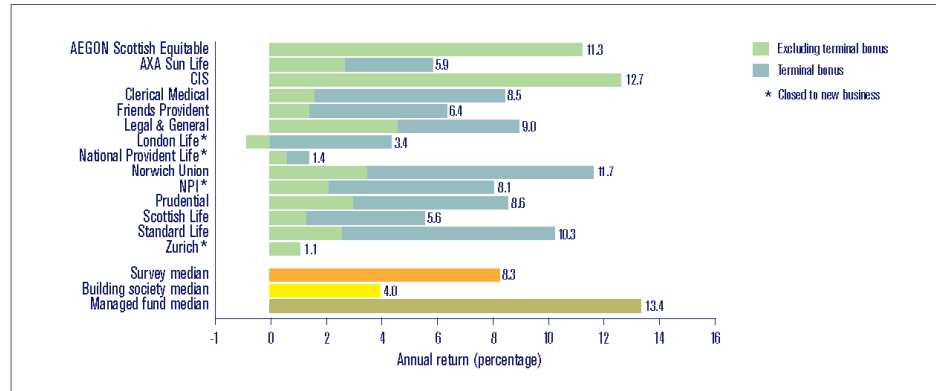


Figure 4b | Five-year performance to 1 March 2007 based on a contribution of £25 per month

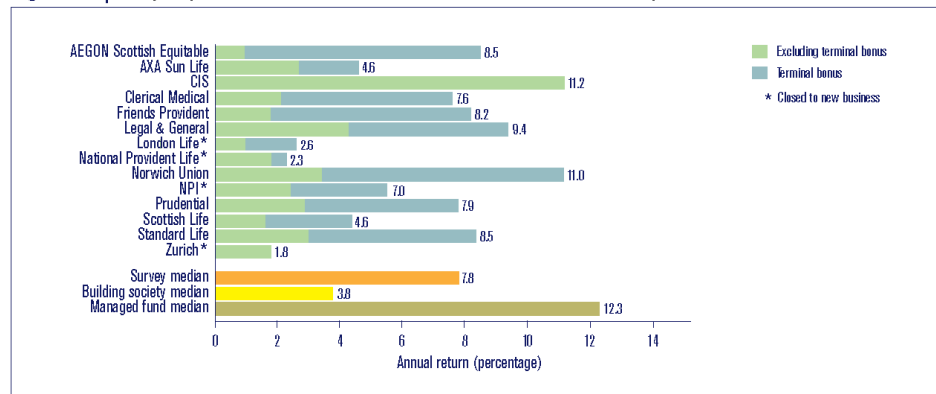
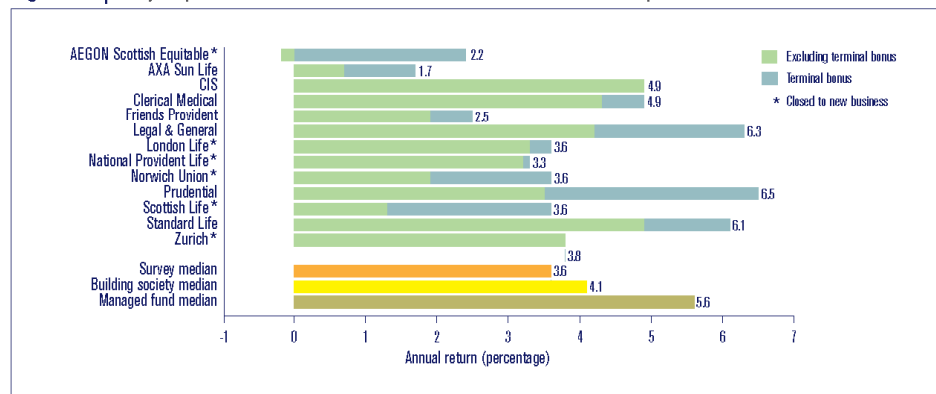


Figure 4c | Ten-year performance to 1 March 2007 based on a contribution of £25 per month



Appendix 1 – Continued.

With-Profits fund performance - £100 per month contribution.



Figure 4d | Three-year performance to 1 March 2007 based on a contribution of £100 per month

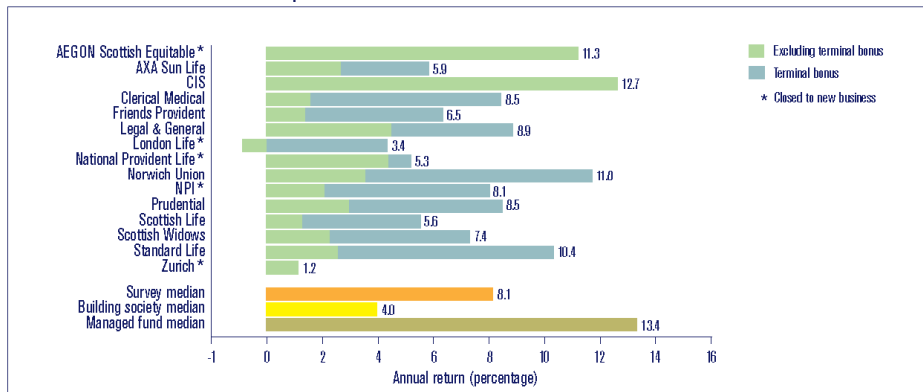


Figure 4e | Five-year performance to 1 March 2007 based on a contribution of £100 per month

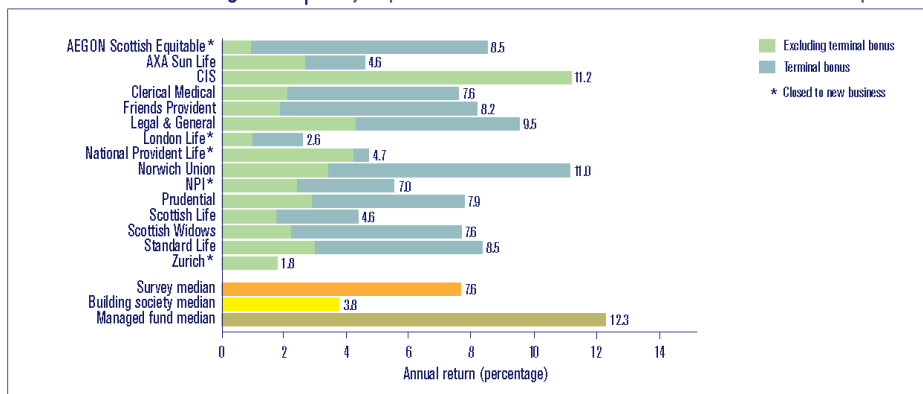


Figure 4f | Ten-year performance to 1 March 2007 based on a contribution of £100 per month

