Annual Governance Statement for year ended 31 December 2019 prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "Regulations")

As Chair of Trustees, it is my pleasure to report to you on how the Trustees have embedded these minimum standards over the year to 31 December 2019.

This statement covers four principal areas:

- Investment with particular focus on a Scheme's default investment arrangements.
- Internal controls, with particular focus on the processing of core financial transactions.
- Value, with particular focus on charges and transaction costs deducted from members' funds.
- The knowledge and resources available to the Trustees, and how these help the Trustees ensure that the Scheme is governed effectively.

1. Default Investment Option

The Scheme is not a qualifying arrangement for auto-enrolment compliance purposes and as such, there is no legislative requirement to have a default arrangement. Further, the Scheme is closed to new members and new contributions. The only investment option available in the Scheme is a With Profits Fund.

The default option is not a typical default option i.e. one in which members' current contributions in the absence of a decisions – it is captured by the latest definition of default options (whereby members' monies were once allocated without an active decision in the past). The arrangement is a legacy With Profits Fund arrangement provided by Aviva (formerly Friends Life) - the Aviva FP With Profits Fund (NGP Pre Demutualisation) - and is not expected to change year on year.

A high level review of the strategy was undertaken in November 2018 and an AVC review of the With Profits policies was undertaken in November 2019**.** The next review is scheduled for late 2021**.** As at October 2019, there were no active member in the Scheme. The arrangement has also been closed for a number of years. The return profile of the with profits funds depends on a number of factors including:

- Different guarantees which are dependent on when a member started contributing or when each contribution was actually invested.

- Payouts on surrender.

- Any augmentation for guaranteed terms and after the effect of 'smoothing'. In years when investment performance is high, some of the return is held back to 'top-up' returns when lower performance occurs. Hence, at the point a specific member disinvests, smoothing may reduce or increase the payout relative to the underlying investment performance of the assets, thereby reducing investment risk for the individual investor and providing a steadier pattern of return. The returns from smoothing are not guaranteed.

- Application of a Market Value Adjustment, which means that it is very difficult to predict whether a member will suffer an exit penalty on transfer out to another arrangement.

A number of these benefits are only realised when the member reaches retirement. The Trustees' view is that it would not be in members' best interests to disinvest from this arrangement. As at Q4 2019, the Scheme guaranteed a minimum growth of 4% which included the daily unit price of the fund. Policies within the Scheme have final bonuses and Market Value Reductions (MVR) could apply on death before Normal Retirement Date (NRD). No changes were made following the review and the Trustees expect the numbers impacted to reduce over time as they take their benefits.

2. Core Financial Transactions

The requirements of regulations have been met and core financial transactions have been processed promptly and accurately.

The Trustees have appointed a professional third party administrator, which is Aviva.

Service levels from Aviva are monitored by the Trustees and a report is received annually by the Trustees from Aviva. For the purposes of core transactions, service levels have achieved the targets agreed where applicable. The Trustees have noted that a number of items that are deemed as core transactions, such as the investment of contributions and the transfer of investments, are not relevant for this Scheme.

The Trustees discuss cases of retirement and transfers regularly at Trustee meetings to ensure cases are progressed on time.

There are close working links between internal Finance, Human Resources and Payroll teams as well as the Trustees' advisers, Mercer, and Aviva in order to respond to the member queries when they are raised.

The Trustees consider individual cases at each Trustees' meeting to verify that leavers and retirement requests have been processed promptly and accurately. Cases where this has not occurred have been limited and have been escalated by the Trustees.

The Trustees seek to verify where members are requesting transfers to ensure, as far as possible, that they are not victims of pension scam activity.
The Trustees have also verified that appropriate disaster recovery plans are in place with Aviva.

The Trustees also appoint an independent auditor to carry out an annual audit of the Scheme, including the core financial transactions that have taken place during the Scheme year.

3. Charges and Transaction Costs

Due to the way in which the With Profits Fund is structured, any fee is charged as an implicit fee within the bonuses declared and, as such, it has not been possible to ascertain the fee charged for members of the Scheme.

In addition to investment managers' expenses included in the TER, investment funds are subject to other implicit costs, such as the investment manager's expenses associated with trading a fund's underlying securities, including commissions and stamp duty. These expenses are not explicitly deducted from the fund but are captured by a reduction in investment returns.

The Financial Conduct Authority has provided guidance (PS17/20) to investment managers regarding calculations and disclosures of transaction costs which comply with the updated Regulations. The Trustees fully support transparency of costs for members and has requested this from Aviva in relation to these funds.

Providing a meaningful illustration for With-Profits Fund and its peers is extremely challenging due to the workings and the transparency available from providers. It is important to understand how these funds work.:

- Specific With-Profits Fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. The available universe of With-Profits funds is not sufficiently alike to enable relative assessments based on just past or even potential performance.

- Payouts on surrender and maturity will reflect all charges incurred, though they are not separately identified. Moreover, the actual performance received by members, net of charges, is only ever known upon maturity/surrender, after any augmentation for guaranteed terms and after the effect of 'smoothing'.

- ‘Smoothing’ is an additional comfort factor within With-Profits Funds. In years when investment performance is high, some of the return is held back to ‘top-up’ returns when lower performance occurs. Hence, at the point a specific member disinvests, smoothing may reduce or increase the payout relative to the underlying investment performance of the assets, thereby reducing investment risk for the individual investor and providing a steadier pattern of return. Insurers are required to stipulate that the payout in the event of early disinvestment will fall within a specified percentage of the underlying share of the assets attributable to the specific investor. These ranges are targets, they are not guaranteed.

- Finally, With-Profits investments may be subject to a Market Value Adjustment, which means that it is very difficult to predict whether a member will suffer an exit penalty on transfer out to another arrangement.

Given the nature of the investment, the Trustees have been unable to separately identify the costs and charges associated in relation to transactions, having made efforts to obtain this from the provider. The Trustees’ advisers will continue to engage with the provider in order to try and change this in future.

Providing a comparison between a With-Profits Fund and its peers is extremely challenging. Each With-Profits Fund offers different terms and guarantees and, hence, will invest very differently from one another, which in turn impacts the performance received through payouts. Indeed, a specific With-Profits Fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. The available universe of With-Profits funds is not sufficiently alike to enable relative assessments based on just past or even potential performance. The funds offer a capital guarantee.

Assessing value for money on a With-Profits Funds is therefore directly related to an individual’s attitude towards, and capacity for, investment risk, as well as their individual circumstances. A member may find comfort in the fact that a with-profits fund provides guarantees; whether that is a guaranteed pension, investment return or “just” capital security. Therefore, we consider it inappropriate to reach a general conclusion on value for money from the with-profits arrangements, as this will vary greatly by member.

Disclosures of the impact of costs and charges

Using assumptions on costs and charges and in accordance with regulation 23(1)(ca) of the Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples. We have assumed a total cost to members of 0.65% p.a. for the purposes of the illustration and a return assumption based on the available asset allocation.

The below illustration has taken into account the following elements:

- Savings pot size;
- Noting contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of charges on a typical member's pension pot, we have provided an example below:

	Aviva FP With Profits Fund (NGP Pre Demutualisation)	
Year	**£5000 Pot Size with no charges Incurred**	**£5000 Pot Size with charges Incurred**
1	5,057.19	5,024.32
3	5,173.53	5,073.30
5	5,292.55	5,122.77
10	5,602.22	5,248.55
15	5,930.01	5,377.42
20	6,276.98	5,509.45

NOTES
Projected pension pot values are shown in today's terms
Projected pension pot values are shown in real terms.
Inflation increases are assumed to be 2.5% p.a.
The starting pot size is assumed to be £5000 for a member that is aged 45, which is appropriate for the typical member
All Scheme members are deferred therefore no allowance has been made for future contributions
Costs and transaction charges are assumed to be 0.65% p.a.

4. Trustee Knowledge and Understanding

The requirement under the Pensions Act 2004 (requirement for knowledge and understanding) has been met during the Scheme year by the Trustees as a body in dealing with the governance requirements relating to the Scheme.

The Trustees have arrangements for ensuring the individual trustees take responsibility for keeping up to date with relevant developments. Training for the full board is provided regularly during quarterly meetings and trustees attend external trustee training courses when appropriate.

In order to maintain this level of knowledge, the Trustees have procedures and policies in place to ensure that the Trustees take personal responsibility for keeping up to date with relevant developments:

- Trustees undertake training to ensure that they keep up to date with changes in legislation, current issues and the latest developments relating to DC schemes;

- Trustees note the importance of logging any training that the Trustees have undertaken;

- Training for the full board is provided during quarterly meetings and Trustees attend external Trustee training courses when appropriate, which are logged at Trustees' meetings.

Over the course of last year, the Trustees have demonstrated their continuous commitment to learning by undertaking the following training:

- New Trustees completed the Pension Regulator Toolkit. Certificate of achievements are detailed in the training log.

- Formal training took place at meetings on 01/03/2019 and on 06/12/2019, covering Environmental, Social and Governance Factors and With Profits Funds to ensure that they are able to govern these assets effectively and understand the relevant terminology.
- The Scheme advisers provided updates on DC pensions landscape at quarterly meetings. In 2020, Trustees' training scheduled includes further training on the DC

Code of Practice to support the assessment and the updated requirements in relation to the Statement of Investment Principles.

The Trustees undertook a number of activities over the past year which demonstrates how they have a working knowledge of pension and trust law and funding and investment principles. These activities include:

- The SIP has been reviewed and updated with the investment strategy changes. The Trustees have used the training in relation to the requirements in relation to ESG and this has been reflected in the SIP.

- The rules within the Trust Deed have been applied in relation to member transfer requests.

The Trustees believe that the best run Schemes utilise the combined skill and knowledge of both the Trustees and their professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors. Additionally, the following measures have applied during the period:

- The Trustees' professional advisors attend their formal meetings;

- The Trustees receive briefings from their advisors on all legislative and regulatory developments at each meeting.

I confirm that the above statement has been produced to the best of my knowledge.

Signed for and on behalf of the Trustees of the Professional Golfers' Association Ltd No.2 Retirement and Death Benefits Scheme.

Date ……………………………………………..……...
By Stephen Phillips

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Chair of Trustees