

# **Annual Governance Statement for year ended 31 December 2021 prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "Regulations") – Policy F22582**

As Chair of Trustees, it is my pleasure to report to you on how the Trustees have embedded the required minimum governance standards over the year to 31 December 2021.

This statement covers four principal areas:

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

## **1. Default Investment Arrangement**

The Scheme is not a qualifying arrangement for auto-enrolment compliance purposes. 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' contributions were once allocated in the absence of a decision – 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 formal review of the strategy was undertaken in December 2021, as part of the triennial investment strategy review, which recapped of the components of the With Profits policies and the associated terms that are in place in relation to guarantees and penalties. As at December 2021 there were no active members in the Scheme. This Scheme is also closed to new members and now consists only of deferred members. 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 the policies within the Scheme have final bonuses and Market Value Reductions (MVR) could apply on death before Normal Retirement Date (NRD). Disinvesting could trigger the loss of final bonuses or a reduction in policy value. No changes were made following the review and the Trustees expect the numbers impacted to reduce over time as they take their benefits.

The Trustees are comfortable that the default option is consistent with the objectives stated in the Statement of Investment Principles. There has been no material changes to the membership during the year and therefore the Trustees are of the view that no changes were required.

## 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. The overall SLA performance. There was a change in the volume of demands between 20% and 50% and this is considered to be moderate. The top three demands this year by volume of service were:

- customer amendments, with around c.75% of demands completed within 1 day;
- general administration, with around c.75% being completed within 14 days (almost 25% completed within 1 day; around 30% completed within 2 – 5 days and 25% completed within 6 – 14 days)
- leaver process, with around c.90% being completed within 5 days (c.50% of demands completed within 1 day).

There were no complaints received by Aviva on behalf of members. The Trustees continues to challenge Aviva in relation to any concerns during the year and this remains an ongoing discussion at Trustees' meetings with a granular review undertaken at the Q4 Trustees' meeting where Aviva presented their governance report.

The Trustees discuss cases of retirement and transfers regularly at Trustees' 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 highlighted 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.

Taking these limitations above, the Trustees have taken the view that the best way to provide good value to members is to maintain the policies and avoid the risk of members losing out on the returns that are contracted under the policies.

#### ***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	£5,000 Pot Size with no charges Incurred	£5,000 Pot Size with charges Incurred
1	5,045.68	5,005.86
3	5,138.28	5,017.61
5	5,232.59	5,029.39
10	5,475.99	5,058.96
15	5,730.72	5,088.70
20	5,997.29	5,118.61

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.
The return assumptions have been calculated using the underlying asset allocation and assumes no changes. The projected gross growth rates for the underlying components are as follows: <ul style="list-style-type: none"> <li>• Equity: 5.50% p.a. before inflation</li> <li>• Property: 4.25% p.a. before inflation</li> <li>• Gilts: 0.75% p.a. before inflation</li> <li>• Corporate Bonds: 1.75% p.a. before inflation</li> <li>• Cash/Money Market: 0.75% p.a. before inflation</li> </ul>
No allowance for guarantees, smoothing or market value adjustments.

#### 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.

For new Trustees, when they are appointed, they are given an initial introduction by the HR team and are required to undertake and complete The Pensions Regulator's Trustee Toolkit course within six months of taking up the position. Attendance at Trustees' meeting during this time also support them to build knowledge and understanding of specific issues to the Scheme. The new Chair of Trustees was appointed during the Scheme year and has completed the relevant modules in the Trustee Toolkit.

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:

- 26 February 2021 – training on the security of member assets if the relevant Aviva company or a fund manager, which manages assets on behalf of the Aviva group, became insolvent
- 11 June 2021 – training on the new requirement for a SIP Implementation Statement.

- 3 September 2021 – training on the Triennial Investment Strategy review paper, including ESG matters
- 3 December 2021 – training on the new Value for Members’ Regulations that will take effect from January 2022, including the regulation for schemes of less than £100m

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 rules within the Trust Deed have been applied in relation to member transfer requests.
- The production of the implementation statement for the Scheme documents demonstrates how the Trustees have implemented the policies with the Statement of Investment Principles.

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 Retirement and Death Benefits Scheme.

**Signed by:**



**Name in block letters: ROBERT SPENCER-SMITH**

**Title or Position: CHAIR OF TRUSTEES**

**Date: 26<sup>TH</sup> JULY 2022**