

**THE PROFESSIONAL GOLFERS' ASSOCIATION LTD RETIREMENT AND DEATH BENEFITS SCHEME (THE "SCHEME") – POLICY F29359**

**STATEMENT OF INVESTMENT PRINCIPLES IN RESPECT OF THE DEFAULT INVESTMENT STRATEGY**

**1. Introduction**

- 1.1 The Trustees of the Scheme have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation, relating to provision of information specific to investment that have been defined as "default investments", referred to as "Default Investment Strategy". This should be read in conjunction with the main Statement of Investment Principles.
- 1.2 In April 2018 the Department for Work and Pensions ("DWP") amended the Occupational Pension Schemes (Charges and Governance) Regulations 2015, effective from 6 April 2018. In particular, the DWP's guidance in association with new regulations clarified the government's policy in relation to default investment arrangements. This Scheme only has one investment option, which constitutes a default, noting that the Scheme has no active members.
- 1.3 The Default Investment Strategy covered by this Statement is the Aviva FP With Profits Fund (NGP Pre Demutualisation) Arrangement.
- 1.4 This arrangement is closed to new members and new investments. However, members' investments were placed into the Default Investment Strategy historically, where they did not make a specific request for their accounts to be invested in a different manner at the time when the arrangement was open.
- 1.5 The Default investment Strategy, the Aviva FP With Profits Fund (NGP Pre Demutualisation) arrangement, adopts an investment approach that is defined by the bundled pension scheme provider, Aviva.

**2. Default Investment Strategy**

**Objectives**

- 2.1 The aims of the Default Investment Strategy and the ways in which the Trustees seek to achieve these aims are detailed below:

- To generate returns in excess of inflation during the lifetime of the investment.

*The default invests in a mix of assets with a view to achieving long term real growth from the asset pool. The investment objective for Aviva is "to aim for long term growth by investing in a broad range of assets to provide the best possible returns, allowing for the level of guarantees and the amount of excess assets in the Fund".*

- To provide a strategy that manages investment risk over the lifetime of the investment

*The Trustees believe that a strategy that manages risk through a diversified allocation is appropriate.*

- To provide a strategy that manages the volatility of investment returns through "smoothing"

- *A feature of the with profits nature of the fund is the aim to grow the investment "smoothly" year on year by not paying out bonus rates in full in when annual investment returns are very strong, and then using them to offset years when investment returns are poor – this is known as smoothing.*

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### Policies in relation to the default investment option

2.2 The Trustees' policies in relation to the default investment option are:

- The Default Investment Strategy manages investment risks through a diversified strategic asset allocation consisting of traditional assets i.e. equities, bonds, property and cash. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.
- In designing the default investment option, the Trustees explicitly considered the trade-off between expected risk and return. As the arrangement has been closed for some years, investment policy has not developed since inception and remains at the discretion of the provider. The Trustees believe that delegating ongoing management and design to the provider is appropriate in this instance, given the nature of the arrangement.
- The Trustees believe that leaving these assets in this default investment option remains in the best interests of members, in order that they have the opportunity to benefit from future returns in the form of bonus rates, and, importantly, to avoid the impact of any reductions applied for early disinvestments from the with profits arrangement.
- The Trustees have also taken into account the needs of members with regards to security, quality, liquidity and profitability of a member's portfolio as a whole. The Trustees have accepted the policies of the provider in relation to these matters.
- Assets in the Default Investment Strategy are invested in a pooled investment vehicle, which is managed by Aviva. The selection, retention and realisation of assets within the funds are delegated to Aviva. The decisions with regards to the bonus rates that members receive, based on the performance of the underlying investments, is decided by Aviva. The Trustees believe that this is an appropriate level of delegation.
- Aviva has full discretion (within the constraints of their mandates) on the extent to which environmental, social and governance (ESG) considerations are taken into account in the selection, retention and realisation of investments. Whilst the Trustees have not sought feedback from our members directly on their views on these issues, we welcome member views in this area.
- Activities relating to the exercise of voting rights on investments and engagement with investee companies are delegated to Aviva as the fund manager.
- The asset allocation of the Default Investment Strategy as at 31 December 2023 is shown in the following table.

Asset Class	Allocation %
UK Equities	13.1
Overseas Equities	27.4
Property	9.5
UK Fixed Interest Gilts	15.3
Other Fixed Interest	33.8
Cash/Money Market Instruments	0.8

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### 3. Risk

- 3.1 The Trustees have explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members. In particular, when reviewing the investment strategy, the Trustees consider risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members.
- 3.2 From a qualitative perspective, the Trustees also consider risk in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment option. As this is a legacy arrangement, members typically have small fund values within the Default Investment Strategy. As such, the Trustees seek to mitigate potential mismatches by communicating clearly with members regarding the objectives of the arrangement.
- 3.3 The Trustees consider the liquidity of the investments in the context of the likely needs of members. The default arrangement is daily dealing and therefore should be realisable based on member demand.
- 3.4 The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

Risk	How it is managed	How it is measured
<b>Inflation Risk</b>	During the lifetime of the Default Investment Strategy, investments are held in a diversified range of assets which are likely to grow in real terms.	Considering the real returns (i.e. return above inflation) based on declared bonus rates with positive values indicating returns that have kept pace with inflation.
<b>Volatility of returns</b>	The Default Investment Strategy is invested in a fund that targets no defined return objective but seeks to smooth out returns to avoid volatility.	Consideration of bonus rates year on year.
<b>Market Risk</b>	Investments are held in a diversified range of asset classes.	By monitoring the asset allocation periodically.
<b>Currency Risk</b>	Assets are invested in overseas equities and international bonds without a currency hedge. investment strategy is set by the manager of the fund, who has the discretion to invest in hedged equivalents.	By monitoring the asset allocation periodically.
<b>Liquidity Risk</b>	Funds have daily dealing facility, at the discretion of the provider.	By receiving periodic updates from the provider on fund strategy and liquidity.-
<b>Environmental, Social and Governance Risk</b>	The Trustees' policy on ESG risks is delegated to the manager of the Fund	Through annual reporting from the provider

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### 4. Suitability of Default Investment Strategy

4.1 Based on their understanding of the Scheme's membership (all members are deferred members), the Trustees believe that the above objectives and policies reflect members' best interests. The rationale underpinning this belief is as follows:

- The arrangement is aimed largely at members who do not feel capable of taking investment decisions. The Trustees believe that investment in a diversified investment fund which seeks to smooth out investment returns over the long term is appropriate for these members – particularly noting that this will not be their main pension provision and that the Scheme is closed.
- Members seeking an adequate income in retirement will likely need to achieve real investment returns for most of their period as pension savers. The use of a fund with significant weightings in asset classes that are expected to produce long term real growth is suitable for this.

4.2 The Trustees are aware that fund sizes for members approaching retirement are small and members are likely to take their savings in cash at retirement. However, members will likely have other savings that can be consolidated with those from this Scheme.

### 5. Socially Responsible Investment

5.1 The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole – which in turn may have a positive impact on member outcomes.

5.2 As the assets of the Scheme are invested in pooled funds, the Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments.

### 6. Corporate Governance, Voting and Engagement

6.1 The Trustees believe that good corporate governance is important and they expect their investment managers to have developed a policy which promotes the concept of good corporate governance and, in particular, a policy of exercising voting rights.

6.2 As the assets of the Scheme are invested in wholly insured arrangement with investments in pooled vehicles the Trustees accept that the assets are subject to the investment fund managers' own policies on corporate governance, voting and activism.

6.3 The Trustees have given appointed investment managers, underlying the Aviva fund, full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the investments.

6.4 The Trustees are able to encourage them to exercise those rights on behalf of members' interests when they believe there could be a potential financial impact on the funds, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

6.5 The Trustees have determined the following ESG themes as the basis for the Scheme's "most significant votes" in respect of the investment manager engagement activities:

- **Environmental:** Climate change with a focus on low carbon transition and physical damages resilience.

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- **Environmental:** Pollution & natural resource degradation with a focus on air, water, land (forests, soils and biodiversity).
- **Governance:** Diversity, Equity and Inclusion in terms of governance and decision making.

### 7. Day-to-Day Management of the Assets

#### Aligning Manager Appointments with Investment Strategy

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the single investment option available.

The Trustees will seek guidance from the Investment Consultant, where appropriate, for their forward looking assessment of a manager's ability to perform over a full market cycle. There are limitations with what is achievable in relation to with-profits policies, given the nature and patterns for how returns are achieved.

The Trustees will review the appointment if the investment objective or any associated guarantees change to ensure they remain appropriate and consistent with the Trustees' wider investment objectives.

The Trustees invest in pooled investment vehicles so they accept that they have no ability to specify the risk profile and return targets of the investment option.

Aviva will be indirectly aware, given that the Trustees access funds via a platform, that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to review the appointment.

#### Evaluating Investment Manager Performance

The Trustees receive investment manager performance data at least from Aviva.

The Trustees focus on long term performance but they may review Aviva's appointment if there are sustained periods of underperformance. The Trustees acknowledge that a review is unlikely to lead to action to disinvest, given the nature of the with-profits investment and the patterns on returns.

#### Portfolio Turnover Costs and Manager Turnover

The Trustees seek to monitor portfolio turnover costs, which are incorporated in the annual costs and charges as part of its annual value for members' assessment, where possible. Again, there are limitations on the information available for with-profits arrangements.

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis.

### 8. Policies in relation to Illiquid Assets

- 8.1 The Trustees considers illiquid assets as assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund. The Aviva FP With Profits Fund (NGP Pre Demutualisation) Fund, includes a direct allocation to Property of c. 9.6% as at 31 December 2023. We acknowledge this position in illiquid assets provides diversification in the solution.
- 8.2 The Trustees are comfortable directly and indirectly investing in a small proportion of members' assets in illiquid assets through the Aviva FP With Profits Fund (NGP Pre Demutualisation) Fund, in order to capture the potential for higher returns and benefits of diversification relative to more traditional asset classes (such as bonds or equities) that illiquid assets can offer. While these benefits are recognised by the Trustees, it is also aware of the risks to members. Given the potential for valuations of illiquid assets to not reflect their true value at a given time and concerns over liquidity

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management, Aviva maintains the direct investment into illiquid assets at a relatively modest proportion of total assets.

8.3 For any further illiquid allocation in future, the Trustees will carefully consider whether the investment provides value for members taking account of the potential for returns and associated risks. It is the Trustees' policy to review the allocation of the default investment strategy on at least a triennial basis. Such reviews will include whether the level of illiquid asset investments continues to be appropriate. This policy reflects the current position of the Scheme.

**9. Review of this Statement**

9.1 The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

**Signed by:**



**Name in block letters:**

ROBERT SPENCER-SMITH

**Title or Position:**

CHAIR OF TRUSTEES

**Date:**

19<sup>TH</sup> JULY 2024