

Important Announcement to members of the following Pension Schemes (“The Schemes”)

Mendip RBS

Pennines RBS

We have been made aware of an email sent to members by Mr John Woodward, one of the original trustees of the Pennines RBS and Mendip RBS.

Reminder of court proceedings

As explained in our second announcement, Dalriada has issued court proceedings against Mr Woodward and other parties alleging that Mr Woodward and his fellow trustee, Ms Jennifer Ilett, promoted the transfer of members’ pension funds into the Schemes on the promise of making a loan available. Funds were then invested, through the purchase of preference shares, in the various Hedge companies which are operated and controlled by Mr John Davies, a close associate of Mr Woodward and Ms Ilett.

Dalriada has alleged in the court proceedings that these investments were made in breach of trust and contrary to legislation. This is addressed more fully in our second announcement (<http://www.dalriadatrustees.co.uk/files/20120629-Pennines-Second-Annoucement-to-Members.pdf>).

Mr Woodward's email gives a misleading picture of what has actually occurred, and we would like to correct this misrepresentation.

Legal costs

The legal costs here are not being driven by Dalriada but by Mr Woodward, Mr Davies and the Hedge companies.

The Directors and owners of the Hedge companies have made almost no personal investment in the Hedge companies. The companies’ assets are made up almost entirely of members’ pension funds. The Hedge companies are therefore using monies originating from those funds in order to continue the litigation and meet their enormous legal costs. Costs to date incurred by DWF (the Hedge companies’ solicitors) are in excess of £1m. Dalriada has successfully applied to the Court to disallow payment of approximately £190,000 of those costs pending conclusion of proceedings in order to protect members' funds as far as possible. It is exceptional for legal costs to be disallowed in this way at this stage of proceedings. This is not, however, the end of the matter, and Dalriada will contend that even the costs actually received by DWF to date are not reasonable and should, in due course, be reduced further. The sums paid to date have been acknowledged by the court to be the **most** that could be considered reasonable.

Other costs saved

As we have previously reported to you Dalriada has successfully obtained a freezing injunction in respect of the assets of the Hedge companies up to £18m in value. Furthermore, before the Hedge companies can make payments from the frozen funds Dalriada has an opportunity to object. Not only has Dalriada been successful in applying to the Court to reduce payments in respect of legal costs that the Hedge companies were seeking to make (effectively monies originating from your pension funds) to DWF but also:

- Dalriada has stopped any further payments to T12, the administrators appointed by the previous trustees. Mr Woodward had agreed to pay £500 each and every year from each and every member's pension fund. T12 is threatening legal action, which Dalriada will resist in order to further protect your pension funds.
- Dalriada has prevented Mr Woodward and a number of other Hedge employees from continuing to draw weekly wage payments from monies originating from your pension funds.
- Dalriada has prevented a number of other areas of expenditure on rent, rates and other business expenses that would undoubtedly have continued to come from monies originating from your pension funds had it not taken action.

Investments

As Mr Woodward states, the funds that are frozen within the Hedge companies are currently held in bank accounts. If Dalriada succeeds in having the funds returned by the Hedge companies they will be invested in a prudent way by an experienced, properly qualified and fully regulated fund manager.

Mr Woodward and the Hedge companies do not meet any of these criteria and, by investing solely in preference shares in one company, have invested the money in a manner that they themselves have been advised was possibly in breach of legislation (and Dalriada's legal advisers contend certainly was).

It is Dalriada's view that the Hedge companies have acquired on your behalf an illiquid and poorly diversified collection of investments that it is very unlikely any properly qualified investment manager would invest a pension fund in. We sincerely hope that one or more of these investments will pay off and we will do everything we can to protect the investments. We do not anticipate that these investments will deliver the promised returns that members were advised of.

Examples of the speculative investments that Mr Woodward and Mr Davies have undertaken with your money are:

- Unsecured, interest only loans to individuals who may never be able to pay them back and at a rate of interest that is uneconomic.
- An iPhone app. There are 700,000 applications on Apple's AppStore – most of them never make any money. We hope that Ko-Su, the application in which your pension fund is invested, is an exception and have supported more funds going into it subject to our

request for an independent assessment of the business. To date the Hedge companies have not agreed to this reasonable request.

- Investments in Sustainable Wealth Group, promoted by Forensic Review, offering cash inducements for members to transfer. Forensic Review was under investigation by the FSA and has been struck off the Register of Companies. Sustainable Wealth itself has entered into administration following an application by the Serious Fraud Office. Over £2m of funds invested through Sustainable Wealth were transferred to the US without the knowledge of the Hedge companies, and the Hedge companies have embarked on legal action in the US in an attempt to salvage something from this investment. Dalriada is willing to support this action, subject to Dalriada having discussions with the legal advisers involved (something the Hedge companies again are reluctant to allow us to do). We are aware that Forensic Review was under investigation by the FSA early in 2012.
- An investment in a potentially defunct theatre production based on Coronation Street. We have not been provided with any information about this by the Hedge companies but understand from press reports in May this year that the tour of the production has been postponed (after just two performances) pending the show being "reworked".

We understand from members that they were led to believe the investments gave a guaranteed return of 3%. We would point out to members that there is not, and never was, any guarantee on the return on the preference share investments. Returns are subject to there being 'distributable profits' which, given the nature of the investments, there are unlikely to be.

Loans

Mr Woodward commented that Dalriada had conceded that the loan arrangements were 'perfectly lawful'. We have at no point said that the loans themselves were unlawful; we have merely argued that the set-up of the Schemes, of which the loans form part, was unlawful.

Mr Woodward also alleges that Dalriada intends that members who have received loans must pay them back. This is not true and we have never said this. In fact, we have explicitly said that this is not the case under the Q&A section on the Pennines and Mendip website – see <http://www.dalriadatrustees.co.uk/pennines-and-mendip/>

The issue as to whether the loans are liable to tax is an issue for HMRC to determine. It is a matter of tax law and outside the control of Dalriada or indeed any trustee. Mr Woodward's allegations about Dalriada's intentions are totally without foundation. The Ark pension schemes mentioned by Mr Woodward relate to entirely different circumstances and, even with the loans arising out of those schemes, we will only seek repayment in the event that a Court sanctions this.

Timing of Beddoe application

Dalriada only learned within the last few days (at the same time as the Hedge companies and their legal advisers) that the Beddoe application will be heard in early November, possibly starting as early as Monday 5th.

Mr Woodward's allegation that Dalriada has given extremely short notice of this hearing is unfounded. He has been aware of the application since August and has had plenty of opportunity since then (and even since June, when he knew the application was being made) to send his email. He has not done so until a mere few days before the hearing.

Dalriada made all members aware of the Beddoe application in June (see <http://www.dalriadatrustees.co.uk/files/20120629-Pennines-Second-Annoucement-to-Members.pdf>) and after the appointment of a representative beneficiary our announcement dated 31 August (see <http://www.dalriadatrustees.co.uk/files/20120831-Further-Announcement-to-members.pdf>) provided details of the representative beneficiary Mr Peter Gwilliam and his legal advisers Eversheds to whom the members could make representations.

Dalriada has sought expedition of the Beddoe hearing so that it can progress its action against the Hedge companies and get the Schemes into a properly managed position as quickly as possible and, indeed, welcomes the early hearing date, which can only be in the interests of the members.

Settlement discussions

Mr Woodward has referred to settlement discussions. For legal reasons, we cannot go into the detail of those discussions here - and nor are Mr Woodward or the Hedge companies entitled to do so - but it is simply untrue to assert that Dalriada did not engage in discussions. Quite the reverse in fact, Dalriada was very open to discussions and patient with the Hedge companies but was simply not presented with any meaningful proposals that would have brought the proceedings to a satisfactory conclusion and address the problems with the Schemes that both Dalriada's and the Hedge companies' own legal advisors have identified.

Dalriada therefore is firmly of the view that it is the Hedge companies who are responsible for the lack of progress with settlement discussions and, as a result, the legal costs incurred since then.

Continuation of the proceedings

Dalriada is arguing that the litigation should continue because it believes, as it has done from the outset, that Mr Woodward and the Hedge companies cannot be allowed to continue to spend monies that originate from, and were invested out of, your pension funds on:

- investments that Dalriada alleges are ill conceived, illiquid, contrary to legislation and in breach of trust;
- salary payments for themselves with no evidence of any need for large numbers of employees;
- rent, rates and other business expenses with no evidence of any need for continuing expenditure and no explanation of the nature of any ongoing business of the Hedge companies to justify that expenditure;
- enormous administration payments to T12 out of all proportion to normal market practice. It is worth mentioning that, for smaller funds, the annual administration charges payable here would represent a significant proportion of any annual return.

Mr Woodward's comments about the funding of the litigation and Dalriada's financial position are entirely speculative and unfounded.

Mr John Davies, a director of two of the Hedge companies, who appears to be the driving force behind the Hedge companies and the overall business model, seems to have taken the approach that he has nothing to lose in continuing to defend the court proceedings. He is simply authorising the use of cash originating from members' funds and paid to the Hedge companies to meet the

very significant legal costs of the Hedge companies. As we have explained above, the court has already ruled part of those costs to be unreasonable.

Acting in the members' interests

Mr Woodward alleges that Dalriada is not acting in the members' best interests. Nothing could be further from the truth.

Dalriada was appointed by the Pensions Regulator to act as a trustee and to protect the interests of members. We are subject to on-going supervision by the Pensions Regulator, and have agreed an hourly rate for our services which is a significant discount on the standard hourly rate in respect of our senior staff involved on the case. Dalriada has taken professional advice in relation to every step that it has taken. Dalriada will continue to perform its role in accordance with its appointment for as long as the Pensions Regulator determines this to be necessary.

We will continue to work in your interests as members of the Schemes for as long as it is necessary and until appropriate measures are in place to manage the funds in a manner that does not fall foul of the law.

Contacting the Representative Beneficiary's lawyers / Dalriada

Dalriada's announcement on 31 August provided contact details at Eversheds. Whilst it is late in the day we are sure that they will be able to fully take on board any additional comments that any members may have in relation to the Beddoe application which will be heard before the Court next week.

If you are a member of one of the Schemes and have a personal question please contact Dalriada in one of the following ways:

By Telephone: 02890 412880

By Post: Dalriada Trustees Limited

22 Great Victoria Street

Belfast

BT2 7BA

Via e-mail: penninesandmendip@dalriadatrustees.co.uk

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