

Ironstream Retirement Benefits Scheme (the Scheme)

Annual Governance Statement by the Chair of the Trustee for the Scheme Year Ending on 31 May 2017

Introduction

As the Chair of the Trustee, I have to provide you with a yearly statement which explains what steps have been taken by the Trustee to meet the new governance standards. This statement covers the Scheme year from 1 June 2016 to 31 May 2017.

What has to be included in the statement is set out in law. Under normal circumstances the statement will relate to a DC scheme properly established to provide appropriate benefits for its members.

As you are aware from the Announcements issued to members since its appointment, Dalriada Trustees Limited ("Dalriada") was appointed as trustee to the Scheme by the Pensions Regulator amid concerns as to how the Scheme was being run, and, principally, that the Scheme was being used as a vehicle for pension liberation. This has presented Dalriada with a number of challenges around governance. Nevertheless, this statement is a legal requirement and, as such, can serve as a useful reminder of the issues faced by Dalriada. Where the Trustee cannot meet certain governance obligations, I have explained why that it is the case.

Background

Dalriada was appointed as Independent Trustee of the Scheme by Order of the Pensions Regulator on 8 May 2013. The powers and duties exercisable by Dalriada in its capacity as trustee are to the exclusion of any other trustees of the Scheme.

The Scheme was used, principally, as a vehicle to allow members under the minimum retirement age of 55 to access their pension funds by way of a loan or some other form of cash inducement.

The Scheme had a single investment, that being the investment held in Quantum Life, an insurance company based and regulated in Liechtenstein. Of the amount that was transferred into the Scheme by way of individual member transfer payments, the vast majority of that money was paid over to Quantum Life.

Fees were paid to the previous trustees and their advisers with the remainder of the money. The balance was held in cash.

The money paid to Quantum Life has been moved through companies based overseas (in Mauritius) to investments tied, we understand, to wheat farming in Australia and to 'emerging market' funds in Asia (India).

Dalriada understands that there is very little (if any) value remaining in the Quantum Life investment and is investigating avenues of recovery, including legal action. It is uncertain as to what, if any, funds will ultimately be recovered.

Dalriada believes that the loans and/or other payments to members may be seen as 'unauthorized payments' by HMRC and, as a result, members and the Scheme are exposed to potentially significant tax charges.

Default investment arrangement

The Scheme did not offer members any choice as to how their funds were invested. Funds were transferred to Quantum Life.

In Dalriada's view, there has never been an appropriate default investment arrangement. There is no life-styling option available.

The previous trustees directed investment decisions without seeking appropriate investment advice.

No Statement of Investment Principles (SIP) exists for the Scheme.

To date, due to the issues related to the recovery of investments and the uncertainty surrounding taxation, the Scheme has adopted, and it is likely it will continue to adopt, a low risk investment strategy with regard to any liquid assets it holds or may hold in the future.

Ultimately, it is Dalriada's intention to wind up the Scheme as soon as it is able, giving members the opportunity to transfer any funds to a more suitable arrangement of their choice. However, it is likely that it will still be some time before the Scheme can be wound up.

Core Financial Transactions

Trustees have a specific duty to ensure that core financial transactions relating to DC schemes are processed promptly and accurately. These include the following:

- investing contributions paid into the Scheme
- transferring assets related to members into or out of the Scheme
- transferring the assets between different investments within the Scheme
- making payments from the Scheme to or on behalf of the members.

The Scheme does not currently accept contributions or transfers in and is unable to pay any level of benefit, including transfers values, to members at the present time.

This is due to a number of factors, not least uncertainty as to the value of the Scheme's investments and the position with regard to the potential tax charges mentioned above. More information on this has been provided in Dalriada's Announcements to members.

The financial transactions the Scheme does make are, in the main, in relation to costs. Due to limited funds, Dalriada is not preparing audited Reports and Accounts for the Scheme. The Pensions Regulator is aware of this approach.

Given its inability to carry out the majority of routine administrative actions, unsurprisingly, over the reporting period, there have been no material administration service issues which need to be reported here by Dalriada.

Notwithstanding this, Dalriada, as a professional Independent Trustee, has processes and controls in place that are suitably designed to ensure any service objectives can be achieved once the Scheme is in a position to operate in the manner of a normal scheme.

Charges and Transaction Costs

The new governance rules require trustees to make an assessment of the charges and transactions costs borne by DC scheme members.

No transactions have taken place within the period of this statement as Dalriada has not accepted any payments into the Scheme, either by way of contributions or transfers in.

Under the terms of its appointment, the fees of Dalriada and its advisers are met from Scheme funds. Whilst these costs fall as debt due from the employer (or sponsor), in this case the sponsor was a dormant company with no assets.

Due to the mismanagement of the Scheme by its previous trustee and the subsequent actions taken by Dalriada since appointment, it is inevitable that the Scheme has incurred, and will continue to incur, significantly higher ongoing costs than would be the case for a similarly sized but conventional scheme.

Dalriada has set out in its various Announcements to members the actions it has taken to gain control of the assets that underpin the investments made by the previous trustees, which were held in the policy with Quantum Life. Generally, actions undertaken by Dalriada, beyond those considered necessary for the appropriate management of the Scheme, are centred on legal action around recovery of funds. Such actions are considered after a cost benefit analysis.

Good value for members

When assessing the charges and any transaction costs which are payable by members, trustees are required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members when compared to other options available in the market. Given the particular circumstances of the Scheme, such a comparison is simply not possible.

Dalriada's aim has been to resolve the position with HMRC with regard to the possible taxation of the Scheme and, thereafter, to determine the value of members' funds and provide members with appropriate options prior to, ultimately, winding up the Scheme.

Trustee Knowledge and Understanding

The law sets out the requirement for trustees to have appropriate knowledge and understanding of legal requirements relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

The Pensions Regulator has recently issued new guidance in relation to how trustees should demonstrate their knowledge and understanding. The Trustee has considered this guidance and has ensured that its practices reflect the requirements set out. Below, I have set out below how the Trustee ensures it currently meets the knowledge and understanding requirements of trustees.

Dalriada is a professional pension scheme trustee.

Knowledge of the trust deed and rules and all documents setting out the trustee's current policies

The Scheme has a dedicated Client Manager who has an in depth knowledge of the Scheme and its governing documentation. At the point of becoming an Independent Trustee to the Scheme, a prescribed take on process was followed. This included an assimilation and review of all the relevant scheme documentation, including the trust deed and rules.

A working knowledge of the current Statement of Investment Principles (SIP)

This Scheme does not have a SIP currently. Dalriada Trustees is keeping this under review and will look to put in place an appropriate investment strategy, backed by a SIP, once the uncertainties with regard to the current investments and the tax position are resolved.

Sufficient knowledge and understanding of the law relating to pensions and trusts and understanding of the principles relating to the funding and investment of occupational DC schemes

Those Trustee Directors who are members of professional bodies, are obliged to self evaluate on annual basis and comply with their respective training requirements in order to maintain a required level of continuing professional education (CPE) and to provide evidence of courses, seminars and other types of professional development to satisfy their respective professional bodies' CPE requirements. The process identifies where board members can develop their knowledge and understanding, as well as where they can share their expertise in order to best support the Scheme. Trustee Directors attend both internal and external courses.

Every trustee representative is required to undertake a minimum number of hours training in a year. This is recorded centrally by human resources and, where appropriate, forms part of staff personal development plans. This training can include internal and external courses and attendance at industry events as well as a degree of self learning by way of subscriptions to professional publications and electronic information channels.

Every trustee representative is required to complete the Pensions Regulator's Trustee Toolkit and subscribes to the updates issued by the Pensions Regulator.

Trustee representatives also belong to Dalriada's knowledge management network which keeps them up to date with the industry thinking, as well as access to a team of in house pensions experts who inform the team about changes to pensions legislation and practices.

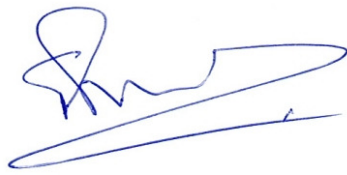
The Trustees have access to Pendragon Perspective and Aries, both industry leading tools, giving access to pensions legislation.

Dalriada also has its own in house legal specialists to provide support and guidance to Trustees around legislation and interpretation of scheme documentation.

Combined knowledge and understanding, together with available advice enables the trustees to properly exercise their function

The Trustee has assessed the skill set and experience of each member of the current Trustee board, taking into account the development activities already mentioned, along with the internal resources made available to staff, supplemented, where required, by professional external advice. Therefore, I consider that the Trustees' combined knowledge and understanding enables them to exercise properly its function as trustee of the Scheme.

Signed for and on behalf of Dalriada Trustees Limited (the trustee)



Chairman

Date 29 December 2017