

Binnian Cedar Retirement Benefits Scheme (the Scheme)

Annual Governance Statement by the Chair of the Trustee for the Scheme Year Ending on 30 June 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 July 2016 to 30 June 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 this Scheme and other schemes (collectively known as the Milton Schemes) by the Pensions Regulator amid concerns as to how the Scheme was being run, the investments made by the previous trustees 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, this has been stated below.

Background

Dalriada was appointed as Independent Trustee of the Scheme by Order of the Pensions Regulator on 13 June 2013. The powers and duties exercisable by Dalriada in its capacity as trustee are to the exclusion of any other trustees of the Scheme.

£11.5m was transferred into the Milton Schemes by way of individual member transfer payments. The majority of that money (£7.7m) was paid over to Advalorem Value Asset Fund Limited, a Gibraltar based investment company.

£1.1m was paid to Swan Holding PCC Limited (Swan Holding), a company based in the Isle of Man.

Of the remainder, about £350,000 was paid in fees to the previous trustees and their advisers. A further £280,000 was paid out in benefits.

The balance, £1.9m, was held in cash.

Advalorem Value Asset Fund Limited

£7,700,000 was invested in this Gibraltar based investment company. The Financial Services Commission (FSC) in Gibraltar obtained an order appointing Chantrey Vellacott (a firm of Chartered Accountants) as administrator of Advalorem on 27 January 2014. The Milton Schemes were the only investors in Advalorem and Dalriada and its legal advisors continue to communicate with Chantrey Vellacott in order to decide what action to take. Of the money invested, £6,600,000 was used to buy land in Scotland. The concern that the trustees had that the land was bought at overvalue was confirmed when the sale of the land by Chantrey Vellacott realized a price of £89,000.

Swan Holding PCC Limited

£1,100,000 was invested in this Isle of Man based company. Shares were acquired in a 'sub-fund' of Swan Holding (called 'Cell A') and the sole purpose was to invest in UK commercial and residential properties and land. Dalriada had also previously advised that the anticipated return was 6-9% a year. We have since been notified that the directors of Swan will not currently be making any distribution of these profits. Instead, the intention is to reinvest any monies made. The shares are non redeemable and the life of the fund is at least ten years, making this investment 'highly illiquid', as it cannot be cashed in. Dalriada is trying to find out when it will get funds back into the Schemes and, at that time, what the investment is likely to be worth, if anything.

Default investment arrangement

The Scheme did not offer members any choice as to how their funds were invested. Funds were used to invest, as set out above.

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.

As the investments are unconventional, they do not comply with any maximum charge requirements which would apply if a default fund had been offered.

Dalriada is not in a position to rectify any of these deficiencies at this time.

Dalriada is working with Chantrey Vellacott to establish what action can be taken in respect of these investments. Once it has been identified what assets are recoverable, the trustee will take appropriate advice to determine a suitable investment strategy. The trustee will also then put in place a suitable SIP.

Details of the revised investment strategy and confirmation of any investment choices being made available will be set out to members. However, it is unlikely that this will be implemented in the near 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 available funds to a suitable arrangement of their choice. For this reason, Dalriada will continue to hold funds in cash.

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.

The financial transactions the Scheme does make are, in the main, in relation to costs. Due to limited funds, Dalriada is not preparing full, 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 trustee is required 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 the trustee 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. These costs fall as a debt due from the employer (or sponsor) and Dalriada has attempted to recover costs. However, to date, it appears the sponsor is dormant and / or has not assets.

Due to the mismanagement of the Scheme by its previous trustee and the subsequent actions taken by Dalriada, as trustee, 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 undertaken. Generally, actions undertaken by the trustee, beyond those considered necessary for the appropriate management of the Scheme, have centred on legal action around the recovery funds. Such actions are considered on a cost benefit analysis and, where necessary, Court approval is sought for the use of Scheme funds to pay for such legal action.

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.

The trustee'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 (including recovery of the loans) 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.

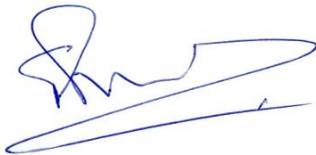
The Trustees have access to Pendragon Perspective and Aries, both industry leading tools, giving access to pensions legislation.

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 31 January 2018