

**Herman and Peters Retirement Benefits Scheme ("the Scheme")
Annual Governance Statement by the Chair of the Trustee for the Scheme Year Ending on
31 May 2016**

Introduction

New governance rules apply to defined contribution ('DC') schemes, and therefore the Scheme, from 6 April 2015.

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 first statement covers an extended Scheme year from 6 April 2015 to 31 May 2016.

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 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 and, where it 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 access to their pension funds by way of a loan or some other form of cash inducement.

The Scheme had a single investment 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.

The remainder was paid in fees to the previous trustees and their advisers and 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 'unauthorised 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 serviceable Statement of Investment Principles 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. These are reported in the Net Assets Statements being prepared for the Scheme. Due to limited funds, Dalriada is not preparing full, audited Reports & Accounts for the Scheme and the Pensions Regulator is aware of this approach.

Given its inability to carry out 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.

Since its appointment, there have been no transactions as Dalriada has not accepted any payments into the Scheme, either by way of contribution 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 trustees 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 take 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 on 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.

Generally, Dalriada's aim is to recover what assets it can, as cost effectively as it can, to resolve the position with HMRC as regards the possible taxation of Scheme assets and, thereafter, to determine the value of members' funds and provide members with appropriate options prior to, ultimately, winding up the Scheme.

