Pennines RBS ("the Scheme")

Annual Governance Statement by the Chair of the Trustee for the Scheme Year Ending on 31 March 2022

Introduction and background

This statement has been prepared in accordance with regulation 23 the Occupational Pension Scheme (Scheme Administration) Regulations 1996, as amended (the "Administration Regulations"), and having taken account of the related Pensions Regulator guidance, most recently updated in March 2022, when considering the various aspects of the operation of the Scheme on which we are required to report to members.

It relates to the Pennines RBS (the "Scheme").

This statement covers the period from 1 April 2021 to 31 March 2022.

This statement will be published on a website made available to members.

Consideration has also been given to the Pensions Regulator's 'A quick guide to the chair's statement' and to the Department for Work and Pensions guide on 'Reporting of costs, charges and other information', both published in September 2018.

Matters in relation to the Scheme are considered by a dedicated committee of the Dalriada Board which meets at least four times a year. However, issues are also considered on an ad hoc basis between committee meetings and the Scheme has a dedicated client manager, alongside a project manager, who ensures anything requiring attention by the committee is communicated, and acted upon, in a timely manner.

As has been commented in earlier statements, 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 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 is the case.

Whilst the previous trustees were not removed by the Pensions Regulator, Dalriada Trustees Limited (Dalriada) was appointed with exclusive powers so Dalriada is, effectively, the sole trustee 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.

The Scheme had a single investment being the investment in preference shares issued by Hedge Capital Investment Group plc (later Limited) (HCIG). Loans to members were made by another Group company, Hedge Capital Limited, (HCL) which, in turn, was funded by way of a loan from a further Group company, Hedge Capital Investments Limited (HCIL), a company wholly owned by HCIG.

These loans were considered to be unauthorised payments by HMRC which has resulted in HMRC issuing provisional assessments for significant tax charges against both the Scheme and its members.

As well as apparently providing the funds to loan back to members, HCIL also invested funds in other unusual and high-risk investments.

Following its appointment, Dalriada took legal action against the various Hedge companies. In the autumn of 2016, a settlement agreement was reached with the various parties involved with the various Hedge companies. The key terms of the settlement were:

- Dalriada took ownership of the various Hedge Companies, with the exception of HCL (the company that made the loans).
- HCL was placed into Administration and KPMG (subsequently Interpath Advisory following KPMG's sale of its UK Restructuring business) were appointed as Administrators.
- All legal action was discontinued and agreement was reached on payment of costs to HCL's legal advisers.

An application was then made to Court to have the terms of the settlement sanctioned. The application was heard in May 2017. This hearing was held in private, but we can confirm that the Court approved the intended settlement, which enabled Dalriada and the Hedge entities (as well as Mr Woodward, a previous trustee and director of the Scheme sponsor) to proceed with implementing the steps required under the terms of the settlement.

In addition to the main settlement with HCL, Dalriada also reached agreement with another party who had invested funds in HCIG. However, as previously reported to members, this party's investment was small relative to that of the Scheme.

Following the Court sanction and the conclusion of the settlement between Dalriada and the various Hedge entities, all funds held in cash by HCIG totaling £4,495,551 were returned to the Scheme.

Dalriada appointed Andrew Conquest as director to each of the following companies –HCIG, HCIL, Hedge Tax Mitigation Limited (HTML) and Hedge Capital Markets Limited (HCML).

HCML was a dormant company and was dissolved.

HCIG, HCIL and HTML were placed into voluntary liquidation on 27 November 2017 and KPMG (now Interpath) appointed as liquidators of each of the companies on 8 December 2017.

It was always the intention that, once the settlement was achieved and Dalriada took ownership of the various Hedge companies, it would look to strip away the corporate structure and look to identify, and place a value on, the assets underlying the companies, in particular HCIL.

As we have reported previously, Dalriada is aware of some of these underlying investments, which include a mobile learning application for phones and tablets and an investment linked to Brazilian teak plantations. Whilst any recovery is now in the hands of Interpath as liquidators, it was always anticipated that there would be little value in these investments.

Dalriada is also aware that a significant sum was paid to Sustainable Wealth Group. Investments in Sustainable Wealth Group were promoted by Forensic Review, a company offering cash inducements for members to transfer. Forensic Review was under investigation by the FSA (now FCA). Sustainable Wealth itself entered administration following an application by the Serious Fraud Office. Over £2m of funds was transferred to the US without the knowledge of HCIL and Dalriada supported legal action for recovery of these monies.

Dalriada understands that, ultimately, the monies were returned to the UK and were to be included in the general Sustainable Wealth liquidation. Whether there is ultimately any recovery is now a matter for Interpath and will become evident as the liquidation of HCIL progresses but it remains unlikely that there will be any material recovery from this particular investment.

Finally, as commented above, a significant sum had been used to provide unsecured personal loans. It was hoped that this loan book might have some value. However, the Administrators (initially KPMG and subsequently Interpath) identified a number of issues with the loans that would have needed to be corrected if it was going to be possible to realise any value in the loan book. Dalriada considered with the Administrators the options in this regard, together with the associated costs, and determined that the costs that would be incurred in correcting the issues would likely outweigh the value obtained in 'selling' the loan book to a third party, with, as a result, no benefit to the Scheme. Given that, the loan book has been written off as of nil value.

Interpath, in their capacity as both Administrators of HCL and Liquidators of various of the other connected Hedge companies, have a number of powers with regard to recovery of assets and investigation into the actions of the previous directors. Dalriada is continuing to work with Interpath to try to ascertain what value there might be in each of the companies. Interpath are required to produce regular progress Reports in respect of the administration and liquidations. Whilst it had been hoped that the liquidations of the various entities would have been completed by the end of 2021, this did not happen. The liquidation of HCL has been concluded and HCL was dissolved on 21 October 2022. An amount was received from Interpath by way of final dividend in respect of the 'prescribed part' element of the distributions for HCL, amounting to £54,229. We await an update from Interpath as to the likely timescales for conclusion of the liquidations of the remaining companies. Any residual claims against third parties will be assigned back to Dalriada but, to the extent that the Administrators / Liquidators did not consider it cost effective to pursue these claims, it is unlikely that Dalriada will either, but, by assigning the claims back, the option remains available should, for example, new information come to light.

Dalriada, as a Trustee to the Schemes, is by far the major creditor. In October 2021, an estimated outcome statement was produced that suggested some £396,000 will eventually be returned to the Schemes on completion of the Administration and connected Liquidations, of this amount around £269,000 could be returned to Pennines RBS.

During the year, the day to day oversight of the Scheme's investments was delegated by the Trustee to the Investment Adviser, Advisory Investment Services Limited and, following advice on investment strategy from Advisory Investment Services, the majority of the Scheme's liquid funds were invested in Legal & General and Blackrock funds, via the Mobius platform.

As advised in our Scheme announcement of November 2020, there has been a significant Court decision that determined schemes like the Pennines scheme were able to make claims on the Fraud Compensation Fund ("the FCF"). Dalriada has since been working with the Pension Protection Fund ("the PPF"), who manage the FCF.

The FCF is open to claims by occupational pension schemes that have suffered a loss as a result of an act of dishonesty. Dalriada is working with the PPF to agree the precise steps that need to be taken in order to submit an application on behalf of the Scheme.

The overall process may take a number of years to conclude. Evidence will need to be assembled to show where dishonesty has taken place, and Dalriada will need to resolve any question of tax issues for the Scheme with HMRC.

The FCF is a fund of last resort and Dalriada will need to determine with the PPF at what point this test is met, to the extent that we continue to pursue recovery of assets.

Member and financial information must also be analysed to quantify the amount of any claim and there are additional technical steps that will need to be taken in order to qualify the Scheme for compensation.

Whilst these developments around the FCF are positive and potentially good news for members, at this time we cannot say for certain that any claim will ultimately be successful.

Dalriada will keep members informed of any progress by way of further Announcements.

Default arrangement

A number of requirements of the Administration Regulations, which are referred to in this statement, relate only to a "default arrangement" as defined in the Occupational Pension Schemes (Charges and Governance) Regulations 2015. The Scheme does not have a default fund for ongoing accrual. It is not a qualifying scheme within the meaning given by section 99 of the Pensions Act 2008. It is not, nor ever has been, used to meet any auto-enrolment obligations and no regular contributions are being, or ever have been, paid into the Scheme. The Scheme's assets are made up solely by way of member transfer payments into the Scheme.

The Scheme did not offer a Default Lifestyle Strategy.

The Scheme did not offer members any choice as to how their funds were invested, funds being used to secure preference shares in HCIG. Alongside the loans to members, funds were invested by HCIL (a subsidiary of HCIG) in unusual, high-risk and largely illiquid investments. The ultimate value of the investments made by HCIL will be determined by the Administrators (Interpath). As such, in Dalriada's view, there has never been an appropriate default investment arrangement. There is no life-styling option available.

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

This Chair's Statement, and other information, is published on a dedicated Scheme website, however, given the uncertainty surrounding the investments we cannot produce meaningful annual benefit statements for the Scheme members. We are therefore unable to comply with the requirement to notify members in an Annual Benefit Statement that the relevant parts of the Chair's Statement have been published on the website.

Statement of Investment Principles

Ordinarily, trustees should prepare a statement of investment principles ("SIP") governing decisions about investments.

Dalriada is continuing to work with Interpath to determine what further assets may be recovered alongside those funds already transferred to the Scheme following the settlement agreement. Where assets have been recovered Dalriada has taken appropriate and professional investment advice and has in place a suitable Statement of Investment Principles (SIP) see Appendix 1. The SIP was prepared in September 2020. Dalriada monitors the Scheme's regularised investments and the SIP will be reviewed by Dalriada at least every three years and without delay after any significant change in investment policy. Subject to any FCF application for compensation, it is Dalriada's ultimate intention to wind up the Scheme as soon as it is able and move funds to a more suitable arrangement. Copies of the Scheme's Report and Accounts are published on the members' website. The Scheme's Report and Accounts include the latest Chair Statement.

Review of default strategy and default arrangements

As noted above, there is no default arrangement or default strategy in place for the Scheme at the current time.

There has, therefore, been no review of the default arrangement or default strategy in the year in question and no previous review for which a date can be given.

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 in 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, to date, as to the value of the Scheme's investments and the position with regard to potential tax charges.

The Scheme has not made any financial transactions in the period. However, going forward, any Financial Transactions the Scheme does make will be, in the main, in relation to costs.

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. Dalriada's administration processes are independently audited and accredited under AAF 01/06 and AAF 02/07.

Once Dalriada is in a position to process member benefit requests these will be managed and monitored in line with Dalriada's standard SLA levels and targets and formally reported on, on a quarterly basis.

In addition, acknowledging that we need accurate member data for the processing of member benefits, Dalriada will carry out an analysis of 'common data' and 'scheme specific data' (as defined by the Pensions Regulator). This helps us to ensure the integrity of member data that is processed.

Where possible, we perform bank reconciliations for all Scheme bank accounts. The purpose of these reconciliations is to ensure that all transactions processed through the bank accounts (money in and out) can be accounted for. Any transactions which cannot be accounted for are investigated and corrected if required.

Charges and Transaction Costs

The governance rules require the Trustee to make an assessment of investment management charges and transactions costs borne by the Scheme members and the extent to which those charges and costs represent good value for money for members.

The investment management charges incurred by the regularised scheme investments are as follows:

Name	Fund Manager Charge	Additional Expenses	Mobius Life	Effective total annual fund charge
L&G Cash	0.05%	0.00%	0.04%	0.09%
L&G Short Dated Sterling Corporate Bond	0.14%	0.00%	0.04%	0.18%
BlackRock Sterling Corporate Bond 1-5 years	0.06%	0.015%	0.04%	0.115%

The Trustee has calculated the other charges and, so far as they were able to do so, the transaction costs, borne by Scheme members for the Scheme Year.

In this context, “charges” means (subject to some specific exceptions, such as charges relating to pension sharing orders) all administration charges other than transaction costs.

“Transaction costs” are costs incurred as a result of the buying, selling, lending or borrowing of investments.

Dalriada has deviated from the approach set out in the statutory guidance for the reasons set out below.

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 so there have been no transaction costs.

However, under the terms of its appointment, the fees of Dalriada and its advisers are met from Scheme funds. Whilst these costs (or “charges”) 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.

During the period in question, trustee services incurring costs totalling £66,083 (including VAT) were provided specifically to the Scheme. These include third party costs, including legal fees.

Dalriada will continue to confirm to members the amount of costs incurred in subsequent Chair Statements. In addition, a full set of Report and Accounts has been prepared which have been audited by an independent auditor, which includes an audit of any core financial transactions that have taken place.

“Good value” assessment of charges and transactions

Generally, trustees should assess the extent to which the charges described above represent “good value” for members during the scheme year, by considering the level of member borne charges against the benefits attributable to such charges.

Whether something represents “good value” is not capable of being precisely defined, but for these purposes, trustees should consider that charges may be viewed as representing “good value” for members where an optimum combination of cost and quality is achieved for the membership as a whole, relative to other options available in the market.

The characteristics of the Scheme are unusual and there are no readily available comparators to determine whether the costs incurred represent good value.

However, the actions undertaken by Dalriada, beyond those considered necessary for the appropriate management of the Scheme, are centred on action around recovery of funds (including legal action). Such actions are considered on a cost benefit analysis and, where necessary, Court approval would be sought for the use of Scheme funds to pay for any legal action.

Dalriada was appointed following a tender exercise by TPR and Dalriada is subject to ongoing oversight by TPR.

Dalriada's costs (both for ongoing management and with regard to action around recovery of funds) are calculated using a blended charging rate that sits well below its standard market rates for senior staff. Its legal advisers operate similarly.

As commented above, 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. Dalriada's administration processes are independently audited and accredited under AAF 01/06 and AAF 02/07.

Once Dalriada is in a position to process member benefit requests these will be managed and monitored in line with Dalriada's standard SLA levels and targets and formally reported on, on a quarterly basis.

Given the nature of the Scheme and the fact that Dalriada was appointed as Trustee with exclusive powers given TPR's concerns about the misuse and misappropriation of Scheme funds, and those concerns having been well founded, the Scheme could not and cannot provide good value to members.

As noted above we cannot produce meaningful annual benefit statements for the Scheme members. We are therefore unable to comply with the requirement to notify members in an Annual Benefit Statement that the relevant parts of the Chair's Statement have been published on the website.

Dalriada is working with the Pension Protection Fund ("PPF") to submit a claim on the Fraud Compensation Fund ("FCF") on behalf of the Scheme. A successful FCF claim represents the best possible chance for members to see some element of recovery of their benefits under the Scheme. The Scheme will need to meet the eligibility criteria for FCF compensation and submission of a claim, in and of itself, does not mean that compensation will be paid to the Scheme.

Dalriada is required to advise members of the cumulative effect over time of the application of charges and costs on the value of a member's accrued rights to money purchase benefits. However, due to the nature of Dalriada's appointment and the uncertainty as to both Dalriada's and its adviser's fees and, also, what the value of the investments (and so what members' funds might ultimately be), this is not possible to do at this time. When Dalriada is in a position to do so, it will advise members of the cumulative effect over time of the relevant costs and charges on the value of the members' benefits.

In the event of a successful claim on the FCF, the costs incurred by Dalriada attributable directly or indirectly to dealing with the act(s) of dishonesty giving rise to the claim can be compensated for as part of the claim. Dalriada would expect a significant proportion of the costs incurred by the Scheme to date to be compensated for. Consequently, it is impossible at this time to provide a meaningful illustration of the cumulative effect over time of the relevant costs and charges on the value of the members' benefits until the level of FCF compensation for costs incurred is known.

Once the FCF claims process is complete Dalriada will wind the Scheme up and secure members benefits with an alternative registered pension provider, to the extent it is possible to do so.

Trustee knowledge and understanding

The Trustee has considered the latest guidance in relation to Chairman's Statements from The Pensions Regulator and has ensured that its practices reflect the requirements set out. I have set out below how the Trustee ensures it currently meets the knowledge and understanding requirements of trustees.

Dalriada is an independent professional trustee, established in 2003, which has been appointed by The Pensions Regulator under section 7 of the Pensions Act 1995 to a number of schemes as a result of The Pensions Regulator having concerns about the nature and operation of those schemes and the extent to which the then current trustees understood their statutory and fiduciary duties and responsibilities. Dalriada refers to such schemes as "Regulatory Appointments". The Scheme is a Regulatory Appointment.

Dalriada has established a specialist team drawn from various relevant disciplines within Dalriada to manage the governance of these Regulatory Appointments which we have called the Irregular Schemes Team.

A dedicated committee (the Irregular Schemes Committee – 'the Committee') has been established by the Board of Directors of Dalriada to oversee the activities of the Irregular Schemes Team in its governance of this Scheme and other Regulatory Appointments. Care has been taken to ensure that the membership of the Committee is such that there is sufficient knowledge and understanding within the Committee to meet the requirements set out in sections 247 and 248 of the Pensions Act 2004 and The Pensions Regulator's Code of Practice 7 on Trustee Knowledge and Understanding.

I have set out below the membership of the Committee, along with a short note on their skill set and experience. In addition, it is worth noting that three members of the Committee are directors of Dalriada Trustees Limited. Dalriada operates a team based approach which gives the Regulatory Appointments Team access to over 120 pensions and support personnel with a broad skill set suited to identifying and implementing the variety of tasks required to successfully manage the Scheme, including pension administration experts, an in house legal team, fund accountants and investment experts. Whilst the core Irregular Schemes Team deals with the majority of matters arising on the Scheme on a day to day basis, in conjunction with its appointed advisers, it can access the specialist expertise of the wider Dalriada team as and when required.

As far as we are aware, no other professional independent trustee firm has established and developed a specialist team in this difficult and challenging area of trusteeship. The relevant experience developed by the Irregular Schemes Team on such cases is unmatched and unrivalled.

The Committee

Sean Browes

Sean has been working in the pensions industry since he graduated in 1988. He worked for two major benefit consultancies in both administration management and consultancy roles, before joining Dalriada in 2003. Sean has a broad range of skills and experience suited to all areas of pension scheme management.

Sean leads the Irregular Schemes Team, dealing with Dalriada's appointments by The Pensions Regulator to schemes suspected of being involved in pension liberation or thought to be scams. He now has a wealth of experience and knowledge with regard to the unique characteristics associated with the administration and management of these types of scheme and the challenges they present.

Sean is a fully accredited member of the Association of Professional Pension Trustees, has completed the Regulator's Trustee Toolkit and holds the Pensions Management Institute's Certificate in DC Governance and Award in Pension Trusteeship (DC and DB). Sean has met all required CPD requirements.

Neil Copeland

Neil is a co-founder of Dalriada Trustees Limited. He acts as an Accredited Professional Trustee on some of our most complex and challenging cases, including our regulatory appointments. Neil specialises in schemes with technically challenging governance and covenant issues, as well as having over 25 years of experience in relation to defined benefit, hybrid, defined contribution, multi-employer and sectionalised arrangements.

Neil spends a significant proportion of his time working on Regulatory Appointments. Like Sean, Neil has developed considerable experience of the complex and non-standard issues faced by the Dalriada team in managing the Regulatory Appointments. This has included acting as a witness in high profile litigation in relation to Regulatory Appointments in support of The Pensions Regulator and representing Dalriada in oral hearings before the Determinations Panel where Dalriada's appointment by The Pensions Regulator has been challenged by the incumbent trustees or other directly affected parties.

Neil is a fully accredited member of the Association of Professional Pension Trustees, has completed the Pensions Regulator's Trustee Toolkit and holds the Pensions Management Institute's Award in Pension Trusteeship (DC and DB). Neil has met all required CPD requirements.

Tom Lukic

Tom is also a director of Dalriada Trustees Limited and leads the Dalriada business across the Midlands. He has broad pensions experience with particular expertise in employer covenant and corporate transactions. He has worked with a range of trustee boards managing scheme assets from c£5 million to more than £1 billion. Similarly, he is experienced in working with a broad spectrum of sponsoring employers from small, owner managed businesses through to much larger and complex groups being either privately owned or fully listed.

Tom's experience, both as an adviser and as an Accredited Professional Trustee, provides particular insight into corporate structures and insolvencies. Where the Scheme's investments include shares and/or bonds in, or issued by, corporate entities, understanding the accounting and financial structures of these entities is essential and Tom provides a wealth of experience in this area.

Tom is a fully accredited member of the Association of Professional Pension Trustees, has completed the Regulator's Trustee Toolkit and holds the Pensions Management Institute's Award in Pension Trusteeship (DC and DB). Tom has met all required CPD requirements.

Brian Spence

Brian is a co-founder and director of Dalriada Trustees Limited. He is now involved in the provision of a wide range of advice to pension scheme sponsors and trustees. Brian is well-known in the pensions industry for taking a strategic view in dealing with pension scheme matters and uses his experience to deliver practical solutions which satisfy the needs of the Trustees, the employers and other stakeholders. Brian is recognised by The Pensions Regulator and the pensions industry as an expert in dealing with contentious and/or complex issues. He is a lead contact and "key person" for a number of high profile trustee appointments.

In addition, Brian has practical experience of working as an Accredited Professional Trustee in all three major legal jurisdictions of the UK and as a Professional Trustee and advisor in Ireland. Brian has held a UK Scheme Actuary Practicing Certificate since inception of the role in 1997.

Brian has an in depth knowledge of legal processes, particularly around testing points of legal principle related to the operation of pension schemes, often as a result of deficiencies in scheme documentation (a common issue with Regulatory Appointments) and, also, litigation – where it is cost effective to do so, Dalriada will look to take legal action against the perpetrators of a scam with the aim to recover misappropriated assets.

Brian is a fully accredited member of the Association of Professional Pension Trustees, has completed the Pensions Regulator's Trustee Toolkit and holds the Pensions Management Institute's Award in Pension Trusteeship (DC and DB). Brian has met all required CPD requirements.

Amanda Banister

Amanda is a professional trustee with a wealth of experience in the pensions industry. Before joining Dalriada, Amanda was a pensions partner in a global law firm. She also spent three years in-house at the Pension Protection Fund in its early years, shaping its legal approach and gaining wide experience in pensions policy and insolvency/restructuring. After leaving, she continued to advise the PPF on some of its highest profile and most complex matters. Amanda's experience of working with and advising the PPF is a valuable asset to the Committee, as is her significant experience of contentious pensions issues, including Pensions Ombudsman disputes. Amanda also has a strong governance and risk management skillset, with an ability to solve testing problems, which are strongly aligned with the work of the Committee and Regulatory Appointments in general.

Amanda is a qualified solicitor, has completed TPR's Trustee Toolkit and holds the Pensions Management Institute's Award in Pension Trusteeship. Amanda has met all required CPD requirements.

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. The Committee is made aware of any issues or risks in relation to the Scheme's trust deed and rules as and when they arise and appropriate action agreed in relation to the issue or risk identified. In addition to the knowledge held by the client manager and lead Professional Trustee, the trustees obtain legal advice in relation to the Scheme's documentation, where necessary.

There have been no new trustees introduced in this reporting period. However, there is an appropriate induction process in place to support new trustees.

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

As is set out earlier, the Scheme does not have a SIP at this time due to the particular circumstances of the Scheme.

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 schemes

Those Dalriada staff working on the Scheme, including the lead Professional Trustee, are obliged to self evaluate their learning and development requirements on an annual basis as part of Dalriada's internal employee review process. The process identifies how staff can develop their knowledge and understanding, as well as where they can share their expertise in order to best support the Scheme. Dalriada staff are also required to 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.

Every Professional Trustee is required to undertake a minimum number of hours training in a year. This is recorded centrally by Dalriada's HR Team 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.

Further, every Professional Trustee is required to complete The Pensions Regulator's Trustee Toolkit and subscribes to the updates issued by The Pensions Regulator.

Professional Trustees belong to Dalriada's knowledge management network which keeps them up to date with industry thinking. They also have 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 pension legislation.

Dalriada has its own in house legal specialists to provide support and guidance to trustees around legislation and interpretation of scheme documentation. This is further aided by advice from external legal advisers, which is obtained when the trustees feel the reinforcement is necessary to support their own understanding.

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

Dalriada has informally assessed the skill set and experience of each member of the Committee and the client team. It has taken into account the development activities already mentioned, along with the internal resources made available to staff, supplemented, where required, by professional external advice.

The Committee understands the need to more formally assess the skills of its members. This is done using a skills matrix developed for this purpose. Any areas for development flagged during this process will be addressed as part of the individual's personal development plan and reviewed throughout the year.

An evaluation of the effectiveness of the Committee as a whole is also carried out.

I consider that the combined knowledge and understanding of the Committee and the client team enables them to exercise properly their function as trustee of the Scheme. In particular:

- Members of the Committee have the relevant financial knowledge and experience to enable the trustee to comply with its duties in relation to investment of the Scheme's assets. Tom Lukic's experience (see above) in particular is advantageous in this area.
- There is a vast range of pensions experience and knowledge within the Committee and the client team. This is appropriate to deal with the governance of the Scheme in line with the trust deed and rules, along with other Scheme documentation. There is also a great deal of experience relevant to dealing with issues which might be thrown up by the Scheme which require the amendment of Scheme documentation.
- Sean Browes, Neil Copeland and Brian Spence have a great deal of knowledge and experience in relation to schemes of complex nature, such as this Scheme, where investments made by previous trustees are deemed to be highly inappropriate, their administration has been poor and / or the trustees have not had the sufficient knowledge and understanding to be trustees of an occupational pension scheme.
- Sean Browes and Neil Copeland have many years of experience in the administration of pension schemes, allowing a keen oversight of the administration of the Scheme.

Member Representation

Dalriada is aware that members of the Scheme are potential victims of a scam. As such, we look to keep members informed and to facilitate direct access for members to Dalriada by means of a:

- Dedicated member website
- Dedicated contact e-mail address
- Dedicated phone line.

Agreed as final version by the Chair of the Trustee of the Pennines RBS

Dated: 28 October 2022

Appendix 1

Pennines RBS

Statement of Investment Principles

This Statement of Investment Principles ("the Statement") has been prepared by Dalriada Trustees Limited (the Trustee) for the Pennines RBS ("the Scheme").

This document has been produced by the Trustee after considering advice from Mark Garnett of Advisory Investment Services Limited ("AIS").

It has been prepared to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

Pennines RBS

September 2020

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Introduction

This Statement sets down the principles governing decisions about investments for the Scheme and supersedes any previous Statements prepared by the Trustee.

In preparing this statement, the Trustee has obtained and considered written professional advice and recommendations from AIS who is the Trustee's appointed investment consultant. AIS is authorised and regulated by the Financial Conduct Authority ("FCA"). It is confirmed to the Trustee that it has the appropriate knowledge and experience to give the advice required by the Pensions Acts.

The Trustee will review this Statement every 3 years. If there are any significant changes in any of the areas covered by this Statement, the Trustee will review this statement and update it as necessary. Any changes made will be based on written advice from a suitably qualified individual.

The Scheme is a defined contribution scheme. The Trustee's investment powers are set out in the Trust Deed and Rules and subsequent amending deeds. This Statement is consistent with those powers.

Investment Objectives

Generally, the ultimate objective of any (legitimate) pension scheme is to provide an income in retirement for its members which reflects the level funds paid into members' individual accounts and the returns achieved from the investment funds held.

Dalriada was appointed trustee to the Scheme by Order of The Pensions Regulator ("TPR") amid concerns as to how the Scheme was being managed by the former trustees and, further, that members may have been victims of a pensions scam.

At the time of its appointment, the Scheme and, consequently, the members had already suffered a significant loss in the value of the investments entered into by the previous trustees.

One of the concerns that TPR had was that the incumbent trustees had invested assets in inappropriate and unorthodox investments without taking appropriate advice, as required by pensions legislation. These assets were generally illiquid and/or of uncertain value. Where the Trustee is not in a position to currently realise some or all of those assets, these are set out in Appendix B. This Statement only applies to those assets that the Trustee has been able to recover and realise such that they are capable of being invested in accordance with this Statement. As and when the Trustee is able to recover and realise these unorthodox investments, such funds will be invested in line with this Statement.

The Trustee's aim is to recover what funds it can for members, resolve any associated tax or legal issues and, thereafter, to allow members to transfer the value of their pension pots to alternative, more appropriate arrangements and wind-up the Scheme at the earliest opportunity. Given the level of uncertainty over the value of the assets of the Scheme the Trustee is not currently in a position to settle benefits from the Scheme, but even if it was, it is not intended to offer members decumulation options under the Scheme. Given the irregular nature of the Scheme, the time frame for this is uncertain and may extend to a number of years.

In so far as it is possible to do so, the Trustee will invest the available assets to secure a return over cash, with a lower level of risk. The tolerance to capital losses is minimal, accepting there will be drawdowns on the capital value, not least to meet ongoing expenses.

The Trustee's key objectives for the Scheme's investment strategy, to the extent possible given the particular circumstances of the Scheme, are therefore to:

- ensure that the investment strategy is consistent with relevant legislation/regulations, the Scheme's Trust Deed and Rules and best practice and that there is sufficient flexibility to react to legislative/regulatory changes;
- give members a reasonable, stable investment strategy, that targets some return over cash whilst protecting against further capital loss as a result of investment performance;
- be mindful of the Scheme's costs which currently are borne by the members;
- use diversification where appropriate to reduce investment risk when practical and cost effective to do so;
- monitor the level of ongoing governance costs against the anticipated overall governance budget.

The Trustee will regularly monitor the investment strategy against these objectives.

Appendix B sets out the list of the unorthodox investments, which are held by the Trustee. The irregular nature of these investments has resulted in the Trustee seeking independent investment advice. That advice has been to realise the unorthodox investments as soon as possible. The Trustee will report on the(se) asset(s), but the(se) investment(s) will fall outside this Statement of Investment Principles.

Investment Responsibilities

THE TRUSTEE

Under the legal documentation governing the Scheme, the power of investment is vested in the Trustee. Therefore, the Trustee is responsible for setting the investment objectives and determining the strategy to achieve those objectives. The Trustee sets the overall investment target and then monitors the performance of the investment managers against that target. In doing so the Trustee considers the advice of its professional adviser(s), who it considers to be suitably qualified and experienced for this role.

Their duties and responsibilities include but are not limited to:

✓	Regular review and approval of this Statement and monitoring compliance with this Statement
✓	Appointment, removal (where applicable) and review of the investment managers or investment adviser(s) and their performance relative to relevant benchmarks
✓	Assessment of the investment risks run by the Scheme
✓	Monitoring and review of the investment objectives and the investment strategy implemented to meet those objectives

INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustee has appointed AIS as its investment adviser. AIS provides advice when the Trustee requires it and/or when AIS feels it suitable to do so. Areas on which it can provide advice are as follows:

✓	Setting investment objectives, where relevant
✓	Determining the investment strategy to meet those objectives
✓	Determining suitable funds and investment managers

It should be noted that the Trustee retains responsibility for all decisions.

Any services provided by AIS will be remunerated on either a time cost or fixed fee basis.

AIS does not receive any commission or any other payments in respect of the Scheme for investment services that will affect the impartiality of their advice.

The Trustee is satisfied that this is a suitable adviser remuneration structure.

INVESTMENT MANAGERS' DUTIES AND RESPONSIBILITIES

The Trustee, after considering suitable advice, has appointed BlackRock and Legal & General Investment Management as the manager of the assets held by the Scheme, all of which are held on the Mobius Life investment platform.

The investment managers are detailed in the Appendix A to this statement. The investment managers are authorised and regulated by the FCA and are responsible for stock selection, asset allocation and the exercise of any voting rights. All the managers are remunerated by fund-based charges on the value of the Scheme's assets that they hold.

Setting the Investment Strategy

INVESTMENT STRATEGY

The Trustee will look to implement a strategy that satisfies the risk and targeted return requirements and which it considers appropriate for the members collectively. The strategy is to use a combination of cash and short dated corporate bonds, denominated in sterling, which in combination are targeted to achieve the Investment Objectives.

The strategy will be reviewed from time-to-time by the Trustee to take into account various considerations such as material depletion of scheme funds, changes in legislation and regulations and developments in investment products.

TYPES OF INVESTMENT

The Scheme's assets (beyond those set out in Appendix B) are invested on behalf of the Trustee by BlackRock and Legal & General Investment Management, through the Mobius Life platform, with underlying investment managers.

Beyond those investments set out in Appendix B, the Trustee only invests in asset classes, including but not limited to bonds and cash. The use of derivatives is as permitted by the guidelines that apply to the pooled funds.

BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENT

The Trustee is aware that the appropriate balance between different types of investments will vary over time and the asset allocation may change depending on the investment environment.

The Trustee has considered the merits of both active and passive management for the different elements of the asset allocation and selected suitable types of management for each asset class. The managers are shown in the Appendix A.

EXPECTED RETURN ON INVESTMENTS

The Trustee has noted the long-run relationships that exist between the real and nominal net returns from the two asset classes and have noted the different expected risk/return characteristics of the different asset classes.

In particular, that bonds can be expected to deliver a higher return than cash, but that corporate bonds are a more volatile asset class in terms of market returns.

REALISATION OF INVESTMENTS

The Scheme's assets are invested in pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Scheme's investments can generally be readily realised, if necessary.

FINANCIALLY MATERIAL CONSIDERATIONS FOR INVESTMENT STRATEGY

The Trustee has, to the extent possible given the particular circumstances of the Scheme, considered financially material factors such as environmental, social and governance ('ESG')

issues as part of the investment process to determine the investment strategy over the length of time it is anticipated the Scheme will remain ongoing.
The Trustee believes that, to the extent possible given the particular circumstances of the Scheme, financially material considerations (including climate change) are allowed for when setting the investment strategy.

To invest in the best financial interests of the beneficiaries, the Trustee has elected to invest realised assets through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest or of the unorthodox investments held by the Scheme, as set out in Appendix B. However, the fund managers listed in Appendix A and the investment consultant are expected to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment managers' own philosophy and processes to ESG issues. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies will also be reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors, including climate change, could impact the Scheme and its investments;

- Use ESG ratings information to assess how the Scheme's investment managers take account of ESG issues; and

- Request that all of the Scheme's investment managers share information about their ESG policies and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' processes, it will take this into account on whether to select or retain an investment manager.

NON-FINANCIALLY MATERIAL CONSIDERATIONS

The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

STEWARDSHIP

The Trustee's policy on the exercise of rights attaching to investments, including any voting rights, is that these rights should be exercised by the investment managers on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment managers should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expects the fund managers to engage with investee companies on the capital structure of those companies and their management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment managers, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) AND CLIMATE CHANGE RISKS

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues, including climate change, as part of the investment process.

INVESTMENT MANAGER ARRANGEMENTS

Incentives to align investment managers investment strategy and decisions with the Trustee's policies

The Scheme invests in pooled funds. The Trustee acknowledges the funds' investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy, taking into account the fees being charged, which acts as the fund managers incentive.

The Trustee uses the fund objective/benchmark as a guide on whether the fund's investment strategy is being followed and monitors this regularly.

Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers voting and ESG policies and how it engages with the company, as it believes that these factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as cash and bonds, as they may not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Scheme.

The Trustee believes the annual fees paid to the fund managers incentivises them to execute their investment policies consistently, as the longer the units are held the larger the income to the investment manager.

If the Trustees feel that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies

The Trustee reviews the performance of each fund quarterly on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the individual funds over at least a 3-5 year period or over a market cycle, if appropriate, when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The fund managers' remuneration is a percentage of the assets held in each fund so the amount each manager receives is based upon the value of assets held with them. The remuneration paid out by the Scheme will depend upon the asset allocation. The charges are considered as part of the manager selection process. The charges are monitored regularly with the help of its investment consultant to ensure they are in line with the Trustee's policies for each fund. The Trustee believes that its and each fund manager's goals are aligned.

How the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manage. This is monitored on an annual basis.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to their investment consultant.

The duration of the arrangement with the asset manager

The Trustee plans to hold each of its investments for the period which the Scheme expects to remain ongoing, but will keep this under review.

Changes in investment strategy or change in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.

Risks

The Trustee is aware and seeks to take account of a number of risks in relation to the Scheme's investments. Under the Pensions Act 2004, the Trustee is required to state its policy regarding the ways in which risks are to be measured and managed. Overall, the Trustee measures and monitors their risks by receiving monitoring reports which report on the performance of their assets and their managers. The key risks and the policies are as follows:

Inflation risk	This is the risk that the investments don't give a return above inflation, eroding the purchasing power of the pension pot. The Trustee is not explicitly targeting a rate of return in excess of inflation. However, given the current low inflationary environment, the Trustee considers that the need to minimise any downside risk and protect capital as far as possible, is more important. This will be kept under review.
Concentration Risk	This is the risk that the investment manager invests in a concentrated portfolio of individual stocks or securities. It is managed through the diversification of the Scheme's assets across a range of different funds with different investment styles and underlying securities, and different investment managers.
Investment Manager Risk	This is assessed as the deviation of actual risk and return relative to that specified in the investment manager's objectives. It is measured by monitoring on a regular basis the actual deviation of returns relative to investment manager's agreed objectives and an assessment of factors supporting the managers' investment process.
Conversion Risk	This is the risk that the value of a member's pension falls significantly in the period leading up to retirement relative to their chosen retirement option to purchase an annuity, drawdown or take cash. This means the value of the pension pot does not move in line with annuities, or the value at retirement used to drawdown or take as cash will be smaller than expected. To the extent that investment strategy is low risk in any event, the Trustee considers the risk of the value of a member's pension falling significantly close to retirement is small. In any event, the intention is to wind the Scheme up and members transfer their benefits before they approach retirement age (accepting there may be some members already approaching retirement age).

Risks continued

Liquidity Risk	The risk is managed by having a suitable amount of readily realisable investments. The Scheme invests in assets that are invested in quoted markets and are readily realisable as the Trustee feels suitable given the Scheme's cashflow.
Currency Risk	The Trustee is able to invest in assets and currencies that are not denominated in sterling, so they can be exposed to currency risk depending on the investment choices.
Loss of Investment Risk	There is a risk of loss of investment by each investment manager and potentially the custodian. This includes losses beyond those caused by market movements e.g. losses caused by fraud. The Trustee undertakes regular reviews of the internal controls and processes of the investment manager.

Compliance

The Trustee confirms that it has received and considered written advice from AIS on the establishment and implementation of their investment strategy.

Copies of this statement and any subsequent amendments will be made available publicly on the Scheme's website.

The Trustee will monitor compliance with this Statement at least every three years. This will include a review of the suitability of the investment strategy on an ongoing basis and consideration of the continued suitability of the appointed investment managers.

Agreed as final version on behalf of the Trustees of the Pennines RBS
Dated: 29 September 2020
Version: 1

Appendix A

The Trustee has invested the Scheme assets with BlackRock and L&G Investment Management. Mobius Life provides investment administration for the Scheme and so carries out the day to day management of the underlying investment managers, through a series of reinsured funds.

It is the Trustee's intention that the first £85,000 of the Scheme's assets will be allocated to the Tier 1 investment strategy, and the balance of the capital will be applied to the Tier 2 investment strategy.

STRATEGY – Tier 1

The strategy targets cash returns and is invested in a fund as below:

Name	Objective	Allocation	Risk Profile	Active/Passive investment
L&G Cash	To perform in line with 7 Day GBP LIBID, without incurring excessive risk	100.0%	Low	Active

STRATEGY – Tier 2

The strategy targets cash plus returns and is invested in a series of funds. It is made up of the following funds in the allocations as below:

Name	Objective	Allocation	Risk Profile	Active/Passive investment
L&G Cash	To perform in line with 7 Day GBP LIBID, without incurring excessive risk	10.0%	Low	Active
L&G Short Dated Sterling Corporate Bond	To track the total return of the Markit iBoxx Sterling Corporates 1-5 Index	30.0%	Lower	Passive
BlackRock Sterling Corporate Bond 1-5 years	To track the total return of the Markit iBoxx Sterling Non-Gilt 1-5 Index	60.0%	Lower	Passive

CHARGES

The charges are as below:

Name	Fund Manager Charge	Additional Expenses	Mobius Life	Effective total annual fund charge
L&G Cash	0.05%	0.00%	0.04%	0.09%
L&G Short Dated Sterling Corporate Bond	0.14%	0.00%	0.04%	0.18%
BlackRock Sterling Corporate Bond 1-5 years	0.06%	0.015%	0.04%	0.115%

Appendix B

The Scheme owns a series of unorthodox investments, as described listed below.

All Scheme assets were previously invested in preference shares in Hedge Capital Investment Group plc/Limited (HCIG). Following high court action and a subsequent settlement with the Hedge Companies, Dalriada took ownership of the various Hedge Companies with the exception of Hedge Capital Limited which was placed into administration and KPMG were appointed as Administrators.

All funds held in cash by HCIG were returned to the Scheme.

The remaining Hedge companies were subsequently placed into voluntary liquidation and KPMG appointed as liquidators.

KPMG will continue to recover what funds it can, if any, such that these can be returned to the Scheme.