

Talton Management Limited Pension Trust ("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 established to act as a feeder scheme for the Lincoln Pension Umbrella Trust (LPUT). Individuals ultimately destined for the LPUT would first transfer into the Scheme before transferring out shortly afterwards to the LPUT.

The current membership of the Scheme consists of members who transferred into, but who did not subsequently transfer out of, the Scheme prior to the Pensions Regulator's intervention.

The Scheme did not make any investments.

The Pensions Regulator took separate action against the LPUT, the outcome of which meant that the transfers made from the Scheme were arguably 'unauthorised payments' and, consequently, the Scheme was exposed to, potentially significant, tax penalties.

At the end of September 2016, HMRC confirmed that the Scheme would not be subject to tax charges.

Default investment arrangement

The Scheme was not operated with the aim of long term pensions savings.

It offered no investment choice to members. In the short period prior to any transfer out of the Scheme to the LPUT, member funds were held in cash.

No serviceable Statement of Investment Principles exists for the Scheme.

Because of the uncertainty around the tax position, upon the appointment, Dalriada continued to hold funds in cash.

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, notwithstanding the tax position is now clear, 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.

The financial transactions made by the Scheme relate solely 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 transaction 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. 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 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, 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 since its appointment. Generally, actions undertaken by Dalriada, beyond those considered necessary for the appropriate management of the Scheme, have been centered on the resolution of any tax issues.

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 has been to resolve the position with HMRC as regards 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. At the end of September 2016, HMRC confirmed that the Scheme would not be subject to tax charges.

Trustee Knowledge and Understanding

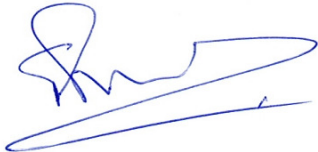
The law sets out the requirement for trustees to have appropriate knowledge and understanding of legal requirements relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly.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

Dalriada, as a professional trustee, meets all knowledge and understanding requirements. A record of the training completed by Dalriada staff is kept and this training record is reviewed periodically to improve standards. Dalriada also seeks external specialist advisers when required.

All current Dalriada staff have completed the Trustee Toolkit made available by the Pensions Regulator. New staff must complete the Toolkit after joining Dalriada.

As a result of the training activities which have been completed by Dalriada staff individually and collectively, and taking into account the professional external advice available to Dalriada when required, Dalriada considers that its combined knowledge and understanding enables it to exercise properly its function as trustee of the Scheme.

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



Chairman

Date 22 December 2016