

Dalriada. *A better way*

Mendip RBS

Report and Financial Statements For the year ended 31 March 2022

Registration number: 12004759

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Mendip RBS
Principal Employer and Advisers to the Scheme

Scheme provider

Clarendon Hill Investments Limited
St Georges Court
Winnington Avenue
Cheshire
CW8 4EE

Administrator

Dalriada Trustees Limited
Linen Loft
27 - 37 Adelaide Street
Belfast
BT2 8FE

Auditor

Johnston Carmichael LLP
Statutory Auditor
227 West George Street
Glasgow
G2 2ND

Legal Adviser

Pinsent Masons LLP
30 Crown Place
Earl Street
London
EC2A 4ES

Investment adviser

Advisory Investment Services Limited
Burnetts, School Lane
Ashurst
Sussex
BN44 3AY

Mendip RBS
Principal Employer and Advisers to the Scheme

Investment managers

Hedge Capital Investment Group Ltd (removed: 12 May 2017)
c/o KPMG LLP
15 Canada Square
London
E14 5GL

Investment platform provider

Mobius Life Limited
3rd Floor
20 Gresham Street
London
EC2V 7JE

Third-party investment managers

Legal & General Investment Management

BlackRock Life Limited

all c/o Mobius Life Limited

Bankers

Barclays Bank PLC
Imperial House
Donegall Square East
Belfast
BT1 5HL

Mendip RBS Trustees' Report

Introduction

The Trustees of the Mendip RBS ("the Scheme") present their report together with the audited financial statements for the year ended 31 March 2022. The Scheme is a defined contribution scheme.

The Scheme was established on 23 August 2011, and is currently governed by the trust deed and rules dated the same date. In accordance with the provisions of Schedule 36 of the Finance Act 2004, the Scheme is a registered pension scheme under Chapter 2 of part 4 of the Finance Act 2004. The Scheme was contracted-out of the S2P (previously known as the State Earnings-Related Pension Scheme) under certificates issued by the Secretary of State for Work and Pensions. Funds derived from contracting out payments were known as protected rights benefits. From 6 April 2012, it was no longer possible to contract out of the S2P through a defined contribution scheme. All existing contracted out payments will be treated as non-protected rights benefits.

The Compliance Statement set out on pages 28 and 29, the Investment Report included as Appendix 1, the Implementation Statement included as Appendix 2 and the Annual Governance Statement included as Appendix 3 form part of this report.

Scheme management

The Trustees are

John Laurence Woodward.
Jennifer Doris Ilett.
Dalriada Trustees Limited.

The directors of Dalriada Trustees Limited are DN Copeland (resigned 30 September 2022), RD Fogarty, CM Johnstone (resigned 29 April 2022), AB Kennett, T Lukic, CJ Roberts, BD Spence, KS Stafford (appointed 6 June 2022) and V Vassou. The directors of Dalriada Trustees Limited ("Dalriada") were appointed in accordance with that company's Memorandum and Articles of Association.

In accordance with the provisions of the Pensions Act 1995 as amended, The Pensions Regulator has the power to appoint an independent trustee. Dalriada Trustees Limited was so appointed, with exclusive powers, on 28 March 2012 under section 7 of the Pensions Act 1995, and may only be removed by The Pensions Regulator.

Dalriada has appointed external specialists to advise on legal and accounting matters.

Internal Dispute Resolution Procedure (IDRP)

It is a requirement of the Pensions Act 1995 that all occupational pension schemes must have a dispute resolution procedure in place for dealing with any disputes between the Trustees and the Scheme beneficiaries. A dispute resolution procedure has been agreed by the Trustees, details of which can be obtained by writing to Dalriada Trustees Limited, Linen Loft, 27 - 37 Adelaide Street, Belfast, BT2 8FE or by download from the members' website page <http://dalriadatrustees.co.uk/pennines-and-mendip> or by request by email, address penninesandmendip@dalriadatrustees.co.uk

**Mendip RBS
Trustees' Report**

Financial development of the Scheme

The financial statements of the Scheme for the year ended 31 March 2022 are set out on pages 16 to 25; the Trustees' summary of contributions and the Auditor's statement about contributions are set out on pages 26 and 27. The financial statements have been prepared and audited in accordance with the regulations made under section 41(1) and (6) of the Pensions Act 1995. They show that the value of the fund decreased from net assets of £9,009 at 31 March 2021 to net liabilities of (£42,020) at 31 March 2022.

Dalriada has considered the measurement and recognition of the assets and liabilities included in the Scheme's Statement of Net Assets and concluded that no adjustments are necessary to these as a consequence of this material uncertainty.

However, these figures should be read alongside the comments made later in this Report, particularly in the 'Investment Report' section.

Transfers at less than cash equivalent

No transfer values have been paid from the Scheme.

Membership

As at 31 March 2022, 153 members were entitled to benefits from the Scheme.

There were no changes to the membership of the Scheme during the year as set out in the following table.

| | Deferred | Pensioner |
|---------------------------------|-----------------|------------------|
| Membership at 01/04/2021 | 153 | - |
| Membership at 31/03/2022 | 153 | - |

Two members died in 2020, this has not been reflected in the membership figures as no payment has been made in respect of the members.

Pension increases

No pensions were paid in the year.

Changes to the Scheme rules

There were no changes to the Scheme rules during the year.

Mendip RBS Trustees' Report

Governance and Risk Management

Following their appointment, Dalriada identified a number of concerns with the incumbent administrator (T12), not least the significant charges being levied. Dalriada gave notice to T12 of termination of their contract shortly after their appointment, which was resisted by T12 who claimed payment of outstanding fees in excess of £100,000. This was disputed and resisted by Dalriada. T12 was subsequently dissolved on 17 March 2015. Legal advice is that T12 would also extremely likely be time barred from issuing any claim. Given this, we have not included this money as a potential contingent liability in these accounts.

Other than the funds held in cash in the Scheme's bank account, all monies transferred into the Scheme were invested in preference shares in Hedge Capital Investment Group plc, which later became Hedge Capital Investment Group Limited. Dalriada's concerns are set out later on in this Report in the 'Investment Report' section.

There appears to have been limited investment advice taken by the previous trustees and no evidence of an appropriate investment adviser being appointed, as required under legislation.

Dalriada has now put in place a more robust administration database and created proper accounting records, the information within which underpins the accounts appended to this Report and which have been independently audited.

Dalriada has developed and will continue to develop its business plan which set out its objectives in various key areas and, alongside the business plan, a risk register has been put in place, setting out the key risks to which the Scheme is subject and the controls in place to mitigate these.

Trustee knowledge and understanding

The Pensions Act 2004 requires trustees to have sufficient knowledge and understanding of pensions and trust law and be conversant with the Scheme documentation. The Pensions Regulator has published a Code of Practice on Trustee Knowledge and Understanding to assist trustees on this matter which became effective from 6 April 2006 and was updated with effect from April 2015. Dalriada is aware of these requirements and, as a professional trustee, maintains an ongoing training programme for all of its staff.

Further information

Further information about the Scheme is available, on request, to members, their spouses and other beneficiaries.

If members have any complaints or queries regarding the Scheme, or wish to obtain further information, they should contact Dalriada Trustees Limited, Linen Loft, 27 - 37 Adelaide Street, Belfast, BT2 8FE. Email address penninesandmendip@dalriadatrustees.co.uk

The General Data Protection Regulations 2016/679 (Regulations) cover information which is held electronically, i.e. computer based information and extend data protection laws to cover paper-based records held for individuals. The Regulations contain restrictions on the processing of special categories of data as defined in the Regulations, to which individuals must give their consent. This category of data can include information on, for example, the health of a member or marital status.

Members' personal data will be used by the Scheme's advisers, where appropriate, to assist in the administration of the Scheme, and may be passed to other professional providers or advisers.

Dalriada and the Scheme's advisers each have a legal obligation and a legitimate interest to process data relating to members for the purposes of administering and operating the Scheme, which includes passing on data to third parties, as mentioned above.

Mendip RBS Trustees' Report

Further information (continued)

Dalriada is regarded as 'Controller' for the purposes of the Regulations, in relation to the process referred to above. The advisers appointed by the Trustee are usually 'Processors', however, some advisers, such as the scheme actuary and auditors are considered to be controllers by the various professional regulatory bodies. Under the Regulations where two or more controllers jointly determine the purposes and means of processing, they shall be joint controllers of the data.

Trustees' report on the Scheme's investments

Other than funds held in cash in the Scheme's bank account, all monies transferred into the Scheme were invested in preference shares in Hedge Capital Investment Group plc/Limited (HCIG). Within HCIG, the monies were ultimately used for investment in a range of 'alternative' investments and to facilitate the offer of personal loans back to Scheme members.

Dalriada was unclear as to the value of the underpinning investments and, so, to the actual value of the Scheme's investment in HCIG and, as such, had difficulty in showing a correct asset value in previous accounts.

On appointment Dalriada commenced high court action against the previous trustees and the organisers of the Scheme to seek recovery of the monies paid to HCIG, claiming, not least, that monies were paid in breach of trust. It also sought, and obtained, a freezing order over the assets of the Hedge companies.

Dalriada's claim was subject to a summary judgment application but this was rejected by the Court and, subsequently, there was a protracted period of negotiation, looking to reach a settlement of Dalriada Trustees' claim.

As we also reported, the settlement, once agreed, would require the sanction of the Court.

Settlement was reached with the Hedge Companies in the autumn of 2016. The key terms of the settlement were:

- Dalriada took ownership of the various Hedge Companies, with the exception of Hedge Capital Limited (the company that made the loans).
- Hedge Capital Limited 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 Hedge'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 Hedge, Dalriada also reached agreement with another party who had invested funds in HCIG. However, as previously reported to members, their investment was small.

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 £2,121,100 were returned to the Scheme.

Dalriada appointed Andrew Conquest as director to each of the following companies – Hedge Capital Investment Group (HCIG), Hedge Capital Investments Limited (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.

Mendip RBS Trustees' Report

Trustees' report on the Scheme's investments (continued)

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 Hedge 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 is now 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 will effectively be abandoned.

Interpath, in their capacity as both Administrators of Hedge Capital Limited and Liquidators of various of its holding 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 Hedge Capital Limited has been concluded the company 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 Hedge Capital Limited, amounting to £25,587. 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, in total, will eventually be returned to the Schemes on completion of the Administration and connected Liquidations, of this amount around £127,000 could be returned to Mendip 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. The detailed investment platform provider's report is included as Appendix 1.

Mendip RBS Trustees' Report

Trustees' report on the Scheme's investments (continued)

Dalriada will now focus on the pursuit of further recovery of funds by way of a claim on the Fraud Compensation Fund (FCF). As was reported to members in 2020, following Court proceedings involving Dalriada, the Pension Protection Fund (who manage the FCF) and the DWP, it was found that schemes like the Mendip scheme were able to make claims on the FCF for losses arising from acts of fraud and dishonesty. Dalriada has been working, and will continue to work, with the PPF with regard to a potential claim by the Scheme. However, at this time, we do not know whether any claim will ultimately be successful.

Investment report

During the year, the day-to-day management of the Scheme's investments was delegated by the Trustee to Mobius Life Limited. The detailed investment platform provider's report is included as Appendix 1.

Basis of investment managers' fees

The AMC figures for the scheme are as follows:

| Fund | AMC |
|--|-------|
| L&G Life AR Cash Fund | 0.09% |
| L&G Life CSAJ PMC Short Dated Sterling Corporate Bond Index Fund | 0.18% |
| BLK Life AQC Corporate Bond Up To 5 Years Index Fund | 0.10% |

Custodial arrangements

Mobius Life Limited

The funds held by the Scheme invest in unitised vehicles offered by other investment managers. As such, Mobius Life owns units of other funds and does not directly hold stock.

The third-party investment managers of the underlying funds will appoint their own custodians.

Investment principles

Trustees are required to produce a Statement of Investment Principles, which incorporates the investment strategy, in accordance with section 35 of the Pensions Act 1995. Dalriada had had sight of what appeared to be a template, unsigned and undated Statement of Investment principles, prepared by the previous trustees and/or their administrators.

As commented earlier, Dalriada has now taken advice from Advisory Investment Services Limited and implemented an investment strategy that, whilst still cautious, looks to generate a greater return than just holding funds in cash. Dalriada has now prepared an updated Statement of Investment principles that reflects that strategy. A copy is available by download from the members' website page www.dalriadatrustees.co.uk/scheme/pennines-and-mendip/?type=documents.

Employer related investments

There were no employer related investments at any time during the year within the meaning of section 40(2) of the Pensions Act 1995.

The Scheme's Investments with Mobius Life Limited comply with the restrictions prescribed by regulations made under section 40 of the Pensions Act 1995.

**Mendip RBS
Trustees' Report**

Statement of Trustees' Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102), are the responsibility of the Trustees. Pension scheme regulations require, and the Trustees are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustees are also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustees are responsible under pensions legislation for securing that a payment schedule is prepared, maintained and from time to time revised showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employer in accordance with the payment schedule. Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Signed for and on behalf of the Trustees

For Dalriada Trustees Limited 

Date..... 31/10/2022

Mendip RBS
Independent Auditor's report to the Trustees

Opinion

We have audited the financial statements of the Mendip RBS (the 'Scheme') for the year ended 31 March 2022 which comprise the fund account, the statement of net assets and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 of the financial statements, which indicates that if the Scheme was required to pay the Scheme Sanction Charge liability recognised in within these financial statements, the Scheme may not be able to pay this liability in full. As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Scheme's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Trustees with respect to going concern are described in the relevant sections of this report.

Mendip RBS
Independent Auditor's report to the Trustees

Other information

The other information comprises the information included in the report and financial statements, other than the financial statements and our auditor's report thereon. The Trustees are responsible for the other information contained within the report and financial statements. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustees

As explained more fully in the Trustees' responsibilities statement set out on page 11, the Scheme's Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to wind up the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit is considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations by considering their experience, past performance and support available.

All engagement team members were briefed on relevant identified laws and regulations and potential fraud risks at the planning stage of the audit. Engagement team members were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Mendip RBS
Independent Auditor's report to the Trustees

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Scheme, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The most relevant frameworks we identified include:

- The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.
- The Pension Schemes Statement of Recommended Practice (2018).
- The Pensions Acts 1995 and 2004.

We gained an understanding of how the Scheme is complying with these laws and regulations by making enquiries of management and the Trustees. We corroborated these enquiries through our audit work.

We assessed the susceptibility of the Scheme's financial statements to material misstatement, including how fraud might occur, by enquiring of management and the Trustees to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management and the Trustees were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management and the Trustees oversee the implementation and operation of controls. In areas of the financial statements where the risks were considered to be higher, we performed procedures to address each identified risk.

The following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- Reviewing the latest available internal control reports of the Scheme administrator and Scheme investment platform provider.
- Performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the rationale of significant transactions outside the normal course of business and reviewing judgments made by management in their calculation of accounting estimates for potential management bias.

Our audit procedures were designed to respond to the risk of material misstatements in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve intentional concealment, forgery, collusion, omission or misrepresentation. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.

Mendip RBS
Independent Auditor's report to the Trustees

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.
- Conclude on the appropriateness of the Trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e. gives a true and fair view).

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of our report

This report is made solely to the Scheme's Trustees, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Johnston Carmichael LLP

Johnston Carmichael LLP
Statutory Auditor

227 West George Street
Glasgow G2 2ND

Date: *31 October 2022*

**Mendip RBS
Financial Statements**

For the year ended 31 March 2022

Fund Account

| | Note | 2022 £ | 2021 £ |
|---|------|------------------------|---------------------|
| Contributions and benefits | | | |
| Other income | 3 | 25,587 | - |
| | | <u>25,587</u> | <u>-</u> |
| Administrative expenses | 4 | (47,916) | (44,743) |
| | | <u>(47,916)</u> | <u>(44,743)</u> |
| Net withdrawals from dealings with members | | <u>(22,329)</u> | <u>(44,743)</u> |
| Returns on investments | | | |
| Investment income | 5 | 3 | 209 |
| Change in market value of investments | 6 | (28,703) | (7,466) |
| Net returns on investments | | <u>(28,700)</u> | <u>(7,257)</u> |
| Net decrease in the fund for the year | | (51,029) | (52,000) |
| Net assets at 1 April 2021 | | 9,009 | 61,009 |
| Net assets at 31 March 2022 | | <u><u>(42,020)</u></u> | <u><u>9,009</u></u> |

The notes on pages 18 to 25 form an integral part of these financial statements.

**Mendip RBS
Financial Statements**

**Statement of Net Assets
(available for benefits) as at 31 March 2022**

| | Note | 2022 £ | 2021 £ |
|--|--------|----------------------------|-------------------------|
| Investment assets: | 6 | | |
| Pooled investment vehicles | 7 | <u>894,022</u> | <u>1,002,725</u> |
| | | <u>894,022</u> | <u>1,002,725</u> |
| Current assets | 10 | 87,897 | 28,401 |
| Current liabilities | 11 | (1,023,939) | (1,022,117) |
| Net assets at 31 March 2022 | | <u><u>(42,020)</u></u> | <u><u>9,009</u></u> |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

The notes on pages 18 to 25 form an integral part of these financial statements.

These financial statements were approved by the Trustees and authorised for issue on.....^{31/10/2022}

Signed for and on behalf of the Trustees

For Dalriada Trustees Limited 

Mendip RBS
Notes to the Financial Statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (revised 2018), published by the Pensions Research Accountants Group.

At 31 March 2022, the Scheme had net assets of (£42,020) (2021 - £9,009).

Dalriada are currently appealing against the Scheme Sanction Charge, however if payment of this charge was required then Dalriada acknowledge the risk that the Scheme may not have sufficient financial resources to pay the charge in full.

In this knowledge, Dalriada has considered the basis of preparation of these financial statements. Dalriada has prepared these financial statements on a going concern basis, however Dalriada acknowledge that these conditions create a material uncertainty that may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least 12 months from the date of approving these financial statements.

Dalriada has considered the measurement and recognition of the assets and liabilities included in the Scheme's Statement of Net Assets and concluded that no adjustments are necessary to these as a consequence of this material uncertainty.

1.1. Identification of the financial statements

The Scheme is established as a trust and is governed by, the laws of England and Wales. The Scheme Provider's registered address is disclosed on page 3 and the address for enquiries to the Scheme is included in the Trustees' Report on page 7.

2. Accounting policies

Functional currency

The functional currency used in the financial statements is Sterling and all figures have been rounded to the nearest pound.

Investment Income

Interest on bank deposits is accounted for as it accrues.

Income arising from the underlying investments of the pooled investment vehicles that is reinvested within the pooled investment vehicles is reflected in the unit price. Such income is reported within the change in market value, otherwise it is accounted for when declared by the fund manager.

Other income is accounted for as it accrues.

Change in Market Value

The change in market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including all profits and losses realised on sales of investments during the year.

Transfers

Mendip RBS
Notes to the Financial Statements

Individual transfers to and from the Scheme during the year are included in the financial statements on the basis of when the member liability is accepted or discharged.

There were no transfers out during the year.

Benefits

Benefits payable are included in the financial statements on an accruals basis when the member notifies the Trustees as to the type or amount of benefit to be taken, or where there is no choice, on the date of retirement or leaving. Currently Dalriada is not able to identify benefits payable.

Administrative expenses

Administrative expenses are accounted for on an accruals basis.

Investment Assets

Other than funds held in cash in the Scheme's bank account, all monies transferred into the Scheme were invested in preference shares in Hedge Capital Investment Group plc/Limited (HCIG), before Dalriada was appointed.

Dalriada was unclear as to the value of the underpinning investments and, so, to the actual value of the Scheme's investment in HCIG and, as such, had difficulty in showing a correct asset value in previous accounts. Dalriada had previously valued the investment consistent with the net asset value of HCIG, as shown in that company's most recently filed audited accounts for the year ended 31 December 2015. However, Dalriada had caveated that asset figure to the extent that, once more information was known about the underpinning investments, the net value may be considerably lower.

Following the conclusion of the settlement between Dalriada and the various Hedge entities, all funds held in cash by HCIG were returned to the Scheme.

There remain other investments within HCIG, as set out in the Investment Report on pages 8 & 9. As liquidators, Interpath are tasked with recovering what money it can from those investments but, currently, we don't anticipate any material recovery. Given this, we have exercised prudence, and assumed nil recovery, other than where funds are actually received. The net assets now more properly reflect the value in HCIG.

Unitised pooled investment vehicles are valued at the closing bid price or, if single priced, at the closing single price as advised by the investment managers at the year end.

3. Other Income

| | 2022 | 2021 |
|--|---------------|-------------|
| | £ | £ |
| Funds received from the liquidation of Hedge Capital | 25,587 | - |
| | <u>25,587</u> | <u>-</u> |

Mendip RBS
Notes to the Financial Statements

4. Administrative expenses

| | 2022 | 2021 |
|-------------------------|---------------|---------------|
| | £ | £ |
| Consultancy fees | 480 | 600 |
| Audit fees | 3,600 | 3,301 |
| Legal fees | 7,335 | 5,581 |
| Pensions Regulator Levy | 465 | 396 |
| Trustee fees | 35,996 | 34,850 |
| Other professional fees | 40 | 15 |
| | <u>47,916</u> | <u>44,743</u> |

5. Investment income

| | 2022 | 2021 |
|---------------------------|-------------|-------------|
| | £ | £ |
| Interest on cash deposits | <u>3</u> | <u>209</u> |
| | <u>3</u> | <u>209</u> |

6. Reconciliation of investments

| | Value at | Purchases | Sale | Change in | Value at |
|-------------------------------|-------------------------|-----------------------|-------------------------|------------------------|-----------------------|
| | 31/03/2021 | at cost | proceeds | market | 31/03/2022 |
| | £ | £ | £ | value | £ |
| | £ | £ | £ | £ | £ |
| Pooled investment vehicles | 1,002,725 | 399,148 | (479,148) | (28,703) | 894,022 |
| Investments Total | <u>1,002,725</u> | <u>399,148</u> | <u>(479,148)</u> | <u>(28,703)</u> | <u>894,022</u> |
| Unallocated to members | <u>1,002,725</u> | | | | <u>894,022</u> |

Where the investments are held in managed and unitised funds the change in market value also includes expenses both implicit and explicit to the Scheme and any reinvested income, where the income is not distributed.

Pooled investment vehicles are all managed by companies registered in the United Kingdom.

Indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Trustee.

Mendip RBS
Notes to the Financial Statements

Concentration of Investments

The following investments exceed 5% of the total value of the net assets of the Scheme:

| | 2022 | | 2021 | |
|--|-------------|-----|-------------|---------|
| | £ | % | £ | % |
| L&G Life AR Cash Fund | 500,318 | 0.0 | 101,010 | 1,121.2 |
| L&G Life CSAJ PMC Short Dated Sterling Corporate Bond | 128,899 | 0.0 | 300,839 | 3,339.3 |
| BLK Life AQC Corpportate Bond Up To 5 Years Index Fund | 264,805 | 0.0 | 600,876 | 6,669.7 |

The concentration of investments for 2022 have just been shown as 0.0% as the net assets are (£42,020).

7. Pooled investment vehicles

| | 2022 | 2021 |
|-------|----------------|------------------|
| | £ | £ |
| Bonds | 393,704 | 901,715 |
| Cash | 500,318 | 101,010 |
| | <u>894,022</u> | <u>1,002,725</u> |

8. Fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

| | 31 March 2022 | | | |
|----------------------------|----------------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | £ | £ | £ | £ |
| Pooled investment vehicles | - | 894,022 | - | 894,022 |
| | - | 894,022 | - | 894,022 |
| | 31 March 2021 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | £ | £ | £ | £ |
| Pooled investment vehicles | - | 1,002,725 | - | 1,002,725 |
| | - | 1,002,725 | - | 1,002,725 |

Mendip RBS

Notes to the Financial Statements

9. Investment risk disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The SORP recommends these risk disclosures are made for all investments.

Dalriada determine the investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. Dalriada manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

Further information on Dalriada's approach to risk management, credit and market risk is set out below.

(i) Investment strategy

The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, the benefits of the Scheme payable under the trust deed and rules as they fall due.

Dalriada set the investment strategy for the Scheme taking into account considerations such as the long term liabilities of the Scheme. The investment strategy is set out in its Statement of Investment Principles (SIP).

Previously the strategy was (beyond the first £85,000 (or such sum as the Trustees' estimate will be required to pay the annual fees) which will be held 100% in cash), is to hold 90% in short-dated corporate bonds and 10% in cash.

Following a review of the investment strategy, the Trustee amended the investment strategy in early 2022 to take into account the high inflationary environment and make allowance for the expected time horizon to the wind-up of the Scheme. It is the intention of the Trustee to make an application on behalf of the Scheme for compensation from the Fraud Compensation Fund ("FCF") and then, if successful, distribute the compensation to members along with the invested assets, before winding-up the Scheme.

After considering the independent investment advice of AIS, the Trustee decided to adjust the investment strategy so as to increase the proportion of cash held within the Scheme portfolio based on the expected time horizon to wind-up of the Scheme, which is dependent on an estimate of the period to a determination of a claim on the FCF. The adjustment to the investment strategy is included in Appendix A of the revised SIP which can be found at www.dalriadatrustees.co.uk/scheme/pennines-and-mendip/?type=documents.

Mendip RBS
Notes to the Financial Statements

9. Investment risk disclosures (continued)

(ii) Credit risk

The Scheme is subject to direct credit risk within the investment portfolio to the extent of the holdings in pooled investment vehicles and assets held in cash and are indirectly exposed to credit risks arising on the financial instruments held within the pooled investment vehicles which contain fixed interest investments. Cash in the Trustees' Bank Account is held within financial institutions which are at least investment grade credit rated.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager and the regulatory environments in which the pooled manager operates.

Indirect credit risk arises in relation to underlying investments held in the pooled investment vehicles, specifically the Scheme's bond mandates which hold credit instruments. Dalriada has delegated the day-to-day management of the pooled investment vehicles.

A summary of pooled investments vehicles by type of arrangement is as follows:

| | 31-Mar-22 | 31-Mar-21 |
|---------------------------------|------------------|------------------|
| Unit linked insurance contracts | 894,022 | 1,002,725 |
| Total | 894,022 | 1,002,725 |

(iii) Currency risk

The Scheme is not directly exposed to currency risk as the pooled investment vehicles held are denominated in Sterling.

Indirect exposure to currency risk arises as a result of the Scheme's pooled investment vehicles' underlying holdings including securities that are denominated in non-GBP currencies. The fund manager may choose to hedge foreign currency exposures within the pooled investment vehicles. Dalriada do not conduct any direct currency hedging however invest in GBP currency hedged versions of pooled funds where it deems it appropriate.

Mendip RBS
Notes to the Financial Statements

9. Investment risk disclosures (continued)

(iv) Interest rate risk

The Scheme is not directly exposed to interest rate risk across the pooled investment vehicles they invest in, as the price of those vehicles are not directly affected by changes in interest rates.

As a result of some of the pooled investment vehicles held by the Scheme investing in fixed interest products such as government and corporate bonds, the Scheme is exposed indirectly to interest rate risk. Movements in interest rates will have a bearing on the price of those underlying government and corporate debt securities held which will affect the net asset value of the vehicles and consequently, the unit price of the pooled investment vehicles.

A summary of the underlying portfolio exposed to interest rate risk is as follows:

| | 31-Mar-22 | 31-Mar-21 |
|--|----------------|------------------|
| L&G Life CSAJ PMC Short Dated Sterling Corporate Bond Index Fund | 128,899 | 300,839 |
| BLK Life AQC Corporate Bond Up To 5 Years Index Fund | 264,805 | 600,876 |
| L&G Life AR Cash Fund | 500,318 | 101,010 |
| Total | 894,022 | 1,002,725 |

(v) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes cash held in pooled vehicles.

The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

Dalriada has delegated the day-to-day management of the pooled investment vehicles to Mobius Life Limited.

A summary of the underlying portfolio exposed to other price risk is as follows

| | 31-Mar-22 | 31-Mar-21 |
|-----------------------|----------------|----------------|
| L&G Life AR Cash Fund | 500,318 | 101,010 |
| Total | 500,318 | 101,010 |

10. Current assets

| | 2022 | 2021 |
|---------------|---------------|---------------|
| | £ | £ |
| Cash balances | 87,897 | 28,401 |
| | <u>87,897</u> | <u>28,401</u> |

Included in the bank balance for the year ended 31 March 2022 is £87,897 (2021: £28,401) which is not allocated to members.

Mendip RBS
Notes to the Financial Statements

11. Current liabilities

| | 2022 | 2021 |
|------------------------|---------------------------|---------------------------|
| | £ | £ |
| Scheme sanction charge | (1,015,806) | (1,015,806) |
| Accrued expenses | <u>(8,133)</u> | <u>(6,311)</u> |
| | <u>(1,023,939)</u> | <u>(1,022,117)</u> |

HMRC has levied Scheme Sanction Charge calculated at 40% of the corresponding unauthorised payment charges levied on the members of the Scheme. These unauthorised payment charges have been calculated based on the higher of the loan received by the member or 50% of the amount transferred into the Scheme in respect of the member. It is HMRC's view that unauthorised payment tax charges have arisen. Dalriada is appealing the Scheme Sanction Charge.

12. Related Party Transactions

During the year ended 31 March 2021 the fees due to Dalriada were £35,996 (2021: £34,850). As at 31 March 2022 £2,633 (2021: £2,528) was still due to Dalriada.

13. Contingent Asset

As disclosed on page 9, as part of the liquidation of Hedge Capital Limited and its various holding companies, 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 £127,000 could be returned to Mendip RBS.

14. Contingent Liabilities

There were no contingent liabilities at the year end.

15. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains taxes.

16. Self investment

There were no known instances of self investment during the year.

**Mendip RBS
Summary of Contributions**

During the year ended 31 March 2022 no contributions were paid or were due to the Scheme.

Signed for and on behalf of the Trustees

For Dalriada Trustees Limited 

Date..... 31/10/2022

Independent Auditor's Statement about Contributions, under Regulation 4 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustees of the Mendip RBS

We have examined the summary of contributions to the Mendip RBS for the Scheme year ended 31 March 2022 to which this statement is attached.

Statement about contributions payable under the payment schedule

In our opinion contributions for the Scheme year ended 31 March 2022 as reported in the summary of contributions and payable under the payment schedule have in all material respects been paid at least in accordance with the payment schedule and Scheme rules.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the payment schedule. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the payment schedule.

Respective responsibilities of Trustees and the auditor

As explained more fully in the Statement of Trustees' Responsibilities, the Scheme's Trustees are responsible for securing that a payment schedule is prepared, maintained and from time to time revised and for monitoring whether contributions are made to the Scheme by the employer in accordance with the payment schedule.

It is our responsibility to provide a Statement about Contributions paid under the payment schedule and to report our opinion to you.

Use of our report

This report is made solely to the Trustees, as a body in accordance with Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996. Our work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an Auditor's Statement about Contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees as a body, for our work, for this report, or for the opinions we have formed.

Johnston Carmichael LLP

Johnston Carmichael LLP
Statutory Auditor

227 West George Street
Glasgow G2 2ND

Date: 31 October 2022

Mendip RBS Compliance Statement

Changes in and other matters relating to the Scheme advisers

Any changes to the Scheme advisers are shown on pages 3 and 4.

Pension Tracing Service

The Pension Tracing Service provides a tracing service for members (and their dependants) of previous employers' schemes, who have lost touch with earlier employers and trustees. To trace a benefit entitlement under a former employer's scheme, enquiries should be addressed to:

Telephone: 0800 731 0193

Website: <https://www.gov.uk/find-pension-contact-details>

The Money and Pensions Service (MaPS)

The Money and Pensions Service creates one organisation from the three existing providers of government-sponsored financial guidance:

- The Money Advice Service
- The Pensions Advisory Service
- Pension Wise

The Money and Pensions Service brings together for the first time the provision of debt advice, money guidance and pensions guidance. For pensions guidance the Money and Pensions Service will provide information to the public on matters relating to workplace and personal pensions. From 30 June 2021, the new consumer face of MaPS is Money Helper.

Holborn Centre
120 Holborn
London
EC1N 2TD
Telephone: 0115 965 9570

Email: pensions.enquiries@moneyhelper.org.uk

Website: www.moneyhelper.org.uk

The Pensions Ombudsman

In cases where a complaint or dispute cannot be resolved under the IDRP, an application can be made to the Pensions Ombudsman to investigate and determine any complaint or dispute of fact or law involving occupational pension scheme. The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
E14 4PU
Telephone: 0800 917 4487

Website: www.pensions-ombudsman.org.uk

E-mail: enquiries@pensions-ombudsman.org.uk

**Mendip RBS
Compliance Statement**

The Pensions Regulator

The statutory body that regulates occupational pension schemes is The Pensions Regulator (TPR). TPR can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton BN1 4DW
Telephone: 0345 600 1011

Website: www.thepensionsregulator.gov.uk

E-mail: customersupport@tpr.gov.uk

**Mendip RBS
Appendix 1**



**Mendip RBS
Investment Manager's Report to 31 March 2022**

Fund Performance to: 31 Mar 2022

| % Fund Growth | 1 Year to 31 Mar 22 | 3 Years to 31 Mar 22 | 1 Year to 31 Mar 21 | 1 Year to 31 Mar 20 | 1 Year to 31 Mar 19 | 1 Year to 31 Mar 18 |
|--|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| L&G Life AR Cash Fund | 0.1 % | 0.3 % | 0.1 % | 0.7 % | 0.6 % | 0.3 % |
| L&G Life CSAJ PMC Short Dated Sterling Corporate Bond Index Fund | -3.1 % | -1.3 % | -0.7 % | 0.0 % | 0.0 % | na |
| BLK Life AQC Corporate Bond Up To 5 Years Index Fund | -3.1 % | na | 4.3 % | na | na | na |

| Market Returns | 1 Year to 31 Mar 22 | 3 Years to 31 Mar 22 | 1 Year to 31 Mar 21 | 1 Year to 31 Mar 20 | 1 Year to 31 Mar 19 | 1 Year to 31 Mar 18 |
|---|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| FTSE ALL Share Index | 13.0 % | 5.3 % | 26.7 % | -18.5 % | 6.4 % | 1.2 % |
| FTSE 100 | 16.1 % | 4.9 % | 21.9 % | -18.4 % | 7.7 % | 0.2 % |
| FTSE 250 | 0.5 % | 5.9 % | 45.1 % | -18.6 % | 1.0 % | 5.3 % |
| FTSE Small Cap | 5.3 % | 11.4 % | 63.0 % | -19.4 % | 1.0 % | 6.0 % |
| FTSE AW World Index | 14.9 % | 14.7 % | 39.9 % | -6.1 % | 11.1 % | 2.4 % |
| FTSE North America | 19.7 % | 18.4 % | 42.8 % | -2.8 % | 17.5 % | 1.3 % |
| FTSE Developed Europe ex UK | 6.1 % | 9.5 % | 34.5 % | -8.2 % | 2.6 % | 3.9 % |
| FTSE Developed Asia Pacific ex Japan | 2.3 % | 8.3 % | 50.6 % | -17.6 % | 4.8 % | 1.9 % |
| FTSE Japan | -2.3 % | 6.5 % | 26.3 % | -2.1 % | -0.9 % | 7.5 % |
| FTSE Over 15 year fixed interest | -7.2 % | -0.7 % | -10.4 % | 17.6 % | 4.7 % | 2.2 % |
| FTA All Stock Fixed Interest Gilt Index | -5.1 % | -0.5 % | -5.5 % | 9.9 % | 3.7 % | 0.5 % |
| FTA Over 5 Year Index-Linked Gilt Index | 4.8 % | 3.3 % | 2.6 % | 2.4 % | 5.7 % | 0.7 % |

Past performance should not be seen as a guide to future performance and may not be repeated.

Notes:

- Returns shown are gross of charges based on Mobius Life unit prices
- Returns for periods in excess of a year are annualised.
- Past performance should not be seen as a guide to future performance and may not be repeated. The value of investments may go down as well as up and investors may not get back the amount originally invested, are not certain to make a profit and may lose money.
- Exchange rate changes may cause the value of overseas investments to rise or fall.
- Investors should be aware that investment in emerging markets involves a high degree of risk and should be seen as long term in nature.
- Investment in property may not be readily realisable. The value of property is generally a matter of valuers opinion rather than fact.
- Where a fund is invested with another life company by means of a reinsurance arrangement, we monitor the way the reinsurer manages the business, but we do not guarantee the solvency of the reinsurer, so the risk of default by the reinsurer is borne by policyholders who invest in the relevant fund.
- Mobius Life Limited provides information on our products and services to enable you to make your own investment decisions, and this document should not be regarded as a personalised recommendation.

**Mendip RBS
Appendix 1**

Fund Profiles

BLK Life AQC Corporate Bond Up To 5 Years Index Fund

The fund aims to achieve index returns in line with the iBoxx GBP non-gilts, 1-5 year index.

L&G Life AR Cash Fund

This Fund consists of monies which are invested in short term instruments. The Fund aims to perform in line with SONIA (Sterling Overnight Index Average), without incurring excessive risk.

L&G Life CSAJ PMC Short Dated Sterling Corporate Bond Index Fund

Please Consult your Advisor

Provided by the Advisor for L&G Life CSAJ Short Dated Sterling Corporate Bond Index Fund

The fund aims to track the performance of the Markit iBoxx Sterling Corporates 1-5 Year Index.

Appendix 2

Mendip RBS

Implementation Statement

for the year ending 31 March 2022

This Implementation Statement (“the Statement”) has been prepared by Dalriada Trustees Limited (“the Trustee”) for the Mendip RBS (“the Scheme”).

It has been prepared to comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734), as amended by the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (SI 2018/988) (“the Disclosure Regulations”).

Mendip RBS

October 2022

Introduction

Dalriada Trustees Limited (“Dalriada”) was appointed Trustee of the Scheme (“the Trustee”) 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.

A Statement of Investment Principles (“SIP”) dated September 2020 was prepared by the Trustee and published on 30 September 2020, 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.

As such, the SIP has been in force for the Scheme Year and the Scheme’s assets have been invested in line with the SIP and Investment Strategy over the period. No SIP was in place prior to 30 September 2020, due to the particular circumstances of the Scheme, as outlined below.

The Scheme appointed Advisory Investment Services Limited (“AIS”) as Investment Adviser in the previous Scheme Year and AIS has remained in this role during the current Scheme Year.

This Statement has been prepared in accordance with the Disclosure Regulations, in as far as it has been possible to do so, given the circumstances of the Scheme.

BACKGROUND OF THE SCHEME

Prior to Dalriada’s appointment as Trustee, the former trustees had invested Scheme 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.

Therefore, 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. 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 invests 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 SIP and this Statement only apply to those assets that the Trustee has been able to recover and realise, such that they are capable of being invested in accordance with the SIP. If the Trustee is able to recover and realise these unorthodox investments, such funds will be invested in line with the SIP.

Under applicable legislation, the Scheme is a defined contribution (“DC”) scheme, for the purpose of this Statement. The Trustee’s investment powers are set out in the Trust Deed and Rules and subsequent amending deeds. The SIP is consistent with those powers.

In this Statement we seek to:

- set out the Trustee’s investment policies as per the SIP;
- comment on the voting and engagement behaviour and how the Trustee’s policy has been followed during the Scheme Year; and
- set out how, and the extent to which, the SIP has been followed during the Scheme Year.

Trustee Investment Policies

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

This section sets out the policies in the SIP in force at the Scheme year end, relating to the following:

- Financially Material Considerations for the Investment Strategy
- Non-Financial Matters
- Stewardship (Voting and Engagement)
- Investment Manager Arrangements

FINANCIALLY MATERIAL CONSIDERATIONS FOR THE 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. However, the fund managers 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.

INVESTMENT MANAGER ARRANGEMENTS

The Trustee, after considering suitable advice from the Investment Adviser, appointed BlackRock and Legal & General Investment Management as the managers ("Investment Managers") of the assets held by the Scheme, all of which are held on the Mobius Life investment platform ("Mobius").

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.

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.

Stewardship – Voting and Engagement

The Trustee is required to disclose the voting and engagement activity over the Scheme year, where applicable. The Trustee requested the Scheme’s Investment Adviser to obtain voting and investment engagement information from the Investment Managers (LGIM and Blackrock) on the Scheme’s behalf.

This statement provides a summary of the key information provided by the Investment Managers to the Investment Adviser in relation to the Scheme Year.

VOTING AND ENGAGEMENT ACTIVITY

The Trustee’s policy in relation to stewardship is set out on page 8 of the SIP.

As the Scheme’s investments are exclusively in cash and bond funds, with no voting rights, there was no voting activity to report.

Should the Investment Strategy of the Scheme (and the SIP) be amended in the future to include an element of listed equities or other assets that carry voting rights and afford fund managers the opportunity to engage with investee companies, the Trustee will work with its Investment Adviser and Investment Managers in relation to providing information regarding voting and engagement activity in future implementation statements.

For completeness, as the Scheme’s investments carry no voting rights, no “significant votes” have been identified or voted on over the course of the Scheme Year.

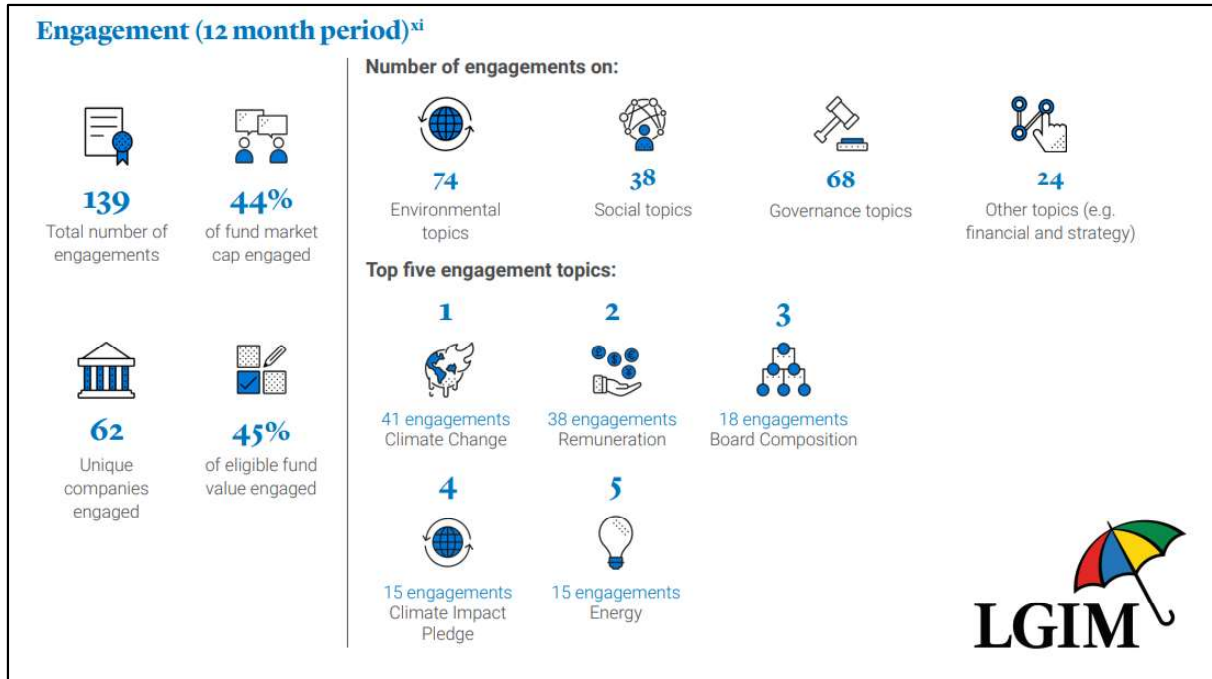
MANAGER ENGAGEMENT INFORMATION

The Trustee believes that an important part of responsible oversight is for Investment Managers to engage with the senior management of investee companies on any perceived risks or shortcomings – both financial and non-financial – relating to the operation of the business, with a specific focus on ESG factors. As such, it expects the Scheme’s Investment Managers to engage with investee companies where they have identified any such issues.

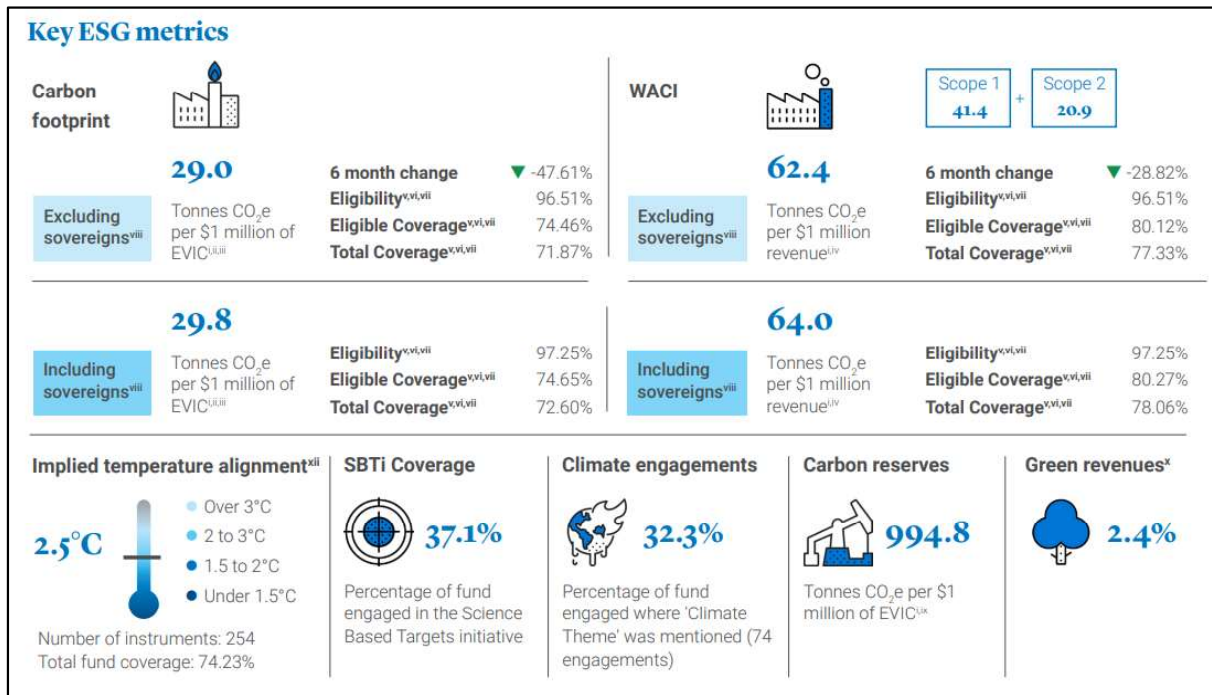
The engagement activity was requested from all of the Scheme’s Investment Managers, where appropriate.

LGIM

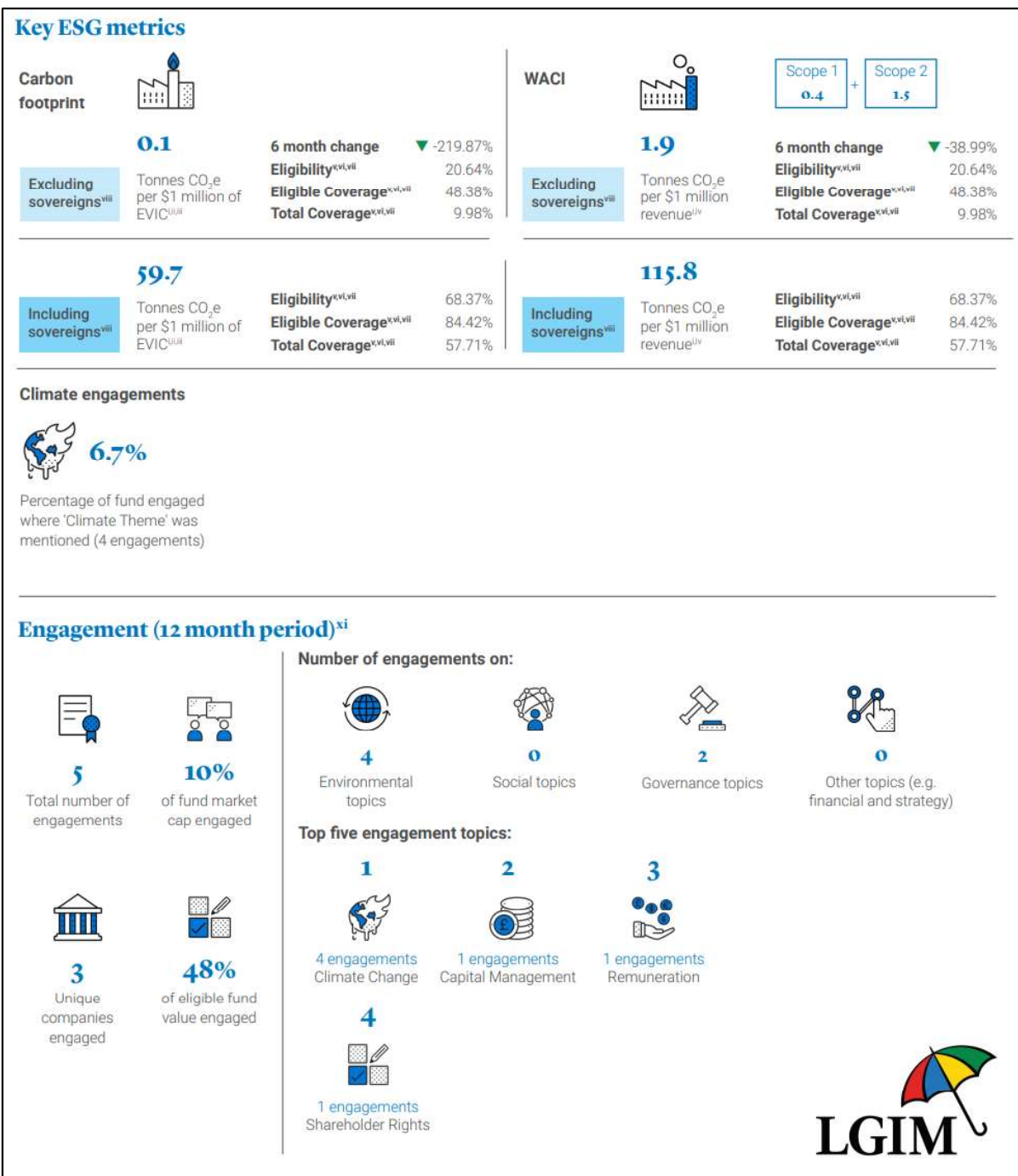
LGIM have provided the summary overleaf of the engagement activity for their Short-Dated Sterling Corporate Bond Index Fund.



In relation to this fund, LGIM also provided the below summary of their key ESG metrics.



Although the LGIM Cash Fund will have limited potential for engagement activity, or ESG activity, LGIM still provided similar summaries for said fund, as detailed overleaf.



Blackrock

Blackrock were unable to provide fund level engagement information in respect of the Sterling Corporate Bond 1-5 years Fund. However Blackrock did provide the Investment Adviser with an asset-level report, in respect of their Sterling Fixed Income funds.

In Q1 2022, the Blackrock Investment Stewardship ("BIS") team held more than 806 engagements with more than 719 unique companies across 43 markets. The BIS team also voted at more than 2,600 meetings in relation to over 22,000 management and shareholder proposals. Blackrock also states that as of 31 May 2022 they managed over \$37 billion on behalf of clients in green bonds.

Blackrock have produced a set of Global Principles, which set out the core elements of corporate governance that guide their investment stewardship activities globally. The Global Principles were

updated for 2022 to include climate risk, board diversity, sustainability reporting, ESG in executive compensation and changes to corporate form.

Blackrock have provided two examples of engagement with corporates (i.e. Barclays Plc and Shell Plc), in relation to votes supporting the efforts of both companies to manage their climate-related risks and opportunities. The report provided states that Blackrock is an active participant in the capital markets, but specific examples in relation to the Sterling Corporate Bond 1-5 years Fund were not available.

OUTSTANDING INFORMATION

This section sets out the status of outstanding information the Investment Adviser has requested.

While Blackrock provided information at an asset class level, they did not have data at the fund level. The Investment Adviser has encouraged the Investment Manager to produce fund level reports in the future.

CONCLUSION

As the Scheme's investments are exclusively in cash and bond funds, with no voting rights, there was no voting activity to report. For completeness, as a result, no "significant votes" have been identified or voted on over the course of the Scheme Year.

LGIM were able to provide fund specific summaries in relation to engagement and ESG metrics, for both the cash and bond funds. The engagement in relation to the LGIM Cash Fund was understandably low, given the nature of the fund. In relation to the Bond Fund, the LGIM summary indicates that engagement focused heavily on ESG issues, with climate change being the most significant engagement topic.

While the nature of the Scheme's portfolio does not lend itself to high levels of voting and engagement activity, the Trustee will continue to review the information provided. As this is the first year any engagement information has been provided, it is difficult to critically analyse how effective the Investment Managers have been with their engagement.

The Scheme's Investment Adviser will seek any outstanding information and will agree a way forward on any actions identified with the Trustee should this information become available.

Review and Changes to the SIP during the Scheme Year

The Scheme did not have a SIP in place prior to September 2020. The SIP that applied over the Scheme Year, which was dated 30 September 2020, can be found [here](#).

The Trustee prepared and signed the SIP in September 2020, complying with all the legislative requirements including the requirements on clarifying and strengthening trustee duties that came into force on 1 October 2019, as well as other changes that came into force on 1 October 2020. The Scheme's assets, excluding the inappropriate assets, were invested in line with the SIP in January 2021.

The SIP sets out the Trustee's policies relating to:

- Investment strategy;
- Types of investment;
- Balance between different types of investment;
- Expected return on investments; Realisation of investments; and
- Risks.

Full details of these policies can be viewed in the SIP (linked above).

In order to comply with the requirements on clarifying and strengthening trustee duties (that came into force on 1 October 2019), the Trustee also set out the following in the SIP:

- how they take account of financially material considerations over the appropriate time horizon of the investments, including those arising from ESG considerations, including climate change;
- their policies in relation to the stewardship of the investments, including engagement with investee firms and the exercise of the voting rights associated with the investment, where applicable; and
- The Trustee decided not to set a policy for non-financial matters in the selection, retention and realisation of investments. Whilst the Trustee believes it looks out for the best interests of the members, they have not yet explicitly taken into account the member views on ESG or ethical views due to the particular circumstances of the Scheme.

In order to comply with the requirements on investment manager arrangements as well as policies on engagement and stewardship (that came into force on 1 October 2020), the Trustee set out the following in the SIP:

- Arrangements with any asset manager, including incentives, remuneration, performance evaluation, portfolio turnover and duration of the arrangement.
- How they monitor the investee company on capital structure and how they manage actual and potential conflicts of interest in relation to their engagement.
- The Trustee also set out how they would monitor financially material considerations.

The Trustee remains of the view that that all of the above policies will help deliver long-term value for all members.

REVIEW AND CHANGES TO THE INVESTMENT STRATEGY

During the Scheme Year, in response to the impact of the Covid-19 pandemic, disruptions to supply chains and inflationary pressures, and the consequent volatility in the financial markets, the Trustee sought the advice of the Investment Adviser to confirm the suitability of the SIP and associated investment strategy.

The primary aim of the investment strategy was to avoid default risk whilst achieving a return above that available on cash. The strategy was created for a benign economic environment, with relatively stable inflation and interest rates.

Given the higher-than-expected volatility in the market, the Trustee (with the advice of the investment advisor) decided to reduce the exposure of the Scheme to the current corporate bond funds and increase the proportion of funds invested in cash, based on the Scheme's expected time to wind-up. The timescale for the winding-up of the Scheme is uncertain, but the wind-up will begin after a successful application to the Fraud Compensation Fund ("FCF") has resulted in compensation being paid to the Scheme.

Given the estimate that the Scheme was two years from a possible wind-up, the Scheme's exposure to corporate bonds was reduced and the proportion of funds held in cash increased.

This amendment to the strategy was agreed by the Trustee, further to the advice of AIS, and implemented by Mobius. The SIP has been updated to reflect the amendment to the strategy and can be found via the link above.

Compliance with SIP during the Scheme Year

The Trustee is of the opinion that the SIP has been followed over the Scheme Year. The actions taken over the year in compliance with the SIP are as follows:

- The Trustee has monitored the investments via regular reviews with the Investment Adviser to ensure that this objective is being met. This includes areas such as manager performance, fees and costs, as well as overall governance costs. Mobius also provide quarterly reports that have been reviewed by the Trustee and the Investment Adviser going forward.
- The ongoing monitoring of the investments identified that the volatility in the financial markets – due to the pandemic, supply chain disruptions and inflationary pressures – required an amendment to the strategy to help reduce the volatility in the Scheme’s portfolio. The Trustee sought appropriate advice from the Investment Adviser and decided to reduce risk by increasing the proportion of cash held in the portfolio. This action was taken in accordance with the objectives of the SIP and a consequence of the ongoing monitoring performed by the Trustee and Investment Adviser.
- Prior to investing the Scheme’s funds in January 2021, the Trustees engaged with the Investment Adviser at length and obtained advice as to the most appropriate funds and Investment Fund Managers to best implement the Investment Strategy. The Investment Adviser considered the performance of various funds and fund managers, including the costs of the funds, the fund managers’ philosophy, the underlying assets of the funds, before recommending the chosen Investment Managers. The managers were also selected as they are UN PRI signatories. The Trustee is of the opinion that the manager selection exercise satisfied the requirements of the SIP and the conclusions remain appropriate following subsequent reviews with the Investment Adviser during the Scheme Year.
- Implemented the Investment Strategy in line with the Scheme’s SIP and the advice of the Investment Adviser. The primary objective of the investment Strategy is to provide a reasonable, stable investment portfolio, that targets some return over cash whilst protecting against further capital loss. Investing in the funds detailed above was in line with this objective and also ensured that the Investment Strategy of the Scheme is consistent with relevant legislation/regulations, the Scheme’s Trust Deed and Rules and best practice. The requirement to include diversification in the portfolio was also satisfied by the implementation.
- The Scheme’s Investment Adviser has been able to obtain engagement and ESG information from the Investment Managers, which has enabled the Trustee to consider and review these requirements in line with the SIP. While the information provided is limited by the nature of the Scheme’s fund portfolio, the Trustee is of the opinion that the requirements of the SIP in relation to voting, engagement and ESG have been met.

Conclusion

The Trustee is of the view that the Scheme's SIP has been followed during the Scheme year.

As identified in this Statement, the Trustee implemented an amendment to the investment strategy in response to the volatility in the financial markets over the course of the Scheme Year. The SIP has been amended to reflect this agreed change in approach.

With the input of the Investment Adviser, the Trustee will continue to review the Scheme's Investments on a quarterly basis and take action should the Investment Objectives and other SIP policies not be met.

Appendix 3

Mendip 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 Mendip 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 £2,121,100 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 £25,587. 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 £127,000 could be returned to Mendip 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 Mendip 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 £47,916 (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 Practising 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 Mendip RBS

Dated: 28 October 2022

Dalriada. *A better way*

Appendix 1

Mendip RBS

Statement of Investment Principles

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

Mendip 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 Mendip 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.