

Carrick Harbours Retirement Benefits Scheme

Annual Governance Statement by the Chair of the Trustee for the Scheme Year end 31 July 2019

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 related Pensions Regulator guidance.

It relates to the Carrick Harbours Retirement Benefits Scheme ("the Scheme"). This statement covers the period from 1 July 2018 to 31 July 2019.

As you are aware from the Announcements issued to members, Dalriada Trustees Limited ("Dalriada") was appointed as trustee by Court Order amid concerns that the Scheme was not being properly run and in order to protect the interests of its membership. This has presented Dalriada with a number of challenges around governance. Nevertheless, this statement is a legal requirement and, as such, can serve as a useful reminder of the issues faced by Dalriada and, where it cannot meet certain governance obligations, I have explained why that it is the case.

Whilst the previous trustees were not removed by The Pensions Regulator nor the Court upon the appointment of Dalriada, they were later prohibited from acting as trustees. Dalriada is therefore, effectively, the sole trustee of the Scheme.

DAMAF Properties Limited (DAMAF) – £200,000 was invested in buy to let hotel rooms on the outskirts of Dundee. On 9 April 2014 DAMAF (who had changed name from MAP Property & Leisure Angus Ltd) went into voluntary liquidation. Dalriada was advised that the company had only around £8,000 in assets with little chance of any more money becoming available. The company was dissolved on 30 December 2015 with no return to the Scheme.

MAP Property & Leisure Springside Limited - £234,000 was invested in buy to let hotel rooms in Edinburgh. This company went into voluntary liquidation on 29 April 2015 and was later dissolved on 20 September 2018 with no return to the Scheme.

In addition to the investigation of the investments detailed above, Dalriada and its advisors commenced discussions with the Pension Protection Fund (PPF) in relation to the Fraud Compensation Fund (FCF) - a fund established under the Pensions Act 2004 to provide compensation to occupational pension schemes with insolvent employers which suffer loss that can be attributed to an offence involving dishonesty. Dalriada continues to correspond with the PPF in order to ascertain if the Scheme may be eligible for compensation from the FCF. It is currently unconfirmed what, if any, level of compensation the Scheme may be eligible to receive.

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 Administration Regulations. 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 used to meet any auto-enrolment obligations and no contributions are being paid 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.

As mentioned above, the Scheme invested in a number of unusual, high risk and largely illiquid investments which are difficult to value. As such, it is 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 advice.

Ultimately, it is Dalriada's intention to wind up the Scheme as soon as it is able, giving members the opportunity to transfer any available funds to a more suitable arrangement of their choice.

Statement of Investment Principles

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

No serviceable SIP exists for the Scheme. However, as there are fewer than 100 members in the Scheme there is no legal requirement to have one.

The Scheme currently holds minimal liquid assets. However, should sufficient assets be recovered on behalf of the Scheme, Dalriada will take appropriate advice to determine a suitable investment strategy in keeping with Dalriada's intention to wind up the Scheme as soon as it is able, giving members the opportunity to transfer any remaining funds to a more suitable arrangements of their choice.

Due to the issues still facing the Scheme, not least the prospect of any future return of funds to the Scheme and the risk profiles of the members, the Scheme would employ a lower risk investment strategy in relation to any monies realised.

Due to the aforementioned issues, Dalriada had been unable to prepare a Report and Financial Statement in previous years. However for the period of this statement, a Report and Financial Statement has been prepared. Scheme Chairman's Statements are published on the dedicated member website.

Review of default strategy and default arrangements

As noted above, as there is no default arrangement or default strategy in place for the Scheme at the current time then there has 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 possibility of tax charges being levied against the Scheme in due course. More information on this has been provided in Dalriada's Announcements to members.

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.

Charges and Transaction Costs

The new 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 Trustee has calculated the charges 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 dissolved in May 2014 and as such fees fall upon the Scheme.

Due to the mismanagement of the Scheme by its previous trustee 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.

For the period in question, the Scheme has paid trusteeship costs of £23,215.30 and legal costs of £13,327.89.

"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, have been in the past centered on the potential recovery of funds.

Dalriada was appointed via Court Order and continues to liaise with The Pensions Regulator regarding the Scheme.

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. Its legal advisers operate similarly, where legal advice is sought.

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.

In relation to 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, due to the nature of Dalriada’s appointment, both Dalriada’s and its adviser’s fees are met using Scheme funds. As commented above there is uncertainty as to how costs will be attributed to the members. This issue may require legal advice. For this reason, to date, Dalriada had had to take a general approach when applying costs.

As soon as Dalriada is in a position to identify each individual’s fund and is able to determine a specific, approach with regard to the allocation of costs, it will be in a position to report on the cumulative effect over time of the application of charges and costs on the value of a members’ accrued rights.

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 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. As commented above Dalriada is, effectively, sole trustee.

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 member of the Association of Professional Pension Trustees, has completed the Regulators 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 and director of Dalriada Trustees Limited. He acts as a 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 is the Dalriada Board representative for the Irregular Schemes Team and 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 member of the Association of Professional Pension Trustees, has completed the Regulators 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 a trustee representative, provides particular insight into corporate structures and insolvencies. The Scheme's investments include shares and/or bonds in, or issued by, corporate entities where understanding the accounting and financial structures of these entities is essential.

Tom is a member of the Association of Professional Pension Trustees, has completed the Regulators 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 a trustee in all three major legal jurisdictions of the UK and as a 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 member of the Association of Professional Pension Trustees, has completed the Regulators Trustee Toolkit and holds the Pensions Management Institute's Award in Pension Trusteeship (DC and DB). Brian 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. 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 relevant and available 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 Trustees, the trustees obtain legal advice where necessary.

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

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

As is set out earlier, to date the Scheme does not have a SIP nor is it required under legislation to have one.

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 appraisal 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.

Professional 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.

There is a need to more formally assess the skills of its members. This is done annually 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 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:

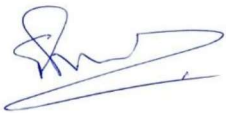
- Members of the Committee have the relevant financial knowledge and experience to enable the trustee to comply with its duties in relation to investment of the Scheme's assets. Tom Lukic's experience (see above) in particular is advantageous in this area.
- There is a vast range of pensions experience 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 contact e-mail address
- Dedicated phone line.
- Dedicated member website.

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



Chairman

Date 15 February 2020