

TWM Pension Trust ("the Scheme")
Annual Governance Statement by the Chair of the Trustee for the Scheme Year
Ending on 30 June 2017

Introduction

As the Chair of the Trustee, I am obligated to provide you with a yearly statement which explains what steps have been taken by the Trustee to meet the new governance standards. This statement covers the Scheme year from 1 April 2016 to 30 June 2017.

What has to be included in the statement is set out in law. Under normal circumstances the statement will relate to a DC scheme properly established to provide appropriate benefits for its members.

As you are aware from the Announcements issued to members since its appointment, Dalriada Trustees Limited ("Dalriada") was appointed as Trustee of the Scheme by The Pensions Regulator amid concerns that the Scheme was being used as a vehicle for pension liberation. This has presented Dalriada with a number of challenges around governance. Nevertheless, this statement is a legal requirement and, as such, can serve as a useful reminder of the issues faced by Dalriada and the Scheme. Where the Trustee cannot meet certain governance obligations, I have stated so below.

Background

Dalriada was appointed as Independent Trustee of the Scheme by Order of The Pensions Regulator on 13 June 2013. The powers and duties exercisable by Dalriada in its capacity as Trustee are to the exclusion of all other trustees of the Scheme.

Approximately £3.32 was transferred into the Scheme by way of individual member transfer payments. Approximately £2.7m was paid to Castle Trust & Management Services Limited, a company registered in Gibraltar, and the funds were then used to purchase shares in Elysian Fuels No. 27 plc, a company registered in England and Wales.

A further investment of £125,000 was made in NewGalaxy Services Limited, a company also registered in England and Wales.

Elysian Fuels No. 27 plc

The Scheme purchased approximately £2.7m worth of preference shares in a company called Elysian Fuels No. 27 plc. The company was originally set up to construct and run a bio-ethanol plant in the North of England but that later changed to the re-commissioning of an existing plant in Virginia, USA.

From both company accounts and correspondence with the promotor of the investment, it became evident that investors would not receive a return from the Scheme. As the investment would not make any return, the preference shares held by investors did not hold any value and were subsequently devalued to £0. The company later entered liquidation and it is currently unclear what, if any, recovery can be made on behalf of the Scheme.

Dalriada continues to investigate in order to establish what, if anything, can be done to recover funds on behalf of the Scheme.

NewGalaxy Services Limited

The Scheme invested £125,000 in NewGalaxy Services Limited in return for 125,000 5% cumulative preference shares. Under the terms of the investment, no return shall be made to the Scheme until the end of the investment period. Dalriada has been in correspondence with NewGalaxy regarding the redemption which is scheduled to occur in February 2018.

In addition to the investigation of the investments detailed above, Dalriada and its advisors commenced discussions with the Fraud Compensation Fund (FCF), a fund established under the Pensions Act 2004 to provide compensation to occupational pension schemes, with insolvent employers, that suffer loss that can be attributed to an offence involving dishonesty. Dalriada has now submitted a claim application on behalf of the Scheme and continues to correspond with the FCF. It is currently unconfirmed what, if any, level of compensation the Scheme may be eligible to receive.

Default investment arrangement

The Scheme did not offer members any choice as to how their funds were invested. Funds were used to invest as set out above.

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 directed investment decisions without seeking appropriate regulated investment advice.

No Statement of Investment Principles exists for the Scheme.

As the investments are unconventional, they do not comply with any maximum charge requirements which would apply if a default fund is offered.

The Trustee is not in a position to rectify any of these deficiencies at the current time.

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

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 as to the value of the Scheme's investments. More information on this has been provided in Dalriada's Announcements to members.

The financial transactions the Scheme does make are, in the main, in relation to costs. Due to limited funds, the Trustee is not preparing audited Reports and Accounts for the Scheme. The Pensions Regulator is aware of this approach.

Given its inability to carry out routine administrative actions, unsurprisingly, over the reporting period, there have been no material administration service issues which need to be reported within this statement.

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 should the Scheme reach such a position where it can operate akin to that of a normal pension scheme.

Charges and Transaction Costs

The new governance rules require trustees to make an assessment of the charges and transactions costs borne by DC scheme members.

Since its appointment, there have been no transactions as the Trustee has not accepted any payments into the Scheme, either by way of contribution or transfers in.

Under the terms of its appointment, the fees of Dalriada and its advisers are met from Scheme funds. Whilst these costs fall as debt due from the employer (or sponsor), in this case the sponsor is currently in liquidation further to the appointment of a liquidator on 27 March 2015. It is highly unlikely that the Scheme will receive any recovery.

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 may continue to incur, significantly higher ongoing costs than would be the case for a similarly sized but conventional scheme.

The Trustee has set out in its various Announcements to members the actions it has taken to date. Generally, actions undertaken by Dalriada, beyond those considered necessary for the appropriate management of the Scheme, are centered on the investigation of the investments previously made. Such actions are considered on a cost benefit analysis and, if ever necessary, Court approval would be sought for the use of Scheme funds to pay for such legal action.

Good value for members

When assessing the charges and any transaction costs which are payable by members, trustees are required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members when compared to other options available in the market. Given the particular circumstances of the Scheme, such a comparison is simply not possible.

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

Trustee Knowledge and Understanding

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

The Pensions Regulator has recently issued new guidance in relation to how trustees should demonstrate their knowledge and understanding. The Trustee has considered this guidance 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 a professional pension scheme trustee.

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.

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

This Scheme currently does not have a SIP due to the nature of the aforementioned investments and the minimal remaining liquid funds held. Should it become appropriate to put a SIP in place in due course, Dalriada will do so immediately in conjunction with an appropriately qualified investment advisor.

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 DC schemes

Those Trustee Directors who are members of professional bodies, are obliged to self evaluate on annual basis and 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. The process identifies where board members can develop their knowledge and understanding, as well as where they can share their expertise in order to best support the Scheme. Trustee Directors attend both internal and external courses.

Every trustee representative is required to undertake a minimum number of hours training in a year. This is recorded centrally by human resources 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.

Every trustee representative is required to complete The Pensions Regulator's Trustee Toolkit and also subscribes to the updates issued by The Pensions Regulator.

Trustee representatives also belong to Dalriada's knowledge management network which keeps them up to date with the industry thinking, as well as access to a team of in house pensions experts who inform the team about changes to pensions legislation and practices.

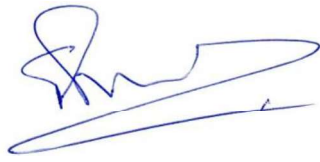
The Trustees have access to Pendragon Perspective and Aries, both industry leading tools, giving access to pensions legislation.

Dalriada also has its own in house legal specialists to provide support and guidance to Trustees around legislation and interpretation of scheme documentation.

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

The Trustee has assessed the skill set and experience of each member of the current Trustee board, taking into account the development activities already mentioned, along with the internal resources made available to staff, supplemented, where required, by professional external advice. Therefore, I consider that the Trustees' combined knowledge and understanding enables them to exercise properly its function as Trustee of the Scheme.

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



Chairman

.....

Date

31 January 2018