

## **London Quantum Retirement Benefit Scheme (also known as the London Quantum Occupational Pension Scheme) ("the Scheme")**

### **Annual Governance Statement by the Chair of the Trustee for the Scheme Year Ending on 30 April 2016**

#### **Introduction**

New governance rules apply to defined contribution ('DC') schemes, and therefore the Scheme, from 6 April 2015.

As the Chair of the Trustee, I have to provide you with a yearly statement which explains what steps have been taken by the trustee to meet the new governance standards. This first statement covers an extended Scheme year from 6 April 2015 to 30 April 2016.

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

As you are aware from the Announcements issued to members since its appointment, Dalriada Trustees Limited ("Dalriada") was appointed as trustee to the Scheme by the Pensions Regulator due to concerns as to how the Scheme was being run and also the investments made by the previous scheme trustees. This has presented Dalriada with a number of challenges around governance. Nevertheless this statement is a legal requirement and, as such, can serve as a useful reminder of the issues faced by Dalriada and, where it cannot meet certain governance obligations, I have explained why that it is the case.

#### **Background**

Dalriada was appointed as Independent Trustee of the Scheme by Order of the Pensions Regulator on 18 June 2015. The powers and duties exercisable by Dalriada in its capacity as trustee are to the exclusion of all other trustees of the Scheme.

The Scheme was marketed, principally, as a vehicle to allow members access to a range of predominantly unregulated investments, purportedly offering greater investment returns.

Upon its appointment, Dalriada undertook to investigate the suitability of the investments offered by the Scheme. Dalriada had concerns regarding a number of key investment considerations including, but not limited to, the lack of proper investment advice, the high risk nature and illiquidity of a number of the investments, and furthermore commission payments.

Alongside the due diligence completed by Dalriada, it also sought investment advice from an appropriately qualified independent investment adviser. The advice was that the investments made available through the Scheme are inappropriate for an occupational, trust based pension scheme such as this and are clearly in breach of the investment regulations governing such schemes. Also, Dalriada carried out an exercise, part of which was to determine the risk profile of Scheme members and it is evident that the investments offered are not appropriate for the Scheme membership.

Neither the previous trustees nor the members received independent, regulated financial advice.

Scheme assets have been notionally segregated per member with each member holding his or her own individual member account. However, funds were invested in the various investments in such a way that each member's individual allocation to each investment cannot be redeemed in isolation. This further complicates both the liquidity of the investments and the administration of the Scheme.

Prior to the Scheme being marketed more widely, the original trustees, together with one other member, purchased the entirety of a company which they owned between them, as a Scheme investment. The structure of this investment remains unclear and it is possible that HMRC may determine tax is payable. If so, the Scheme may be liable for some of these tax charges which would then have to be met from scheme funds. Any tax charges levied against the Scheme would ultimately affect the level of funds available to provide members' benefits.

### **Default investment arrangement**

The Scheme was marketed by a number of introducing companies, in return for commission payments, with a member's investment allocation determined solely by which company introduced them to the Scheme. Therefore, not all members of the Scheme share in the same investments.

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 taking appropriate investment advice.

As the investments are unconventional and predominantly unregulated, they do not comply with any maximum charge requirements.

Dalriada has appointed appropriately qualified investment advisers to the Scheme and based on advice received is working to realise investments where it is appropriate and possible to do so. Dalriada is also in the process of finalising a suitable Statement of Investment Principles.

Due to the issues still facing the Scheme, not least the illiquidity of many of the investments and the risk profiles of the members, the Scheme will employ a lower risk investment strategy.

Details of the revised investment strategy will be set out to members in due course. An appropriate default investment fund will also be made available.

Ultimately, it is Dalriada's intention to wind up the Scheme as soon as it is able, giving members the opportunity to transfer any funds to a more suitable arrangement of their choice. However, it is likely that it will be significant time before this is possible.

### **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. These will be reported in the Scheme's annual accounts.

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

Notwithstanding this, Dalriada, as a professional Independent Trustee, has processes and controls in place that are suitably designed to ensure any service objectives can be achieved once the Scheme is in a position to operate in the manner of a normal scheme.

### **Charges and Transaction Costs**

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

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

Under the terms of its appointment, the fees of Dalriada and its advisers fall as debt due from the employer, Quantum Investment Management Solutions LLP, however this company has now entered liquidation. The liquidator has confirmed that the employer has very little in the way of assets and it is unlikely that it will be able to meet its financial obligations to the Scheme. In this situation the terms of appointment set out that fees should be met from Scheme funds.

Due to the issues identified around the management of the Scheme historically 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.

Dalriada has set out in its various Announcements to members the actions it has taken to realise, where possible, the investments made by the previous trustee. Generally, actions undertaken by Dalriada, beyond those considered necessary for the appropriate management of the Scheme, have been centered on legal advice around the allocation and realisation/recovery of funds.

### **Good value for members**

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

Generally, Dalriada's aim is to realise what assets it can, as cost effectively as it can, to clarify any position with HMRC as regards the possible taxation of Scheme assets and, thereafter, to determine the value of members' funds and provide members with appropriate options prior to, ultimately, 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.

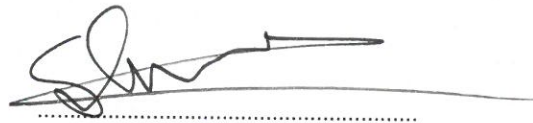
Dalriada, as a professional trustee, meets all knowledge and understanding requirements. A record of the training completed by Dalriada staff is kept and this training record is reviewed periodically to improve standards. Dalriada also seeks external specialist advisers when required.

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

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

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

Chairman



Date

28/11/2016