

**The Ethika Auto Enrolment Pension Scheme ("the Scheme")
Annual Governance Statement by the Chair of the Trustee for the Scheme Year Ending on
31 May 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 Ethika Auto Enrolment Pension Scheme ("the Scheme").

Dalriada Trustees Limited ("Dalriada") was appointed as Independent Trustee of the Scheme by Order of The Pensions Regulator ("TPR") on 26 March 2019 following a tender process. It is unlikely this process meets the requirement for an open and transparent appointment process. Dalriada is a non-affiliated trustee but the Scheme does not meet the requirement for a minimum of three trustees. Given the particular circumstances of the Scheme it is not intended that the Scheme will comply with these specific requirements of the Scheme Administration regulations.

The powers and duties exercisable by Dalriada in its capacity as trustee are to the exclusion of all other trustees of the Scheme.

As Dalriada was only in place as trustee for the period 26 March 2019 to 31 May 2019 during the Scheme year ending 31 May 2019 and given the circumstances of our appointment the information we are able to provide in relation to the year in question is extremely limited.

Dalriada understands that a Chair's Statement has not been prepared by the incumbent Trustee for the previous scheme year ending 31 May 2018.

Following our appointment Dalriada concluded, on 29 March 2019, that the Scheme was at risk of failure and as such a triggering event had occurred.

As a result of the triggering event, it was agreed that the Scheme would be wound up. In accordance with TPR's guidelines, Dalriada communicated with employers to advise that the Scheme would not be taking on any new employers, but would continue to accept contributions from those already enrolled in the Scheme.

As a result of our appointment, a majority of employers have since redirected their contributions to alternative auto-enrolment providers, in order to meet their auto-enrolment obligations.

The Scheme would appear to have made investments directly into a number of entities. Further details of these investments are set out below. To date Dalriada has received insufficient information from the incumbent trustee with regard to these investments, and therefore we continue to work to understand the investment terms and what prospects there are for the investments to provide returns to the Scheme.

Dalriada has faced further issues because of a lack of data being provided by the former administrators of the Scheme. We have not received basic administration records regarding members, allocation of contributions and investment schedules.

Dalriada is continuing in its attempts to obtain this and any other outstanding information.

Default arrangement

The documentation we have received to date suggests that the Scheme did offer a Default Investment Strategy but it is unclear what that default strategy might have been and we have not received any evidence that a default strategy was actually implemented and operated. This is contrary to the requirements of auto-enrolment master trusts.

Dalriada is aware that the Scheme has invested in 3 entities, however we remain concerned over the liquidity and value of certain of the scheme's investments. To date, Dalriada has not been provided with evidence to suggest that the previous Trustees received advice prior to making the investments outlined below.

- Shard Capital Limited – Approximately £1,030,000 invested prior to Dalriada's appointment.
- Patagro Handels GmbH – Approximately £1,200,000 invested prior to Dalriada's appointment.
- Visolaris Limited – Due to the manner in which the investments were made, Dalriada cannot confirm at this stage the total investment made in Visolaris Limited.

Members did not have the option to make their own investment allocation decisions.

Statement of Investment Principles

Dalriada is aware that a Statement of Investment Principles was prepared in April 2017. Dalriada has concerns about the extent to which this Statement complied with the statutory and regulatory requirements.

This statement suggested that a review would take place in Quarter 4, 2017 as membership increased. Dalriada is not aware of this review having taken place and as such understands that no serviceable statement exists for the Scheme.

As before, Dalriada has concerns in respect of some of the investments made by the incumbent Trustee. Dalriada will in due course appoint 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.

Due to the issues still facing the Scheme, not least the likely illiquidity of one or more of the investments and the risk profiles of the members, the Scheme will look to employ a lower risk investment strategy in relation to any monies realised.

Review of default strategy and default arrangements

As noted above, as there is at present no clarity as regards a default arrangement or default strategy in place for the Scheme and there has been no review of the default arrangement or default strategy in the period in question during which Dalriada was Trustee, and no evidence of a 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.

Dalriada continued to accept contributions into the Scheme to ensure that employers already enrolled could fulfil their auto-enrolment requirements.

Dalriada is unable to pay any level of benefit, including transfers values, to members at the present time.

Dalriada has not been provided with adequate information by the previous administrator to determine whether the Core Financial Transactions in the Scheme have been processed promptly and accurately. Indeed, at this time Dalriada has serious concerns that the Core Financial Transactions have not been processed promptly and accurately.

This is due to a number of factors, not least uncertainty to date, as to the value of the Scheme's investments.

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 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.

Dalriada has not received sufficient information from the previous administrator with regards to membership numbers and can therefore not confirm that any fees paid prior to our appointment are within the charge cap. Dalriada has not paid any fees from the Scheme from the date of its appointment as a result of this uncertainty.

In this context, "charges" means 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, Dalriada has continued to receive contributions on behalf of the enrolled employers. However, due to the circumstances around our appointment, we have been unable to fulfill transfer requests from members.

According to information acquired by Dalriada, the Scheme has made a number of Financial Transactions over the year in period the prior to Dalriada's appointment, including member payments, levys, fees and provided loans.

Given the circumstances described above, Dalriada is unable to confirm that these payments made in the period prior to our appointment have been made in a timely or appropriate manner. Dalriada hopes to be in a position to report more fully on Financial Transactions in the next Chair's Statement.

Under the terms of its appointment, the fees of Dalriada and its advisers will fall, in the first instance as a debt due from the employer, E3ECO Limited. If E3ECO Limited is unable to meet Dalriada's fees and costs our appointment order provides for these to be taken from the Scheme.

Due to ongoing concerns about the investments and the subsequent actions taken by Dalriada since appointment, it is inevitable that should the Scheme have to bear these costs they will be higher than would be the case for a similarly sized but conventional auto-enrolment scheme.

“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 centered on action around complying with the implementation strategy including the search for a default fund, reviewing where possible the current position of the investments and liaising with the incumbent Trustees and administrators in order to retrieve the data required to take the Scheme forward. 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. 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.

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, as noted above the extent to which the costs will be borne by the scheme are uncertain at present. Dalriada has also been unable to identify the level of costs associated with the unorthodox scheme investments.

As soon as Dalriada is in a position to identify each individual’s asset allocation, a more specific approach will be taken to apportion costs, including if necessary, Dalriada’s costs, according to each member’s portfolio of investments.

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 (TPR) under section 7 of the Pensions Act 1995 to a number of schemes as a result of TPR 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 (TPR) 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 Pensions 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 trustee representative 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 TPR and representing Dalriada in oral hearings before the Determinations Panel where Dalriada's appointment by TPR has been challenged by the incumbent trustees or other directly affected parties.

Of particular relevance to this appointment Neil acted as chair of the Open Pension Trust master trust from its inception until completion of its wind-up following the decision of its Scheme Funder not to seek authorisation and to withdraw from the master trust market. Neil worked closely and collaboratively with the Scheme Funder and TPR to manage the master trust to the point where this trigger event was resolved to TPR's satisfaction.

Neil is a member of the Association of Professional Pension Trustees, has completed the Pensions 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. Where a 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.

Tom is a member of the Association of Professional Pension Trustees, has completed the Pensions 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 TPR 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 Pensions Regulators Trustee Toolkit and holds the Pensions Management Institute's Award in Pension Trusteeship (DC and DB). Brian has met all required CPD requirements.

Gino Rocco

Gino performs the role of Trustee focusing on all aspects of pension law focusing on defined benefit and defined contribution pension schemes that range in size from the small to the very large.

A solicitor admitted to practice in England and Wales and a Member of the Association of Pension Lawyers, Gino has over 15 years' experience gained at City and National Firms as well as a leading pension consultancy practice.

Gino's experience includes complex benefit interpretation issues, scheme equalisation and benefit rectifications. He has detailed experience of pensions issues arising under TUPE transfers and the Fair Deal protections where employees are transferred from the public (in particular LGPS and NHSPS) to the private sector.

Gino is a member of the Association of Professional Pension Trustees, has completed the Pensions Regulators Trustee Toolkit and holds the Pensions Management Institute's Award in Pension Trusteeship (DC and DB). Gino 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 Trustee Representative, 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, it is recognised that an appropriate induction process should be in place to support the addition of new trustees. This is under review and will be put in place within the next reporting period.

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

As is set out earlier, the Scheme does not have a compliant SIP at this time due to 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 trustee representative, 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 trustee representative 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 trustee representative is required to complete The Pensions Regulator's Trustee Toolkit and subscribes to the updates issued by The Pensions Regulator.

Trustee representatives 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 will be 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 will also be 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 following our appointment have facilitated direct access for members to Dalriada by means of a:

- Dedicated contact e-mail address
- Dedicated phone line.

Given the circumstances of the Scheme, where Dalriada is in contact with it encourages the member, or their representatives, to use these arrangements to make their views on matters relating to the Scheme known to the trustee.

Dalriada is unaware of the arrangements, if any, put in place by the incumbent trustees to facilitate member representation.

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

Chairman



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Date

23 December 2019