

Gresham Investments Pension Scheme ("the Scheme")

Annual Governance Statement by the Chair of the Trustee for the Scheme Year Ending on 30 June 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 Gresham Investments Pension Scheme ("the Scheme") which is a money purchase scheme.

This statement covers the period 1 July 2018 to 30 June 2019.

As you are aware from the Announcements issued to members since its appointment, Dalriada Trustees Limited ("Dalriada") was appointed as Independent Trustee of the Scheme by Order of the Pensions Regulator on 16 December 2014. The powers and duties exercisable by Dalriada in its capacity as trustee are to the exclusion of any other trustees of the Scheme.

The Scheme was suspected of being used as a vehicle to allow members under the minimum retirement age of 55 access to their pension funds by way of a loan or some other form of cash inducement.

Whilst the previous trustees were not removed, Dalriada was appointed with exclusive powers so Dalriada is, effectively, the sole trustee of the Scheme. The former trustees have since been prohibited as a result of action taken by The Pensions Regulator.

The majority of the money was purportedly invested in 'bonds' in two companies.

The first company was a pensions / IT start up company that offered an 'auto enrolment' solution. The second company (Friendly Investments Company PLC - "FIC") was set up to invest funds in a range of 'green' investments. FIC went into administration on 10 July 2015.

In our previous Announcement and Chairman's Statements, we explained events which culminated in total sums being claimed by TPR in excess of £13m, covering both the Scheme and a number of connected schemes. The High Court ruled that the previous trustees and Mr David Austin, the purported creator of the schemes, should repay the money they took from the schemes.

Whilst Dalriada was then able to pursue enforcement of the judgment for the benefit of members, it should be noted that Dalriada had already pursued some of the companies Mr Austin was linked to, with the result that they were placed into insolvency by their directors. The Insolvency Practitioners subsequently appointed by Dalriada to review the actions of those companies prior to insolvency have been seeking to, and continue to seek to, trace funds that were paid directly to Mr Austin or members of his family and others through those companies.

Dalriada understands that Mr Austin may now, in fact, be deceased, although this is currently unconfirmed.

Much of the money has gone into overseas accounts and it will not be straightforward to identify and recover. There is a very real prospect that there will few, if any, funds recovered.

Notwithstanding this, Dalriada will continue to work with its advisers and TPR to investigate all avenues for recovery and will use the judgment as support for its claims. The remainder of the invested funds were invested in largely illiquid property based investments (Freedom Bay, a fractional ownership (timeshare) in St Lucia and a property bond through Affinity Corporation).

Whilst repayment of these monies forms part of the judgment sum in TPR's claim, Dalriada has continued, and will to continue, to determine whether there is anything that can be recovered from these investments.

All of 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.

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. Besides the investment detailed above, Dalriada understands no further investments were made and at no point did members actively select how their funds would be invested.

The previous trustee made investment decisions without seeking appropriate investment advice.

As such, in Dalriada's view, there has never been an appropriate default investment arrangement. There is no life-styling option available.

Statement of Investment Principles

Ordinarily, trustees should prepare a Statement of Investment Principles ("SIP") governing decisions about investments.

No serviceable Statement of Investment Principles exists for the Scheme. As the Scheme has fewer than 100 members it is not a requirement.

Copies of the 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 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 value of the Scheme's investments and the position with regard to the potential tax charges mentioned above. 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 are reported in the Scheme's Net Asset Statement.

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 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.

Under the terms of its appointment, the fees of Dalriada and its advisers fell as a debt due from the employer. However, this company is dissolved. In this situation the terms of appointment set out that fees should be met from Scheme funds.

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.

During the period in question, trustee services totaling £1,984 were provided specifically to the Scheme. As the Scheme has depleted funds, no fees were paid. If and until Dalriada is able to make any recovery from the Scheme's investments it will remain at risk of not getting paid for the work it carries out in relation to the Scheme.

Levies relating to the Information Commissioner totaling £40 were paid over the period in question.

In addition, for the period in question, trustee services totaling £12,817 were provided to the eleven schemes collectively to which Dalriada was appointed to under the same bulk appointment. A proportion of these costs will be due to be met from the Scheme ultimately once Dalriada has determined how these costs should be apportioned and if there are funds available.

Legal expenses relating to the eleven schemes collectively, including the Scheme, based on common purported investments and totaling £12,581.69 (including VAT) have been incurred. Of this, £5,355.79 has been met from the Scheme. A proportion of these costs will be due to be reimbursed to the Scheme ultimately once Dalriada has determined how these costs should be apportioned and if there are funds available. The remaining £7,225.90 has been met from other schemes out with this particular appointment, a proportion of which will be reimbursed by the Scheme if and when funds become available.

We reiterate that whilst Dalriada has incurred costs in managing the Scheme, it has not been possible to meet these costs due to the lack of available funds. It is not anticipated at this time that there will be any recoveries made in the short term to enable Dalriada's outstanding costs to be met.

However, as and when this is the case, Dalriada will confirm to members (to the extent Scheme members can be identified) the amount of costs incurred and, if cost effective to do so, have a full set of Report and Accounts prepared and audited.

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 trustees. Generally, actions undertaken by Dalriada, beyond those considered necessary for the appropriate management of the Scheme, have been centred on legal advice and action around the realisation/recovery of funds.

"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. 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 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, due to the nature of Dalriada's appointment, both Dalriada's and its advisers' fees are met using Scheme funds. As commented above, there is uncertainty around determining the value of the Scheme's investments and the possibility for other recovery, and how these should then be attributed to the members and, further, the allocation of costs to members which may require legal direction. For this reason, to date, Dalriada has had to take a general approach when applying costs.

As soon as Dalriada is in a position to identify each individual member'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 member's 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 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 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.

Mike Crowe

Mike Crowe is head of Dalriada's Consultancy Function and works as a Professional Trustee supporting the firm on a wide range of appointments, including appointments made by The Pensions Regulator, such as this one.

With over 35 years' pension scheme experience, Mike has particular expertise in technical and legal areas. Before joining Dalriada Mike was a senior manager in the legal team of a major pension provider.

Mike has many years of experience in dealing with legal matters pertaining to Occupational Pension Schemes including in areas of

- compliance
- Scheme reconstructions
- Development and implementation of investment strategies
- DC wind-ups
- Complex litigation and legal work including instructing legal advisers
- Scheme governance reviews

Mike is a member of our internal legal team and is a member of the Association of Professional Pension Trustees. Mike has completed the Pensions Regulator's Trustee Toolkit and holds the

Pensions Management Institute's Certificate in DC Governance and Award in Pension Trusteeship (DC and DB). Mike 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 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.

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 Professional Trustee, 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 Pensions 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 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 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 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.

Gino Rocco

Gino performs the role of Professional 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 Regulator’s 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 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 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 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.

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.

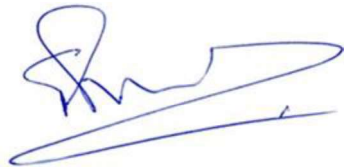
- Sean Browes and Neil Copeland have many years of experience in the administration of pension schemes, allowing a keen oversight of the administration of the Scheme.

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.

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



Chairman

Date 30 January 2020