

THE CHAIRMAN'S STATEMENT REGARDING DC GOVERNANCE: 1 JUNE 2020 TO 31 MAY 2021

This statement is produced pursuant to Regulation 17 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended) (the 'Administration Regulations'). It explains how the **Alderley Wealth Management Pension Scheme ("the Scheme")** is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits.

This document sets out the Statement covering the period from 1 June 2020 to 31 May 2021.

Default arrangement

Independent Trustee Services Limited (ITS) was appointed by the Pensions Regulator on 30 August 2017 to act as Trustee to the Scheme with exclusive powers.

To date, our investigations show that no conventional default arrangement was put in place.

A Statement of Investment Principles (SIP) had been prepared by the previous Trustee, but it is evident from our research that the Trustee was never compliant with it. Given the limited cash funds available as well as the Scheme membership being less than 100, the SIP has been suspended and will not be revised.

ITS understands that during the period there were six Scheme investments, namely; Haimachek UK Limited, GI Logics Limited, CGrowth Capital Bond Limited, Legal & General's Dynamic Diversified Fund, shares within 'eZono AG' (a non-listed company located in Jena/Germany) and cash in the Scheme bank account.

We understand that currently the Scheme purportedly holds shares in Haimachek UK Limited, GI Logics Limited and eZono AG, as well as a bond investment with CGrowth Capital Bond Limited. The Scheme also holds funds in Legal & General's Dynamic Diversified Fund, and minimal cash held in the Scheme bank account. The Scheme's small shareholdings in eZono AG were due to be sold as a result of a company takeover and the Trustee being obliged to sell these shares, but this did not happen as the takeover was cancelled. ITS's current understanding is that the equity investments in Haimachek and GI Logics form the majority of the Scheme assets and that they are concentrated, long term, illiquid, high risk, challenging to value (if at all), and are therefore unlikely to be suitable for a pension Scheme.

At the end of the period, there was £556,946 held in Legal & General's Dynamic Diversified Fund.

Charges and transaction costs

The Annual Management Charge of this fund is 0.50% and the Total Expense Ratio is 0.01%. This fund seeks to achieve its objective by investing in a diversified range of asset classes, as well as by dynamically managing the fund's exposures in light of the investment outlook. The fund provides exposure to a range of different asset classes that may include equities (i.e. company shares), bonds (i.e. debt issued by governments and companies), property, commodities and listed infrastructure, private equity and global real estate companies (i.e. shares in companies involved in these activities). This exposure will be achieved through investing in a combination of passively and actively managed funds, as well as direct securities. The Trustee receives quarterly updates from LGIM for the Scheme's investment.

Additional transaction costs and expenses within the Dynamic Diversified Fund

Transaction costs may be incurred in the day-to-day operation of the investment fund, e.g. in relation to an investment fund's trades and switching between investment funds. Transaction costs in particular will vary significantly depending on a fund's investment remit and on the market environment.

The Trustee approached LGIM to obtain details of any unreported costs incurred by members in the reporting period.

LGIM provided details of transaction costs incurred within the Dynamic Diversified Fund for the period 1 July 2020 to 30 June 2021. It should be noted that a positive figure is where the transaction costs have been a drag on the fund and a negative figure is where transaction costs have actually resulted in a gain.

LGIM confirmed that the total transaction costs over the period 1 July 2020 to 30 June 2021 for the Dynamic Diversified Fund are -0.0038%.

There is no conventional default arrangement as the Trustee is unable to carry out a meaningful review of the strategy as the majority of the Scheme assets are illiquid and performance cannot be measured and the Legal & General investment is a pooled asset of the Scheme as a whole. The Trustee does not, therefore, carry out a conventional review of strategy and performance of the default arrangements but monitors performance and fees of the Legal & General investment as explained above.

The Trustee intends to make an application to the Fraud Compensation Fund which if successful will enable the Trustee to determine a default strategy and determine the allocation of assets to individual members. At this stage a conventional Chair's Statement will be prepared.

Processing Scheme transactions

The core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) are not relevant as no member or employer contributions have been made during the period of this statement, and members are unable to transfer their benefits out of the Scheme as the Scheme assets, i.e. members' funds, were invested by the original trustees in illiquid assets that mostly may have little or no value. Members' asset shares currently cannot be determined as the majority of the assets are difficult to value.

Due to the circumstances of the Scheme there have been no core financial transactions specified in the Administration Regulations (The Occupational Pension Schemes (Scheme Administration) Regulations 1996).

Transaction costs – default arrangement and additional funds

The Administration Regulations require the Trustee to disclose the charges and transactions costs borne by DC scheme members and to assess the extent to which those charges and costs represent good value for money for members. These transaction costs are not limited to the ongoing charges on member funds but should also include trading costs incurred within such funds.

There have been no dealing costs in the reporting period. The Annual Management Charge for the LGIM DDF fund is 0.50% and the Total Expense Ratio is 0.01%

For the other 'investments' we are unaware of any dealing costs in the reporting period, so the Trustee is currently unable to confirm that any associated costs are reasonable.

Due to the circumstances surrounding the appointment of ITS, it is currently unable to confirm whether the Scheme offers good value for money; however, based on the information available to the Trustee the Trustee believes that the Scheme does not offer good value for money.

No member or employer contributions have been made during the period.

All charges incurred by the Trustee in managing the Scheme, including external legal costs, are ultimately payable by the sponsoring employer. However pursuant to the appointment made by the Pensions Regulator on 30 August 2017 any fees incurred in managing the Scheme (including those of the administrators, Warwick & Eaton) are met from the remaining scheme assets (i.e. members' funds).

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and

publication of the level of charges and transaction costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs. As part of the changes, the Trustee is required to illustrate the cumulative effect over time of the application of transaction costs and charges on the value of a member's benefits. However, as it is not possible to determine the value of members' benefits, we have not incurred the cost of producing illustrations of the monetary impact of charges on the value of members' benefits.

Value for Members

Due to the costs in obtaining professional advice which would be met from members' funds (the Scheme assets), the Trustee has not taken independent advice on value for members as the Trustee believes the investments by their nature are inappropriate for a collective defined contribution pension scheme and do not represent good value for members.

Due to the above and the Scheme's limited funds available the Trustee has taken the view that it would not be cost effective to undertake all of the actions required to report on the matters contained in the Code of Practice and Regulation.

Based on the information available the Trustee's assessment concludes that overall the Scheme's members do not get good value from the investments and through their membership of this Scheme, in the circumstances they do not get the following benefits either (which members may have got through another scheme):

- Administration of the Scheme;
- Ongoing oversight and review of the Scheme's investment options including the default investment strategy;
- The efficiency of the administration processes

Overall, based on the information available to the Trustee, the Trustee's current view is that members do not get good value for money.

Trustee's knowledge and understanding

The Trustee Board

Independent Trustee Services Limited ("ITS") acts a Sole Trustee with Hetal Kotecha acting as Chair.

ITS is represented by Hetal Kotecha as Lead Director, Helen Frisby as second Director and Paul Sherman as Senior Trust Officer, bringing a high degree of pensions experience, knowledge and expertise.

Trustee knowledge and understanding requirements

The Trustee is required to be conversant with the Scheme's main documents and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets to enable them to properly exercise their functions.

The Trustee addresses the requirements through a combination of training and experience of the members of the team involved in the management of the Scheme.

Trustee training

All ITS Directors partake in an ongoing mandatory training programme, which is designed to ensure that knowledge is kept up to date. Each Trustee Director maintains a personal record of both group and individual training, which is documented and logged on a quarterly basis. In doing

so, Trustee Directors identify any knowledge gaps that they may have and request training accordingly.

The ITS training programme is set with consideration of current pension topic or upcoming changes to pensions regulations and disclosure requirements of which there have been many in the period of this Statement and more to come. At the beginning of each year, ITS directors are asked to provide input into the annual training programme based on the anticipated needs of their schemes and upcoming pensions changes or deadlines. These sessions were delivered by external specialists in their respective fields or led by internal experts. After each ITS training session, attendees are asked to provide feedback on the quality and effectiveness of the training. If individuals have attended particularly effective training sessions externally, these may be repeated for the group.

On an individual level, ITS directors evaluate their training needs on an annual basis to consider any knowledge gaps, especially on any technical and governance issues, and specifically seek out training opportunities to fill those gaps or refresh our knowledge. This external training is delivered through a mix of face-to-face learning at seminars, webinars and personal technical reading of relevant pensions industry publications and papers.

In addition, all ITS staff are required to complete the Trustee Toolkit assessment modules (which assess competence in a number of key areas of pensions knowledge, including pensions law, investment and the role of trustees). The majority of Trustee Directors and other employees at ITS including Hetal Kotecha, Helen Frisby, and Paul Sherman are now accredited professional pension trustees with APPT, a professional body which requires an ongoing commitment to fitness and proprietary assessment, a minimum of 25 hours' training per annum and passing professional skills examinations.

This is not an exhaustive list, but shows that individually and collectively, Hetal Kotecha and his ITS colleagues as professional trustees are committed to relevant and extensive training to provide good quality governance to the Scheme.

Governance statement

As Trustee of the Scheme, we have reviewed and assessed our systems, processes and controls across key governance functions with those set out in The Pensions Regulator's:

- Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes
- Regulatory guidance for defined contribution schemes

Whilst the vast majority of Scheme assets are invested in illiquid funds, it is not possible to improve the investment strategy and improve member outcomes at this time. There have been no member transactions to process; therefore, it has not been possible to measure our processes against these controls.

We continue to investigate opportunities to realise the assets and as noted in this statement we intend to make an application to the Fraud Compensation Fund.

The Chairman's statement regarding DC governance was approved by the Trustee on 20 December 2021.