PHOENIX PENSION FUND (THE "SCHEME")
ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 5 APRIL 2021

1. BACKGROUND

1.1 This statement has been prepared in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "**Regulations**").

1.2 Steady progress has been made in the task of resolving the various issues that the Trustees have faced in dealing with the Scheme. The Financial Services Compensation Scheme ("FSCS") is considering a claim submitted by the Trustees in respect of the Blackmore Multi-Strategy Asset Backed ETI ("Blackmore ETI") fund and the transfer of assets held by Reyker to J Brearley is nearing completion. The areas of uncertainty are being eroded and the prospect of putting the Scheme into formal wind up is getting closer.

2. STATEMENT OF INVESTMENT PRINCIPLES ("SIP")

2.1 As explained in previous Statements, the Trustees had resolved not to prepare a formal SIP, taking advantage of the fact that there are fewer than one hundred members in the Scheme. This will save expenditure on complying with the increasing regulations that govern SIPs.

The Trustees have not abandoned their responsibilities in respect of the investment of the assets of the Scheme, however, and continue to act in the best interests of the membership. The problems that have been encountered are set out below.

3. REVIEW OF DEFAULT STRATEGY AND DEFAULT ARRANGEMENT

3.1 The Trustees should review the default strategy and performance of the default arrangement regularly and at least every three years. In view of the circumstances of the Scheme, and the intention to put the Scheme into wind up, the Trustees resolved on 18th September 2019 to convert the non-earmarked assets into cash. This will enable them to preserve the cash value of the fund; provide a fund for the payment of necessary Scheme expenses; and enable them to offer a transfer value or winding up lump sum to members. The earmarked funds held under the custodianship of Reyker Securities (currently being transferred to J Brearley & Sons) and 7IM will remain as they are until wind up is triggered. The respective members will be offered a choice of making an in specie transfer of their portfolio to another manager, or a transfer value to either a registered pension policy of their choosing, or one determined by the Trustees.

3.2 In last year's Statement I explained that some of the Scheme assets had been invested in a variety of funds. The position in respect of the Privilege Wealth loan notes has not changed since my last statement, and the Trustees believe that there is no realistic chance of any recovery. The Trustees have been unable to discover any formal advice given to the trustees when this investment was made, but the prospect of obtaining any legal redress seems remote. The lack of evidence of the advice also means that the FSCS is unable to consider a claim.

3.3 The original trustees had made a series of commercial loans, using part of the pooled assets. All but one has been repaid, and a very small balance is due on the remaining loan The Trustees anticipate that the capital will be repaid in full, but we may have to negotiate over the amount of interest that will be recovered.

3.4 I reported last year that the Blackmore ETI investments and the Trustees' deliberations over the pursuit of redress from Blackmore Group Limited, who we believe to be the ultimate owner of the fund. The Trustees took a different tack, however, and made a formal complaint about the actions of the financial adviser who put the assets into this fund. The Financial Ombudsman started to investigate the situation but passed their file to the Financial Services

Compensation Scheme (FSCS) when the adviser went into liquidation. The claim is working its way through the FSCS system and we are cautiously optimistic as to the outcome.

3.5 To continue on this brighter note, the Special Administration of Reyker Securities has come to a conclusion, and the portfolios of the earmarked members are in the process of being transferred to another broker – James Brearley & Sons Limited. It has been confirmed that the costs incurred by the Special Administrators will be met by the Financial Services Compensation Scheme ("FSCS").

4. CORE FINANCIAL TRANSACTIONS

4.1 The Trustees need to ensure that "core financial transactions" relating to the Scheme are processed promptly and accurately.

"Core financial transactions" are (broadly):

- investment of contributions made to the Scheme by members and the employer;
- transfers into and out of the Scheme of assets relating to members;
- switches of members' investments between different funds within the Scheme; and
- payments from the Scheme to or in respect of members (eg payment of death benefits).

4.2 During the Scheme year ending 5th April 2020, a moratorium was imposed by the Trustees on the payment of benefits out of the Scheme, and no further transfers have been accepted. This has resulted in an almost complete cessation of any financial transactions from the Scheme.

The Scheme has a service level agreement in place with its administrator, Quantum Actuarial LLP, which included agreed timescales regarding the processing of core financial transactions.

5. CHARGES AND TRANSACTION COSTS

5.1 Each year, the Trustees are expected to gather information on charges and member-borne transaction costs relating to the Scheme. 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.

5.2 The members pay all costs in relation to the general running of the Scheme via a deduction from their fund, as set out in the joining literature.

5.3 There is a charge of 3% of the transfer levied against any new transfers into the Scheme. An annual management charge of 1.5% of the fund is also payable.

5.4 It has proved to be impossible to determine the actual transaction costs in relation to the assets held by the Scheme due to the difficulties described above. The ultimate impact of charges deducted from members' funds will only be determined when the Trustees are in a position to issue a fixed cost quotation to bring the wind up to a close. This position is still some way off, given the uncertain timescale of the outcome of the FSCS claims etc.

6 “GOOD VALUE” ASSESSMENT OF CHARGES AND TRANSACTION COSTS

6.1 Each year, the Trustees are required to assess the extent to which the charges and transaction costs incurred by the Scheme represent “good value” for members.

6.2 In view of the anticipated losses in respect of some of the investments, and the difficulties in accessing the assets under the custodianship of Reyker Securities, it is difficult to come to any other conclusion than that the Scheme has provided poor value for members.

6.3 It is against this background that the Trustees have concluded that the Scheme should be put into wind up as soon as it becomes prudent to do so.

7. ILLUSTRATIVE EXAMPLES OF CUMULATIVE COSTS AND CHARGES

7.1 Although a somewhat academic exercise under the current circumstances, the Trustees are obliged to provide an illustrative example of the cumulative effect of charges on the value of a fund held by the Scheme. The table in **Appendix 1** provides this analysis.

7.2 When preparing this table, the Trustees have taken into account specific guidance from the Department for Work & Pensions, and have followed the approach set out in that guidance.

8. TRUSTEE KNOWLEDGE AND UNDERSTANDING

8.1 In order to be able properly to exercise their functions, the Trustees need to have a working knowledge of the following documents relating to the Scheme:

- the Scheme’s trust deed and rules;
- any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme general.

They also need to have an appropriate level of knowledge and understanding of matters such as the law relating to pensions and trust, and the principles relating to investment of pension scheme assets.

To ensure the Trustee have the necessary level of knowledge and understanding, the following steps have been undertaken during the past Scheme year.

a) The Trustees have attended relevant briefing seminars and read relevant professional journals.
b) The Trustees have reviewed the investments of the Scheme and its operations alongside the new professional advisers.
c) An independent trustee with extensive knowledge of winding up occupational pension schemes has been appointed to the Trustee Board.

9. CONCLUSION

9.1 The situation described in this Statement will make distressing reading to members. Update letters have been sent to all members of the Scheme and the Trustees are determined to make any recoveries and take any appropriate action to minimise the losses suffered by members.

9.2 The Pensions Regulator is monitoring progress and being kept informed regularly as to the Trustees’ actions.

9.3 The Trustees will write to the members when there is significant progress or news to report, but are mindful of costs and will only do so when it is prudent so to do.

Signed for and on behalf of the Trustees of The Phoenix Pension Fund
by Nick Boyes of Able Governance Ltd

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Chairman

Date 4th November 2021

APPENDIX 1

Illustrative examples of the cumulative impact of costs and charges

This table shows in today's money the projected pot over time for a member invested in each of the specified funds. Values shown are estimates only and are not guaranteed.

Years invested	Before charges	After charges
1	£16,600	£16,400
3	£17,900	£17,200
5	£19,400	£18,000
10	£23,500	£20,400
15	£28,400	£23,000
20	£34,400	£25,900
25	£41,700	£29,200
30	£50,500	£33,000
35	£61,100	£37,200
40	£74,000	£42,000

Notes to assist in interpreting the figures

The examples given above have been prepared on the following assumptions:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £16,000.
3. Inflation is assumed to be 2.5% each year.
4. No further contributions are assumed.

The growth rates shown in the table are for illustrative purposes only and are not guaranteed