

PHOENIX PENSION FUND (THE "SCHEME")
ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 5 APRIL 2019

1. BACKGROUND

- 1.1 This statement has been prepared in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "**Regulations**").
- 1.2 The Scheme has had a challenging year, with issues relating to the assets and administration. In order to strengthen the Trustee Board, an experienced professional pensions trustee has been appointed: Able Governance Ltd, represented by its director, Nick Boyes. Additional expertise has been provided by the appointment of a specialist pensions law firm, Pension Partners LLP. There has also been a change of administrator, with Quantum Actuarial LLP appointed to perform some vital administration and reconciliation tasks.

2. STATEMENT OF INVESTMENT PRINCIPLES

- 2.1 The Trustees have prepared a Statement of Investment Principles in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 ("**SIP**") governing decisions about investments for the purposes of the default arrangement. The SIP has been kept under review and was last amended 21st March 2016. A copy of the latest SIP is attached at **Appendix 1** of this statement.

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. The difficulties that are described in 3.2 below, however, will explain why this has not been possible
- 3.2 The Scheme assets were invested in a variety of funds and held under the care of custodian Reyker Securities PLC. Regrettably, some of these investments have failed. The Privilege One Loan Notes and the Blackmore Multi-Strategy Asset Backed ETI investments have been placed into liquidation. The Trustees have notified the relevant parties about the Scheme's claims in these liquidations, but the prospect of any return is not good.
- 3.3 The problem is compounded by the fact that Reyker Securities PLC, who acted as custodian of the assets, has also encountered operational difficulties, culminating in the appointment of Joint Special Administrators (JSA) on 8th October 2019. While this does not directly affect the performance or security of the assets that they are holding for the Scheme, the JSA has suspended any further payments or withdrawals from the assets until further notice, and their costs will be deducted from the funds.
- 3.4 The Trustees are exploring all avenues to mitigate the potential losses to members, including submitting claims in the insolvencies, and via the Financial Services Compensation Scheme. The Trustees have notified the members of these developments and will provide further updates as matters progress.
- 3.4 The position is not one of unremitting gloom, however, and some of the other investments have performed in line with expectations. As the intention is to wind up the Scheme, the Trustees reviewed the investment strategy of the Scheme at a meeting held on 21st June 2019. It was agreed that the assets be liquidated as soon as they become available and held in the Trustees' AIB bank account.

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 2019, the following arrangements have been in place to ensure that core financial transactions have been processed promptly and accurately.

- a) The Scheme has had a service level agreement in place with its administrator, Silverene Administration Limited, which included agreed timescales regarding the processing of core financial transactions;
- b) Regrettably, there have been issues with the administration of the Scheme, and the administration was taken in house, as there was concern that these transactions were not being performed in a satisfactory manner.
- c) On 10th July 2019 the Trustees appointed Quantum Actuarial LLP as administrator. Quantum’s principal task is to perform a reconciliation of the payments into and out of the Scheme as a prelude to winding up the Scheme. Quantum is also assisting in the drafting of the Report and Accounts to 5th April 2019.

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 in 3.2 above.

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 2** 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;
 - the SIP; and
 - 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. A letter has 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

.....
Chairman
Date

NB
4 Nov 2019

APPENDIX 1

Statement of Investment Principles

**THE PHOENIX PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES**

This statement of Investment Principles is produced to meet the requirements of the Pensions Act 2004 and to reflect the Government's voluntary code "the Myners Principles". The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements

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Introduction

This Statement of Investment Principles (the "**Statement**") has been prepared by the directors of My Workplace Pension Trustees Ltd (the "**Corporate Trustee**"). This Statement sets out the details of the principles governing the investment policy of The Phoenix Pension (the "**Scheme**").

The Statement complies with the requirements of the Section 35 of the Pensions Act 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005 (together the "**Regulations**").

The Statement is reviewed annually or whenever the Trustees are alerted to material change in the Scheme's funding position, which is outside the boundaries the Trustees have determined for automatic changes to the strategic asset allocation and risk tolerance, or to any of the matters which this Statement is required to cover by the Regulations.

Governance of the Scheme

The Phoenix Company Ltd has appointed the Trustees to make proper arrangements for governance, management, benefits and financial administration and investment of the Scheme, and as such decides on the investment policy most suitable to meet the liabilities within the Scheme and has ultimate responsibility for the investment strategy.

The Trustees have set the investment policy for the Scheme as set out below. The Trustees have appointed two Fund Managers, 7IM and Westbury Private Clients LLP but will continue to act as Investment Managers being responsible for implementation of the overall investment policy

Objectives and Responsibilities of the Trustee

The Trustees are responsible for the stewardship of the Scheme's assets. The Trustees' responsibilities also include:

- Ensuring all beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme;
- Ensuring there are sufficient assets to meet the Scheme's liabilities as they fall due; and
- ensuring that no more than 5% of the current market value of the Scheme's assets is invested in "employer related investments" (as defined in section 40(2) of the Pensions Act 1995).

The Trustees acting as the Investment Manager will ensure that:

- Assets are Invested in the best interest of Members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of Members and beneficiaries;
- investments are made in a manner calculated to ensure the security, quality, liquidity and profitability of the asset portfolio as a whole;
- ensures that the assets consist predominantly of investments admitted to trading on 'regulated markets', and any assets not admitted to trading on such markets must be kept on a prudent level; and
- ensures that the assets are properly diversified so as to avoid excessive reliance on any particular asset, issuer or group of undertakings, and so as to avoid accumulations of risk in the portfolio as a whole.
- invests the asset in the best interest of members and beneficiaries;
- invests in a manner calculated to ensure the security, quality, liquidity and profitability of the asset portfolio as a whole;
- ensures that the assets consist predominantly of investments admitted to trading on 'regulated markets'; and
- ensures that assets are properly diversified so as to avoid excessive reliance on any particular asset, issuer or group of undertakings, and so as to avoid accumulation of risk in the portfolio as a whole

The Trustees must ensure such investments are in Members' best financial interest, and must ensure that neither the Investment Manager nor the Trustees puts their own ethical or social concerns above this duty to members.

There are many different combinations of assets and investment management approaches that could be adopted in targeting a particular level of investment risk and/or expected return. The Investment Manager's objective is to identify those combinations that it believes are likely to minimise the level of risk taken for the level of return sought.

Members are reminded that the investments can go up or down in value over time and that the Investment Manager cannot guarantee positive returns will be achieved.

Investment Policy

The Trustees set the Investment Policy, which is reviewed following each actuarial valuation or asset liability study. When setting the Investment Policy, the Trustees must comply with the provisions of the Occupational Pension Schemes (investment) Regulations 2005 (the "**Investment Regulations**") to

ensure that the majority of the portfolio is invested in investments on regulated markets.

The trustees are responsible for implementing the Investment Policy. The Trustees, in conjunction with investment advisers, appoints and monitors the performance of and removes fund managers. It oversees asset allocation and directs the cash flow of the Scheme between investment mandates, adjusting portfolios as necessary. The Trustees monitor, review and recommend changes to the policies in respect of investment and corporate governance.

It is the Scheme's intention to offer its members a balanced investment strategy. The majority of the funds will be invested in listed investment schemes or products. The remainder of the funds are invested in alternative investment schemes or products, to provide diversification and access to potentially higher returning investment opportunities.

The Scheme aims to achieve on average an annualised return for its membership of 5% after running costs, fees and expenses.

The Scheme is infant, in terms of benefit liabilities and short term cash flow is not a prime issue.

The current policy on realising investments to meet the benefit outgoings and transfer payments are reviewed regularly in light of the changes to the membership of the pension scheme, taking into consideration the age profile of the members.

Investment Summaries

Listed Investment Schemes & Products

The Scheme will invest in funds recommended by the appointed investment manager having regard to the requirements of this Statement of Investment Principles.

The fund manager will undertaken to conform with the requirements of this Statement of Investment Principles and in particular to adhere to S47 Pensions Act 1995.

The Trustees will apply to delegation to the investment manager under S34 Pensions Act 1995, Occupational Pension Schemes Investment Regulations 2005. The principles set out in the Disclosure code of Practice will also be adhered to by the investment manager

Westbury Private Clients LLP are appointed by the Trustees on 19 February 2016 as Investment Manager to fulfill these functions and delegations. They provide a range of funds and the financial advisor has recommended a default fund for the Scheme, namely the Marble Fund, which is a moderate risk and volatility fund. The fund fact sheets form part of this SIP.

Alternative Investment Products

A proportion of the available funds will be invested in alternative products with the intention of gaining access to higher returning investment opportunities to increase the value of the fund and to provide a diversified portfolio of investments.

An alternative investment is not one of the three traditional asset types (stocks, bonds and cash). It can be complex in nature and have less liquidity. Alternative Investments are favoured due to their returns having a low correlation with those of standard asset classes.

The Trustees will consider a range of alternative investments including commercial and residential property, bridging lending schemes and legal funding schemes.

Responsible Investment

The Trustees aim to be engaged and responsible long-term investor in the assets and markets in which it invests. The Trustees believe that the integration of these factors within the Investment Manager's investment process is not detrimental to the risk and the sustainable long term expected returns from the Scheme's investments. The Investment Manager is encouraged to take these factors into account.

The allocation of investments will vary as the Scheme responds to changes in its funding ratio and required rate of return.

Principles of Environmental, Social, and Corporate Governance (ESG)

The Trustees recognise the duty to act in the best long-term interests of the members. In this fiduciary role, environmental, social, and corporate governance issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). The Trustees also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with fiduciary responsibilities, the Trustees commit to the following:

- Incorporate ESG issues into investment analysis and decision making processes;
- Appropriate disclosure on ESG issues by the entities in which we invest
- Promote acceptance and implementation of the Principles within the investment industry
- Not to knowingly invest into countries that:
 1. are on the United Nations trade embargo list;
 2. in companies that are involved in terrorism, money laundering, drug trafficking or any other serious crime;

- 3. in companies that do not take into account the reasonable long term interest of their stakeholders.
- To avoid companies that are in the Investment Manager's opinion persistently behaving without due regard to the environment or society as a whole.

Risks

Risk and Definition	Controls and Mitigation
<p>Concentration/ Correlation: The risk that the Scheme has a significant exposure to assets that rise and fall in value at the same time.</p>	<p>Diversify investments across and within asset classes, to avoid over exposure to any one market. Monitor Scheme assets.</p>
<p>Currency: The risk that the Scheme has a large exposure to overseas currency.</p>	<p>Monitor currency exposure. Ensure that the Scheme's overseas investments are diversified across currencies.</p>
<p>Liquidity: The risk of the Scheme not meeting the liabilities as they fall due.</p> <p>There is a liquidity risk attached to assets which may not always be readily realisable or whose market values may be adversely affected by the Scheme seeking to realise them.</p>	<p>Regularly review and adjust the amount of cash held to pay benefits to minimise the impact of cash flow on investment policy.</p> <p>The Trustees believe the Scheme's long-term investment horizon justifies a degree of liquidity risk where such a risk is rewarded and a proportion of the Scheme's assets are invested in less liquid assets.</p>
<p>Matching: The risk that cash flows and investment returns generated fail to meet the liabilities.</p>	<p>Give consideration to the specific characteristics of the Scheme's liabilities when setting the investment strategy. Regularly review progress of the Scheme's investments relative to its liabilities.</p>
<p>Operational: The risk that there is a breakdown of the Scheme's investment back office or in the operation of financial markets.</p>	<p>Monitor the Scheme's investment back office and the ability of the custodian holding the Scheme assets to settle trades on time and to provide secure custody.</p>
<p>Regulatory: The risk arises from investing in a market environment where the regulatory regime may change.</p>	<p>Monitor regulatory changes.</p>

Compliance with and Review of this Statement

The Trustees will review compliance with this Statement on a regular basis. The Statement will be reviewed at least annually or whenever the Trustees are alerted to a material change in the Scheme's funding position, which is outside the boundaries determined for automatic changes to the strategic asset allocation and risk tolerance, or to any of the matters, which this Statement is required to cover by the Regulations.

Rights (including voting rights) attached to the investments

None of the Investments held confer any voting rights.

Conflict of Interest

The Trustees have no financial interest in the Scheme.



Signed:

Brad Davis

Authorised Signatory

21/3/16

APPENDIX 2

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.

	Default investment strategy	
Growth rate (see notes)	Inflation plus 4%	
Years invested	Before charges	After charges
1	£22,800	£22,500
3	£24,600	£23,600
5	£26,600	£24,800
10	£32,200	£27,900
15	£39,000	£31,500
20	£47,300	£35,600
25	£57,200	£40,100
30	£69,300	£45,300
35	£84,000	£51,100
40	£101,000	£57,600

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 £22,000.
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.