PHOENIX PENSION FUND (THE "SCHEME")
ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 5 APRIL 2022

1. BACKGROUND

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

1.2 Progress in dealing with the various challenges that the Trustees face in bringing the Scheme to a satisfactory conclusion has been frustratingly slow.

1.3 However, the Financial Services Compensation Scheme (“FSCS”) has accepted the claim in respect of the the Blackmore Multi-Strategy Asset Backed ETI (“Blackmore ETI”). Further details of this development are given below.

1.4 The transfer of assets held by Reyker to J Brearley has mostly been completed but there are several stocks that are proving more difficult to obtain. At the time of writing, the Special Administrative Receivers, Smith & Williamson, have yet to find a solution. The Trustees have submitted a claim to the FSCS and this is currently under assessment.

1.5 The Trustees are considering legal action in respect of the loans and interest payment on the loans that are outstanding.

1.6 Any hopes of making recoveries in respect of the Privilege Wealth loan notes seem unlikely due to the FSCS confirming that this falls outside of their remit. A claim to the Fraud Compensation Fund is being considered, but the Trustees are not hopeful of a successful outcome.

1.7 The Trustees triggered wind up on 23rd August 2022. The action was taken at this stage to avoid having to comply with the new ‘value for members’ exercise, that would have been expensive and inappropriate given the situation. The areas of uncertainty are gradually being eroded so this action is appropriate.

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.

2.2 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 J Brearley & Sons and 7IM will remain as they are until wind up is completed. 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. Those members aged 55 or over will have the option of taking immediate benefits.

3.2 In previous Statements 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 become clear since my last statement. As I mentioned above, the Trustees believe that there is little chance of any recovery. The Trustees believe that the advice about this investment was made by a firm that was not authorised by the Financial Conduct Authority, which means that the FSCS is unable to consider a claim. As the advisor company was liquidated some years ago, there is no realistic expectation that a legal claim would be a cost-effective use of the Scheme's assets. The Trustees have been made aware that they can submit a claim to the Fraud Compensation Fund. The chances of success appear slim, but this is currently being investigated.

3.3 The original trustees had made a series of commercial loans, using part of the pooled assets. All loans but one have 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. The situation has not changed since my last Statement and the Trustees are considering legal action to force some kind of resolution and recovery.

3.4 I reported in previous years that the Blackmore ETI investment had developed into a formal complaint about the actions of the financial adviser who put the assets into this fund. The Trustees are delighted to confirm that the FSCS has accepted the claim and has been making compensation payments. The claims are being paid on the 'look through' principle, where each member of the Pooled section has an individual claim. This means that the compensation cap of £85,000 per claim applies to each member. If the claim was restricted to the Trustees as one claimant, the amount of compensation payment would have been restricted.

3.5 Last year I was pleased to report that the Special Administration of Reyker Securities was coming to a conclusion, and the portfolios of the earmarked members were in the process of being transferred to another broker – James Brearley & Sons Limited. As I mention in section 1 above, there has been a hitch with the transfer of several holdings of stocks that is still to be resolved. Smith & Williamson (now called 'Evelyn Partners'), the Special Administrative Receiver, has stated that there does not appear to be a resolution to this issue. The Trustees have submitted a claim to the FSCS and this is currently under review.

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%-1.75% 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 The Trustees triggered formal wind up of the Scheme on 23rd August 2022 in order to avoid having to comply with the new value for members exercise, which would have been costly and serve no practical purpose, given the situation with the Scheme.

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 exercise their functions properly, 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 in 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 their 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 Trustees are pleased that some progress has been made in relation to the recovery of assets, but we are aware that members are likely to suffer loss of value overall, compared to their original transfers and contributions. We will continue to pursue claims where we feel that there is a reasonable prospect of a recovery.

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 30 Sept 2022

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.
5. The investment return before charges is assumed to be 6.5% per annum.

The projected pot values shown in the table are for illustrative purposes only and are not guaranteed.