

The BST Group Pension Scheme (“the Scheme”)

Chair’s Statement at 31 December 2020

Introduction

On behalf of the Trustees, we provide this statement in accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015. This statement covers the period 1 January 2020 to 31 December 2020.

The Trustees of the Scheme are PS Governance Services Ltd (PSGS) formally known as PS Independent Trustees Ltd and Kay Barrett. PSGS were appointed as a professional trustee by the sponsoring employer BST Warehouses Limited (“the employer”) on 11 July 2017 with an objective of winding the Scheme up because the business of the employer has ceased, and the Directors require to wind up the company.

The Scheme is analogous to that of a Small Self-Administered Scheme (SSAS) and was set up on the same structure as a SSAS in 1987 to enable direct investment in commercial property, the only notable difference being that not all members are trustees. The investment strategy from the outset has been to invest in commercial property only, this being complimentary and in alignment with the business of the employer. Although not all members are or have been trustees, members are either family members or dependents of the founder of the employer. Members have variously been past employees, directors and shareholders of the employer and have knowledge and experience of property investment and management.

The key focus of PSGS on initial appointment was to sell the properties, achieved during 2018, with view to discharging members entitlements by transfer to alternative pension arrangements and wind up the Scheme as soon as practically possible. Regrettably, member disputes over distribution of death benefits relating to the founding member have been a barrier to completing the wind-up and discharging the benefits in a timely manner.

Investment arrangements

The Scheme is not and never has been a qualifying scheme used for auto-enrolment and no contributions were paid during the scheme year. There is no and has never been member investment choice. Instead the Scheme has invested only in commercial property so strictly the overall investment strategy would be classed as a default arrangement under the current regulations for governance requirements.

The sale of the property investments was not driven by an investment review, instead it was a requirement and first stage of the planned wind-up of the Scheme. During the 2018 scheme year there was a review of the investment strategy in the context of establishing a suitable short-term investment for the proceeds of the property sales. Following this review a decision was taken to hold the sale proceeds on a bank deposit account with an overriding objective of safeguarding capital values prior to transfer to an alternative DC pension arrangement for each member. It is acknowledged that a low yielding cash deposit is not suitable as a long-term investment, does not offer value for money and that there is therefore an urgency to discharge benefits as soon as possible.

During 2019 advice was taken from Barnett Waddingham over securing members benefits outside of the Scheme. In consequence the Trustees have decided to arrange for members

benefits to be transferred to a Scottish Widows Trustee Buyout Plan for those members not providing directions for a transfer value to be paid to another pension arrangement. Member disputes have directly led to this process being put on hold pending resolution of the dispute.

Cash is held on a Nat West bank account and interest was paid at 0.30% from 1 January 2020 to 31 March 2020 and at 0.01% from 1 April 2020.

The Trustees have not prepared a Statement of Investment Principles on the basis that there are under 100 members in the Scheme and the scheme is not used for auto-enrolment purposes and no contributions have been paid since 2015.

Charges and transaction costs

All management charges, transaction costs and expenses of the Scheme are met by the employer. However, in relation to the member dispute, it is necessary to seek directions from the Courts, the trustee has received advice from leading counsel that legal costs can be met from member account values. The Trustees have informed 2 members with an interest in the outcome of the Court application that transfer values cannot be settled until a judgement has been made.

Core financial transactions

A third-party administrator is not employed and there is therefore no Service Level Agreement in place. Administration is carried out by the Trustees.

During the year there were no transfers paid out of the Scheme and there were no joiners. There were no new contributions to invest. Given that no new contributions are due or have been paid for many years, we have no comments to make in relation to timely investment of contributions. There were no switches during the year.

Other administration activity has been limited to payment of a monthly pension in drawdown by cheque to a trustee and payment of PAYE.

Members benefits are designated as a share of the net assets. Of the 4 members, one is in drawdown (as noted above), one represents the entitlement of a deceased member not yet distributed (although payment has been earmarked for a beneficiary) and the remaining 2 members hold deferred entitlements. Since the year end the Trustees have been in correspondence with an IFA appointed by a member with view to completing a transfer out in due course.

Based on an overview of the administration practice relating to payment of the drawdown pension the Trustees are satisfied that during the Scheme year, processing of the core financial transactions has been done accurately and on a timely basis.

Good value for members

The Trustee is required to undertake a Value for Members assessment for the Scheme.

The history of the Scheme is firmly rooted in the former property management business of the employer. As noted above, the Scheme was set up for the benefit of the founder and a small number of family and related members. There is an understanding that the Scheme provides benefits based upon the performance of properties acquired on a buy and hold basis with a long-term investment horizon and good rental streams.

A reasonable conclusion is that the Scheme has historically offered good value for money based on past performance of the investments, because charges and expenses are met by the employer and that the administration of members' records is competently discharged. However, the design of the Scheme does not elegantly meet the requirements of current DC pension regulations and reporting requirements. It has however, successfully delivered benefits for a small group of members who have an understanding of property matters.

The remaining 3 members in the scheme are sent copies of the annual scheme accounts and these set out their share of the fund. In addition, the Trustees have communicated with members about the winding up process, the reason for this, that the properties were being marketed for sale and that an alternative DC arrangement would need to be established for them.

The trustees recognise that with assets held in cash accruing low rates of interest cannot and does not offers good value for money and risks losing value through the impact of inflation. For those members who have not engaged about a transfer, the trustees have retained the services of Barnett Waddingham to provide expert advice on a suitable default DC arrangement to pay transfer values too. Additionally, guidance will be provided to the member with pension benefits in drawdown. Because of the member disputes, the securing of benefits outside the Scheme have been put on hold. Furthermore, as it is necessary to seek directions from the Courts, and legal costs are met from member account entitlements, the significant costs of so doing would result in the Scheme not providing value for money for any of the members.

The Pensions Regulator and the DWP require the Trustees provide one or more illustrative examples of the cumulative effect over time of the relevant costs and charges on the value of a member's benefits. However, as the Scheme is in wind up and the charges and expenses are met by the employer except for legal and professional trustee costs relating to the court proceedings we do not believe this is relevant or helpful to members. Moreover, the uncertainty over potential legal costs to be met from the Scheme, it is impossible to factor into any illustration. Nevertheless, to comply with regulations we have provided illustrations using the current cash holding. We would suggest these are interpreted with caution given that once transfers are paid to alternative arrangements, the investment is unlikely to be remain invested in cash.

Trustee Knowledge & Understanding

It is important that the Trustees continue to have sufficient knowledge and understanding to fulfil their duties.

PSGS is a professional trustee with experience across a wide range of DC and DB arrangements and their staff undertake regular training and maintain training logs. PSGS is

subject to an annual AAF audit that requires yearly reviews and evidence of training completed, identifying skills gaps and continuing competence. PSGS hold copies of all scheme documents on their secure filing system.

The Trustee Directors and wider team working on the Scheme have passed the Pension Regulator's toolkit and are additionally PMI Accredited Trustees. Key staff working on the Scheme are Mark Homer and James Double. On appointment, we followed our internal procedures for familiarising ourselves with the Scheme documentation. There were additionally a number of areas in dispute that required legal advice and necessarily Mark and James were required to understand a number of complex tax and documentation changes that could impact on the distribution of benefits. Both started their careers working on DC schemes and have broadened their trustee and governance experience through working on DB schemes and hybrid arrangements. Both have a background in DC administration and significant experience on investment matters. Mark is an Associate of the Chartered Insurance Institute and James is a Fellow of the Pensions Management Institute and undertake continuing CPD. No new areas presented themselves during the period for which training was necessary. They are supported by other independent and professional advisers who ensure that they are kept up to date on the latest legislative, regulatory and market developments that apply to the Scheme and the wider pension schemes they are involved with on a day to day basis.

Kay Barret is both a member and a trustee. The majority of Kay's working life has been involved in the property business and she has a working knowledge and understanding of property matters including the former property investments, significant property management experience and in dealing with tenants and collection of rents. Due to conflicts of interest, Kay did not take part in a number of decisions left to PSGS.

The Trustee Directors believe that collectively they have met the appropriate level of knowledge and understanding to properly exercise their responsibilities. The properties having been sold, the remaining task is to discharge the benefits into alternative DC arrangements and wind-up the Scheme. Mark and James have knowledge and experience of winding-up DC schemes having concluded wind-ups of a number of Pension Regulator appointments.

How to contact the Trustee

If you have any further queries regarding the Scheme, please contact:

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Mark Homer
Chair of The BST Group Pension Scheme
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