Vertu Retirement Benefits Scheme (the Scheme)

Chair's Statement at 31 July 2020

Introduction

This Statement is provided in accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015. This Statement covers the period 1 August 2019 to 31 July 2020.

Trustees

The Trustee of the Scheme as at 31 July 2020 is Punter Southall Governance Services Limited ('PSGS') (formerly 'PS Independent Trustees Limited').

PSGS was appointed as a professional trustee by Spyglass Limited, the Sponsoring employer, on 2 March 2015 with the objective of improving the governance of the Scheme. The sole director of Spyglass Ltd was Mark Mashiter. Mark Mashiter was the sole trustee when the Scheme was established in 2012 and joint trustee until 17 July 2019 when he retired as a trustee having given one month's written notice in accordance with the Scheme rules.

Therefore, at the year-end, the sole trustee is Punter Southall Governance Services Limited.

Summary

The Scheme was established some years before the appointment of PSGS and was set up to encourage individuals to transfer their pension entitlements accrued elsewhere into high risk land investments. The manner in which the Scheme was marketed has similarities with the marketing of other pension schemes associated with 'pension liberation' and one of those individuals connected with the marketing of those other pension schemes has been convicted of fraud in relation to the marketing of them.

Scheme background and circumstances

The Scheme is a defined contribution (DC) occupational pension scheme, established by a trust deed dated 17 February 2012 (amended: 11 September 2013). The Scheme was set up by Spyglass Ltd as the Sponsor and by Mark Mashiter as the first trustee. Members transferred-in to the Scheme from other unconnected occupational pension schemes. No members were ever employees of Spyglass Ltd. No members paid any contributions over and above their initial transfer-in to the Scheme. Spyglass Ltd did not employ any members or make any contributions to the Scheme either on its own behalf, or on behalf of any of the members at any time.

The Scheme was closed in 2013 to new members and to transfers-in.

The Scheme was established by Mark Mashiter as a means to take advantage of investing in what were then considered to be historically low land prices in the USA. Mark Mashiter's own business and expertise was stated to be in the buying and selling of land in the USA and worldwide. The Scheme was marketed in conjunction with Fortitude Trading on the basis of the expectation of rapid increases to the value of the land held by the Scheme. Some members who transferred-in to the Scheme received a 'commission' payment from the agent arranging the land sales. This agent had no connection to the Trustees or to the Scheme in any way. Subsequently, those members who were paid a 'commission' have received tax demands from HMRC on the basis that such payments are unauthorised. No unauthorised payments have been made from the Scheme to any member(s) at any time.

Vertu Retirement Benefits Scheme (the Scheme)

Company

Spyglass Limited was dissolved by compulsory strike-off on 20 December 2016. Mark Mashiter was the sole director of the company. Following the dissolution of Spyglass Ltd, PSGS as Trustee recommended that the Scheme should be terminated and having considered the Scheme rules and taken advice, winding-up of the Scheme was triggered on 21 March 2017. Therefore, at the year- end, the Scheme is in winding-up.

The Trustees' strategy following commencement of winding-up was to market and sell all of the Scheme's assets (plots of land) in bulk so that funds were available to secure members' benefits. The key focus of PSGS at the time of wind-up in 2017 and subsequently has therefore been to sell the land in bulk as soon as practicable, and to discharge members' entitlements by transfer to alternative pension arrangements.

A member Update was issued by PSGS to all members in April 2017 informing them of the commencement of the winding-up of the Scheme and the reasons for it. Further member Updates were issued by PSGS in May 2018, July 2019 and March 2020. All of the member Updates advised that steps were being taken to sell the Scheme assets and it was likely there would be long delays while the plots of land are marketed and sold, since land is an illiquid asset.

The Pensions Regulator is aware of the present circumstances of the Scheme and the steps that PSGS is taking to wind-up the Scheme.

Investment arrangements

The investment strategy from the outset of establishing the Scheme and as put in place by Mark Mashiter as the first trustee, was for the Scheme to invest in plots of land located principally in Florida but also in two other US states. Each plot of land is approximately a ¼ acre and has the US equivalent of UK planning permission. The land is vacant (undeveloped) and the plots are scattered within the counties of each US State.

The Scheme is not and never has been a 'qualifying scheme' for Auto-enrolment ('AE') purposes and no AE contributions were paid by members during the Scheme year or by members and the Sponsor at any other time. There is not, and never has been, any member investment choice or a default fund available to members. Members chose to transfer-in to the Scheme on the basis they were solely investing in plots of land in the USA. From the outset, the Scheme has invested only in the plots of land in the USA and this was made clear from the documentation provided to potential members as issued by Mark Mashiter as the first trustee. To the extent that Regulations require it, the investment in plots of undeveloped land could be considered to be a default arrangement under the regulations for governance requirements because there are no other options available to members.

In 2015 and shortly after the appointment of PSGS as trustee, the Trustees obtained written investment advice in light of the Scheme's cashflow requirements and in order to regularise the investments by selling the land which was recognised as an inappropriate and illiquid asset, and re- investing the funds in liquid assets in the UK. The investment advice proposed a strategy of making disinvestments (land sales) over a period of years to avoid a 'fire sale' and any economic fluctuations that may affect the land values.

In light of the investment advice, PSGS instructed Mark Mashiter to undertake a disposal strategy of the land held in the US to raise the funds needed to pay benefits to members that had fallen due and in order to settle Scheme expenses that include liability to US land tax on the undeveloped land plots. Very few plots of land were sold by Mark

Mashiter on behalf of the Scheme and of the plots sold, these were done on a 'piecemeal' basis reflecting market demand that generated a low volume of funds. The lack of asset sales and funds available for cashflow has contributed directly to the large backlog of unsettled member benefits at the Year-End.

As a result of the continued pressing need to have funds available to settle members' benefits and Scheme expenses, the decision was taken to wind-up the Scheme in order to secure members' · benefits. This decision was taken by PSGS on the basis that the Scheme assets should be sold in bulk and within a short time frame.

PSGS commenced work in 2017 to find a suitable and experienced realtor in the US with experience of selling vacant land in the US Counties/States where the plots of land are located. The land is principally located in Florida, but also in Atlanta (Georgia) and Bella Vista (Arkansas). After some considerable time involving numerous discussions with a number of US realtor firms and individuals in the US with knowledge of the market for vacant land, PSGS appointed a specialist firm of realtors in June 2019 to market the plots of land in Florida. The decision to initially market the land in Florida is because this is where the majority of the plots are located and given the urgent need to settle members' benefits and Scheme expenses, it is anticipated they will have a higher value and generate more funds than the plots held in Georgia and Arkansas.

At the time of writing this Statement, the Florida plots held by the Scheme are being actively marketed but no sales have yet been made reflecting a lack of demand for scattered plots of undeveloped land at the present time.

The Trustees have not prepared a Statement of Investment Principles ('SIP') on the basis that there have always been less than 100 members in the Scheme from the outset, so there is no requirement to put in place a SIP under s35 Pensions Act 1995 and Investment regulations. In addition, the Scheme is not used for Auto-enrolment purposes, there is no default fund in the usual sense and no contributions have been made by the members or by the Sponsor at any time and so it is not necessary to prepare a Statement of Investment Principles.

Charges and transaction costs

In accordance with the Scheme rules, all of the costs, taxes and charges are met from the Scheme assets. The Trustees have always been mindful that the ultimate values obtained from selling the land are not currently known and that the impact of the costs and charges on those values may have a material effect on the net funds available for distribution to members. Land taxes are continuing to accrue on the plots and in addition, maintenance costs such a grass cutting are being accrued against the value of the plots imposed by the US authorities. PSGS has taken a proportionate approach to the work on the Scheme in order to manage costs as far as possible. However, as a result of the lack of sales made in recent years, there are a large number of outstanding adviser and trustee fee invoices that will need to be settled once funds are available.

Whilst total costs and charges are not yet available, they will include:

- Costs relating to the sale of the land, including any land taxes due to the US authorities
- Exchange rate costs $ v £
- Adviser fees, including administration, audit, legal and investment advisory fees
- Trustee fees

Vertu Retirement Benefits Scheme (the Scheme)

Assessment of member-borne charges and transaction costs

In accordance with regulation 25(1)(a) of the Administration Regulations, the Trustee is required to report on the Scheme charges and transaction costs borne by members and their assessment of the extent to which these charges and costs represent good value for money. This is important because the transaction costs and charges borne by the members directly impact on the value of the pension fund and hence their pension savings.

The costs associated with running the Scheme and investigating its history will need to be met from the Scheme and this will mean that there will be some substantial charges to be levied against members' funds when the Scheme assets (plots of land) are sold.

Due to the nature of the Scheme's investments and the unknown level of the future costs in running the Scheme, the Trustee is unable to provide an example illustration which shows the impact on pension savings of expenses in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 regulations.

Core financial transactions

The administration of the Scheme is carried out by Quattro Pensions Consulting Limited ('Quattro'), who were appointed by the (then) trustees in July 2014. At the outset, the trustees agreed Service Level standards (SLAs) with Quattro for the standard administration work. In prior Scheme years, Quattro met the SLAs whilst there were funds available to settle members' benefits.

Members' individual benefits are designated as a share of the net assets, based on the amount of each member's individual transfer-in when the Scheme was set up. During the year, there have not been any funds available to settle existing member claims relating to retirement benefits, death benefits or to pay transfers-out. As the Scheme is in winding-up, no new member claims can be accepted, and the lack of funds has prevented payment of any benefits.

During the year, there were no transfers paid in or out of the Scheme and there were no joiners or leavers. There were no new contributions to invest. Given that no new contributions are due, and none have been paid by members, we have no comments to make about the reconciliation and timely investment of contributions. There were no investment switches made during the year as the only investment is the plots of land held in the USA.

Administration activity undertaken by Quattro during the year has been limited to dealing with member enquiries regarding the progress of the winding-up and assisting PSGS with Data Subject Access Requests received from Scheme members.

Based on an overview of the specific administration tasks undertaken by Quattro during the Scheme year, PSGS as trustee is satisfied that Quattro has provided an accurate and timely service to members and to the Trustees to the extent that they are able to. However, because of the lack of funds, it has not been possible to process transfer value requests and settle benefits due because the assets cannot be sold at this time to provide the necessary cashflow to pay benefits. A number of complaints have been dealt with in relation to non or delayed payments of benefits.

Furthermore, the limited sales arranged by Mark Mashiter in previous years remain opaque in terms of understanding the market value achieved and expenses incurred, and this is currently under investigation.

Vertu Retirement Benefits Scheme (the Scheme)

Value for members

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

The origin of the Scheme is rooted in Mark Mashiter's stated experience of land sales and purchases and the marketing by Fortitude Trading encouraging members to transfer into the Scheme. The Scheme was established by Mark Mashiter and his company, Spyglass Ltd, to take advantage of investing in the low values of land in the US in 2012 on the expectation that the land would increase in value and those individuals who joined the Scheme would benefit from this. It should be noted that Simon John Colfe (also known as Simon Davies) of Fortitude Trading has been found guilty of pensions fraud in relation to the sales and marketing of other separate pension arrangements that are not connected to the Vertu Retirement Benefits Scheme. PSGS has provided information and witness statements in relation to the Vertu scheme only in order to assist the Police in connection with those investigations. The information and statements provided by PSGS confirm that the Scheme had no connection to Simon Colfe/Davies.

Since our appointment, PSGS has been working to disinvest the Scheme assets (land). The illiquid nature of the land is not appropriate as an investment for occupational pension schemes as the Scheme requires access to funds to pay benefits to members as they fall due.

Given the information now available, the poor outlook for sales, the land taxes and maintenance costs being imposed by the US authorities, we conclude the Scheme offers poor value for money. On the present outlook, it is far from certain that the Scheme can deliver benefits to members.

Communications

PSGS has kept members informed of the developing circumstances by issuing regular annual newsletters and did so during the period covered by this Statement. Members have full details of contacts at Quattro and PSGS and continue to make their expectations, views and concerns known. These are treated by PSGS as sympathetically as possible although it is fair to say that the circumstances and challenges leave little scope for conventional good member outcomes.

Trustee Knowledge & Understanding

It is important that the Trustee continues to have sufficient knowledge and understanding to fulfil its duties.

PSGS is a professional trustee with experience across a wide range of DC and DB arrangements and its 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 holds copies of key scheme documents in a secure filing system.

The trustee team working on the Scheme have passed the Pension Regulator's trustee toolkit. They have trustee and governance experience of DC schemes, including hybrid arrangements, DC master trusts and workplace pension schemes such as group SIPPs. The team members are also Associates and Fellows of the Pensions Management Institute (APMI and FPMI respectively) and undertake Continuous Professional Development (CPD) to meet the Institute's requirements for membership. The team working on the Scheme is supported by other independent 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 wider pension schemes they are involved with on a day to day basis.

Vertu Retirement Benefits Scheme (the Scheme)

On the appointment of PSGS as trustee, we followed our standard internal procedures for familiarising ourselves with the Scheme documentation and issues. This identified the illiquid nature of the investments and problems with cashflow and governance. Key advisers were appointed, and advice taken as appropriate. A strategy to disinvest the assets by selling the land was agreed by the Trustees, but not executed by Mark Mashiter. This, and the dissolution of Spyglass Ltd, has led to the Scheme triggering wind-up and the appointment of a realtor with experience of selling vacant land plots in the Florida counties where the land is located.

The Trustee Directors believe that collectively they have met the appropriate level of knowledge and understanding to properly exercise their responsibilities, despite the challenges presented by the illiquid assets held by the Scheme. Once the land is sold, the Trustee will settle all outstanding costs and inform members of their share of the remaining funds. Members' benefits will be secured in accordance with their instructions and the winding up will be concluded. The necessary final accounts will be put in place and relevant notices given to HMRC, the Pensions Regulator and the Data Protection Register. The trustee team have knowledge and experience of winding-up DC schemes, having concluded wind-ups of a number of own-trust schemes and Pensions Regulator appointments.

How to contact the Trustee

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

The Trustee of the Vertu Retirement Benefits Scheme
Punter Southall Governance Services Ltd
Forbury Works
37-43 Blagrave Street
Reading
RG1 1PZ

Punter Southall Governance Services Limited as Trustee of the Vertu Retirement Benefits Scheme

October 2020