

Chairman's Annual Governance Statement

FOR THE YEAR ENDED 31 MARCH 2021

INTRODUCTION

This statement has been prepared by the Trustees to demonstrate how the Funds have complied with the governance standards introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015. It covers the scheme year to 31 March 2021 and six key areas relating to the Open Fund Defined Contribution Section (DC Section):

1. The investment strategy relating to the DC default investment arrangement
2. The financial transactions made within the DC Section
3. The charges and transaction costs within the DC Section
4. The Trustees' compliance with knowledge and understanding requirements
5. Appointment of Trustees
6. Membership engagement

Where applicable, this statement also applies to the Additional Voluntary Contribution (AVC) arrangements.

1. DC DEFAULT INVESTMENT ARRANGEMENT


The DC Section is currently invested in various funds offered by Legal & General Assurance Society Limited (L&G). Members who join the DC Section and who do not choose an investment option are placed into a default arrangement called ITB Drawdown. This is a lifestyle fund that targets income drawdown at retirement and automatically switches investments to a progressively lower risk investment strategy from 15 years before retirement. The Trustees' objective in relation to the default arrangement is to grow members pots materially above inflation whilst they are far from retirement, and then to gradually reduce investment risk as members become close to retirement, targeting an allocation which the Trustees consider appropriate for a member intending to drawdown in retirement.

The Trustees are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement.

The Trustees have adopted a Statement of Investment Principles (SIP) which covers both the DB and DC sections of the Open Fund. The latest DC Section SIP, dated 26 May 2021, is reproduced in the schedule to this statement. It sets out the investment principles for the DC funds, including a detailed description of the default arrangement and the Trustees' objectives and policies in relation to it.

In November 2019 the Trustees, after considering advice from the Funds' investment adviser, decided to disinvest from the Aberdeen Standard Global Absolute Return Strategies Fund (GARS Fund), which formed part of the lifestyle funds, including the default fund, and was also available as a self-select fund, and to re-allocate these assets to the L&G Multi Asset Fund. This decision was reached mainly because the GARS Fund had not met its investment objective over the long-term. The reallocation to the L&G Multi Asset Fund was implemented in April 2020.

The last full review of the DC Section investment strategy and performance, including the default arrangement, was conducted on 6 November 2020. The next full review is scheduled for November 2023.

The outcome of the November 2020 review was that it was concluded that the lifestyle strategy targeting drawdown at retirement remained appropriate for achieving the default arrangement's objective and that the self-select range of funds offered a sufficiently broad range of options to members. However, after considering advice from the Trustees' investment consultant, it was decided to amend the equity component of the default fund arrangement in order to address the potential impact of climate change on members' investments and remove a bias to UK equities relative to market capitalisation weights. 

The amendments were implemented to the default fund arrangements after the financial year end, in July 2021, by replacing the L&G Global Equity Market Weights 30:70 Index Fund with the L&G Low Carbon Transition Fund, which is a climate-tilted equity fund that seeks to reduce exposure to carbon emissions over time and has a geographic allocation broadly aligned with market capitalisation weights. Also, in July 2021, the L&G Low Carbon Transition Fund was added to the self-select investment fund range and replaced the L&G Global Equity Market Weights 30:70 Index Fund in the Cash and Annuity lifestyle strategies available to DC and AVC members.

In addition to the full strategy review, the performance of funds in the default arrangement is reviewed each quarter. The reviews that took place during the year concluded that the funds are performing broadly as expected, consistent with the Trustees' targets and other objectives.

2. FINANCIAL TRANSACTIONS

This section explains how, during the scheme year the Trustees monitored that core financial transactions of the DC Section were processed promptly and accurately. Core financial transactions include the investment of contributions, transfers out, fund switches, and payments out, both to and in respect of members. These transactions are undertaken on the Trustees behalf by the Funds' DC platform provider, L&G, under a policy to administer the Funds' DC Section.

The Trustees worked closely with the participating employers to help them understand their responsibilities as regards contributions and sharing information about members. Staff at the ITB Pension Funds (the Funds Office) were in regular communication with the employers about the detail of their obligations in respect of the DC Section. The Funds Office was notified by the participating employers of the various percentages of employer and employee contributions due and performed reconciliations to ensure the correct payments were deducted. All contributions deducted from members' pay by the participating employers were paid to L&G by the end of the first week following the end of the calendar month in which they were taken from members' pay. This was well within the legislative requirement. L&G invested the contributions in funds within 24 hours following receipt of contributions, well within the period expected by The Pensions Regulator.

The Trustees obtained and reviewed administration reports each quarter. The reports showed L&G's performance against service level agreements (SLAs) for processing all core financial transactions. The SLA's are comprehensive and cover the processing of joiner and contribution files, allocating contributions to investments, investment switches, issuing maturity and leaver packs, issuing quotes for events like retirement, ill health and transfers, and customer enquiries.

The Trustees also reviewed the AAF 01/06 Assurance Reports on Internal Controls issued during the year by L&G Investment Management and by L&G Assurance Society Ltd. These reports provide independent assurance on the strength of the systems and controls operating within the investment manager and the administrator of the DC funds.

Staff at the ITB Pension Funds reconciled L&G's quarterly reports to monthly contribution summaries supplied by the participating employers to monitor whether contributions had been processed accurately. Any identified errors were rectified quickly and processes at L&G and the employers were reviewed to help prevent further similar errors. There were no contributions paid into the DB Section AVC arrangements during the year.

The staff at the ITB Pension Funds liaised with the administrator each month about the service levels to identify any systemic administration issues that might affect members' interests. Transfers out, fund switches and payments out, both to and in respect of members, were processed by L&G, on behalf of the Trustees. The promptness of processing these transactions was monitored by the Trustees through the service level performance reporting each quarter. The accuracy of processing these transactions was monitored by the Funds Office, which reconciled L&G's advance notice of the transactions to separate fund accounting reports.

The Trustees' review of SLA performance identified no substantive issues during the scheme year for contribution allocations, individual transfers in and investment switches, as over 99.9% of cases in each of these categories was processed within the SLA target. Of the 36 transfer out payments in the year, 11 were processed within the 5 working days SLA target, but 25 were processed after it. For these 25, the average number of days outside the SLA was 10 days. There



were 29 lump sum retirement payments, 13 of which were processed within the 5 working days SLA and 16 processed outside of it by an average of 4 working days each. Of the 5 surrender payments, 2 were processed within the 5 working days SLA target and 3 outside of it by an average of 8 working days each. The coronavirus pandemic contributed to L&G having a relatively high number of transfer outs, lump sum retirements and surrenders processed outside the SLA. The Trustees have been actively engaging with L&G to improve the SLA performance in these areas.

L&G has processes in place to help meet the SLAs, for example the dedicated L&G contributions team performed a daily contribution data reconciliation for all contribution payments received. L&G also performed daily automatic reconciliations of investment fund units purchased and sold within its fund reconciliation process controls. These reconciliations ensured that all units purchased and sold are recorded against a member's record.

The Trustees reviewed the DC Section's governance processes and internal controls each quarter and were satisfied that the processes

and controls were consistent with The Pensions Regulator's DC Code of Practice No. 13.

Based on the above, the Trustees are satisfied that the core financial transactions relating to the DC Section and AVCs have been processed accurately during the scheme year and that for transactions processed outside service levels, the volume and delays were not excessive given the exceptional circumstances that prevailed during 2020/21.

3. MEMBER BORNE CHARGES AND TRANSACTION COSTS

The level of annual charges (as measured by the total expense ratio (TER), which includes L&G's platform fee of 0.30% pa, but not transaction charges) for the lifestyle options, including the current default arrangement, are as shown below in Table 1. The annual charges varied according to the mix of assets, which begins to change from when members are 15 years from retirement. Shown in the table below is the annual charge before 15 years to retirement and the annual charges at five-yearly intervals within the period from 15 years to retirement.

Table 1: Annual charges for lifestyle options

PERIOD TO RETIREMENT:	MORE THAN 15YRS %PA	15 YRS %PA	10 YRS %PA	5 YRS %PA	0 YRS %PA
Drawdown Lifestyle (Default Option)	0.44	0.44	0.43	0.43	0.42
Annuity Lifestyle	0.44	0.44	0.43	0.42	0.39
Cash Lifestyle	0.44	0.44	0.43	0.43	0.39

From July 2021, due to the L&G Global Equity Market Weights 30:70 Index Fund being replaced by the L&G Low Carbon Transition Fund, annual charges for the Drawdown Lifestyle default option changed to: More than 15 years 0.39% pa; 15 years 0.39% pa; 10 years 0.41% pa; 5 years 0.42% pa; 0 years 0.42% pa.

The level of annual charges (as measured by the total expense ratio (TER), which includes L&G's platform fee of 0.30% pa, but not transaction charges) for the self-select funds were as shown below in Table 2.

Table 2: Annual charges for self-select funds

FUND	%PA
Over 5 Years Index-Linked Gilt Fund	0.38
Over 15 Years Gilts Index Fund	0.38
AAA-AA-A Corp Bond Over 15 Years Index	0.42
Global Equity Market Weights 30:70 Index Fund	0.44
Ethical Global Equity Index Fund	0.60
HSBC Islamic Global Equity Index Fund	0.65
Multi Asset Fund	0.43
Cash Fund	0.39

From July 2021, a currency unhedged version of the L&G Low Carbon Transition Fund, which has an annual charge of 0.37%pa, was added to the self-select fund range.

The Investment Manager, L&G, has provided transaction costs information for the DC Section funds. Table 3 below sets out annual average transaction costs for the lifestyle options (including the default arrangement) and Table 4 sets out annual average transaction costs for the self-select funds. Transaction costs were borne

by members. Explicit costs are those directly charged to or paid by the fund, e.g. taxes, levies and broker commissions, whereas implicit costs are costs such as differences between selling and buying prices (spreads) which may vary depending on market liquidity and the size of transaction. Implicit costs are calculated on the 'slippage' basis, as recommended by the Financial Conduct Authority. Under this basis negative implicit costs can arise when the actual price paid ends up being lower than the mid-market price at the time of placing an order.

Table 3: Transaction costs for lifestyle options

PERIOD TO RETIREMENT:	ANNUAL AVERAGE TO 31 MARCH 2021				
	MORE THAN 15YRS %PA	15 YRS %PA	10 YRS %PA	5 YRS %PA	0 YRS %PA
Drawdown Lifestyle (Default Option)	0.03	0.03	0.03	0.03	0.02
Annuity Lifestyle	0.03	0.03	0.03	0.03	0.02
Cash Lifestyle	0.03	0.03	0.03	0.03	0.00

Table 4: Transaction costs for self-select funds

FUND	YEAR TO 31 MARCH 2021			ANNUAL AVERAGE TOTAL* %PA
	EXPLICIT %PA	IMPLICIT %PA	TOTAL %PA	
Over 5 Years Index-Linked Gilt Fund	0.00	0.02	0.02	0.06
Over 15 Years Gilts Index Fund	0.00	0.00	0.00	0.01
AAA-AA-A Corp Bond Over 15 Years Index	0.00	0.01	0.01	0.00
Global Equity Market Weights 30:70 Index Fund	0.02	0.02	0.04	0.04
Ethical Global Equity Index Fund	0.02	-0.02	0.00	0.00
HSBC Islamic Global Equity Index Fund	0.03	0.00	0.03	0.06
Multi Asset Fund	0.01	0.02	0.03	0.03
Cash Fund	0.00	-0.01	-0.01	0.00

* The Annual Average Total transaction costs have been provided by the investment manager, L&G. They are based on the average costs over the 5 years to 31 March 2021 or, where data was available for fewer than 5 years, the average costs over the maximum number of years up to 31 March 2021 for which data was available.

The Trustees have prepared the following illustrative example of the cumulative effect of costs and charges incurred by members, which has been prepared in accordance with statutory guidance. The charges and costs deducted are

the charges and transaction costs set out in tables 1 to 4 above. The funds illustrated include the most popular, the funds with the highest and lowest expected return and highest and lowest total charges.

Table 5: Projected pension pot in today's money

		FUND CHOICE													
		"MOST POPULAR"		"MOST POPULAR, AGE 50, RETIRING AT 65"		"POPULAR"		"HIGHEST EXPECTED RETURN"		"LOWEST EXPECTED RETURN"		"HIGHEST COST"		"LOWEST COST"	
		Default Fund Growth Phase		Default Fund at Age 50 Retiring at 65		Multi Asset		Global Equity		Over 5 Year Index-Linked Gilts		Islamic Global Equity		Over 15 Years Gilts	
Yrs		Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
		£	£	£	£	£	£	£	£	£	£	£	£	£	£
1		19,905	19,837	19,898	19,831	19,798	19,733	19,951	19,882	19,255	19,193	19,934	19,831	19,255	19,199
3		31,311	31,025	31,251	30,967	30,881	30,607	31,497	31,205	28,765	28,521	31,428	30,993	28,765	28,546
5		43,069	42,450	42,871	42,259	42,164	41,578	43,462	42,828	37,843	37,345	43,316	42,375	37,843	37,397
10		74,074	72,083	72,882	70,953	71,273	69,431	75,311	73,255	58,773	57,381	74,850	71,820	58,773	57,525
15		107,524	103,314	101,562	97,730	101,715	97,903	110,132	105,741	77,403	74,823	109,157	102,737	77,403	75,087
20		143,613	136,228	N/A	N/A	133,552	127,009	148,201	140,426	93,988	90,007	146,482	135,198	93,988	90,413
25		182,548	170,916	N/A	N/A	166,848	156,762	189,823	177,459	108,751	103,225	187,088	169,281	108,751	103,785
30		224,554	207,473	N/A	N/A	201,669	187,177	235,327	216,999	121,893	114,733	231,265	205,068	121,893	115,454
35		269,874	246,001	N/A	N/A	238,086	218,269	285,077	259,215	133,591	124,751	279,328	242,643	133,591	125,636
40		318,768	286,604	N/A	N/A	276,171	250,052	339,469	304,289	144,005	133,472	331,617	282,095	144,005	134,521

Notes

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 £14,331 - the median pot size as at 31 March 2021.
3. Inflation is assumed to be 2.5% each year.
4. It is assumed the current average level of contributions of £5,314 pa is made each year.
5. There are no charges levied on contributions.
6. Values shown are estimates and are not guaranteed.

7. The projected growth rates for each fund or arrangement are as follows:

Default Fund Growth Phase: 1.53% above inflation
 Default arrangement at Age 50 and retiring at 65: between 0.10% and 1.49% above inflation
 Multi Asset: 0.9% above inflation
 Global Equity: 1.8% above inflation
 Over 5 Year Index-Linked Gilts: 2.3% below inflation
 Islamic Global Equity: 1.7% above inflation
 Over 15 Years Gilts: 2.3% below inflation
 Cash: 2.3% below inflation

It is an objective of the Trustees that members receive value for money, as small differences in charges can have a major impact on the size of members' pension funds by the time they retire. In order to meet this objective, a value for members assessment of the DC arrangements is carried out by the Trustees' investment consultant each year. The latest annual assessment, conducted on 6 November 2020 as part of the triennial DC strategy review, concluded that given the size of the DC Section, the fees members pay are good value. The Trustees considered the extent to which the cost of membership compares against the services and benefits provided by the DC Section, which include scheme governance and management, investment, administration and communications services. The assessment recognised that the only charges borne by members are the charges deducted from the funds (i.e. the TERs shown above, plus transaction costs), while the charges for all other services are borne by the participating employers. The assessment had particular regard to the services funded by member-borne

charges, in particular the investment, platform, administration and communication services provided by L&G, which were felt to be good relative to the charges. These assessments were made after considering the advice of the Trustees' investment consultant on the level of TERs based on their knowledge of the market as a whole, that members only pay the direct cost charged for the investment funds (which includes the L&G platform charge of 0.30% pa) and all other services are paid for directly by employers. In addition, the other costs and charges borne by employers are kept as low as possible by rigorous budgetary control and the charges borne by members are well below the government 'charge cap' of 0.75% pa in respect of default funds.

4. TRUSTEE KNOWLEDGE AND UNDERSTANDING

The Trustees are expected to meet the requirements for knowledge and understanding, as set out in s247 of the Pensions Act 2004 pertaining to individual Trustees, i.e. that they are conversant with key documents



relating to the Funds, and have knowledge and understanding of pensions and trust law and the principles of funding and investment. This section describes the policies and programmes in place (including during the scheme year) to ensure these knowledge and understanding requirements are met, and specific steps taken during the year.

The Trust Deed & Rules provide for the Funds to be governed by a board of 14 Trustees, consisting of seven Employer Nominated, five Member Nominated and two Pensioner Nominated Trustees. As at 31 March 2021 there were four Members' Trustees with one vacancy, which was filled shortly after the year-end. Each Trustee serves for a fixed three-year term and can be re-appointed following each term. As at 31 March 2021, the average period of service as a Trustee is 8 years – 6 Trustees have been in office for 6 years or less, whilst 5 Trustees, including the Chair and the Deputy Chairs, have been in office for 10 years or more. There is a wide spectrum of trustee experience and, therefore, the training programme both keeps the experienced Trustees up to date with pension developments and gives newer Trustees a basis, in line with the minimum requirements, on which to develop their knowledge and experience.

The training programme comprises the following elements:

- All new Trustees attend an induction programme that introduces the Trust Deed and Rules, Statement of Investment Principles, Statement of Funding Principles and other Funds policy documents, for example the Funds' Management of Conflicts of Interest policy. This programme was completed by all new Trustees appointed during the scheme year.
- Every year, each Trustee completes a training needs self-assessment. The Funds Office uses this, and any other feedback provided by the Trustees on their knowledge and skills, to identify areas where training is required and to prepare a training plan for each Trustee.
- The Funds also provide access to an ITB Funds Trustee website on which all key documentation can be accessed and Trustees are encouraged to maintain a good working knowledge of those documents. The documents include the Trust Deed and Rules, Statement of Investment Principles and Statement of Funding Principles. The website

also includes links to training course providers and the Pensions Regulator's e-learning course, the Trustee Toolkit, which all Trustees have completed.

- The papers for quarterly Trustee meetings included legal updates specifically prepared for the Funds, with the legal advisers present to discuss any questions raised by the Trustees.
- A formal training session is usually provided following each quarterly Trustee meeting, that is attended by all Trustees. Sessions during the scheme year included an update on the draft Pensions Bill, RPI reform and audit of pension schemes. Significant training is also provided in the form of formal briefings and training provided at Trustee and Investment Committee meetings. This year all Trustees received a briefing on transfer and trivial commutation factors.
- Trustees have completed the Scam Module of the Trustee Toolkit to increase their awareness of pension scams and understand the processes that the Regulator expects to be in place to protect Fund members from being scammed. This is one of the steps to be completed for the Funds to achieve a longer-term goal of signing-up to the Regulator's pledge to combat pension scams.
- The Trustees normally have a dedicated training seminar each year at which training is provided by the Funds' advisers and investment managers. Due to the outbreak of COVID-19, the seminar due to take place in April 2020 was cancelled. An annual training seminar has however since been held, by video-call, after the year-end in July 2021.

All training needs and training received is logged on a central training register that is used by the Funds Office to identify relevant subjects for training, which are then delivered within the framework described above. Each new individual Trustee is required to complete the Trustee Toolkit and other training to meet the minimum requirements for knowledge and understanding.

The combined training, knowledge and understanding of the trustee board, together with the available advice, enables the Trustees to properly exercise their functions. The combined knowledge of the board includes many years of trustee experience and training as described above. Several of the Trustees are current or former senior executives



with substantial experience of financial, managerial and governance matters; for example, one Trustee was an HR Director with substantial pensions knowledge; another was Chief Engineer and Technology Director at a major oil company. Trustees are nominated by participating employers, or employees and pensioners of participating employers. This ensures detailed knowledge of the participating employers is available to the board, which is useful for interpreting and understanding advice on employer covenant strength, subject to managing conflicts of interest. The Trustees' combined knowledge and understanding is also enhanced by the support of the Funds Office. The Funds Chief Executive is a Chartered Accountant with 9 years' experience in life insurance and 14 years' experience in the pension industry, the Funds Accountant is also a Chartered Accountant with 23 years' experience in the pension industry, and the Pension Administration Manager has a CII Diploma and 32 years' experience in the pension industry.

The Trustees also have ready access to actuarial advice from the Government Actuary's Department, investment advice from LCP and legal advice from Mayer Brown International. The actuarial and legal advisers attend each Trustee board meeting, and the investment adviser attends each Investment Committee meeting. This independent professional support further enhances the combined knowledge that enables the Trustees to properly exercise their functions.

5. APPOINTMENT OF TRUSTEES

The Funds are a relevant multi-employer scheme under the 2015 Regulations. The Funds are, therefore, subject to a special requirement under Regulation 22, whereby a majority of the Trustees, including the Chair, must be "non-affiliated". For a Trustee to be "non-affiliated", he or she must be appointed through an open and transparent process (OTP); must be independent of the Funds' service providers; and must not have been in office for longer than prescribed periods.

All Trustees, including the Chairman, met the above requirements during the scheme year as explained below, and so were (and still are) non-affiliated. All Trustees were appointed through an OTP. None of the Trustees is (or has in the last five years been) a director, manager, partner or employee of any undertaking which

provides advisory, administration, investment or other services for the ITB Pension Funds, or any undertaking which is connected to a service provider. Furthermore, none of the Trustees receive any payment or benefit from any undertaking which provides advisory, administration, investment or other services for the ITB Pension Funds, or any undertaking which is connected to a service provider. Neither do any of the Trustees have any obligations to any such service provider that conflict with their obligations as a Trustee.

None of the Trustees has (since the 2015 Regulations came into force), served for more than 10 years, with no single period in office being more than 6 years. In order to support compliance with Regulation 22, the Trustees have, during the scheme year and over the longer term, made arrangements to ensure that new Trustees are appointed through the process described below, which the Trustees consider to be an OTP. As described below, in relation to Members' Trustees, the process meets the member-nominated trustee requirements under s241(2) Pensions Act 2004 and, in relation to Employers' Trustees appointments are made through reasoned decisions, based on relevant and appropriate criteria, and made through due process, with both the process and the ultimate decision being clearly communicated to interested parties. During the scheme year and over the longer-term, the Trustees have monitored compliance with the conditions as to independence and term of office.

Members' Trustees are nominated and selected by members or by trade unions which represent them, and the Trustees are satisfied that these arrangements meet the OTP requirement.

Employers' Trustees are selected by employers and, to ensure that the OTP requirement is met, the Trustees stipulate that employers should follow certain ground rules when selecting candidates. Under the ground rules, employers must determine the constituency from which Trustees will be selected and the process used to make the selection, which must involve a panel of at least three individuals; notice as to these matters must be given to people in the constituency and to the employer's active members (the "interested parties"); the selection must take account of candidates' fitness and propriety to act as Trustees; the Chairman of Trustees must be consulted as to the proposed appointment; notice as to the

final decision must be given to the interested parties; and the employer must confirm to the Trustees that the ground rules have been followed.

As regards non-affiliated Trustees appointed or reappointed during the scheme year, the OTP requirement was met as follows. Richard Capewell, Employer's Trustee for Lantra: Lantra followed the ground rules in making its selection; Joanna Woolf, Employer's Trustee for Cogent SSC: Cogent SSC followed the ground rules in making its selection; Ben Alexander-Dann, Members' Trustee for Enginuity: nomination and selection process was by Enginuity members, consistent with the member-nominated trustee legislation; David Wake, Members' Trustee, CITB: the selection was made by the trade union Unite which represents active members employed by CITB; David Lewis, Members' Trustee for ECITB: nomination and selection was by ECITB members, consistent with the member-nominated trustee legislation; Robert Tabor, Members' Trustee for Lantra: nomination and selection was by Lantra members, consistent with the member-nominated trustee legislation. David Barnett, Open Fund Pensioner Trustee: re-appointed following a nomination process in which he was the sole nominee of the Open Fund Pensioner members. Maurice Alston, Closed Fund Pensioner Trustee: re-appointed, following a nomination process in which he was the sole nominee of the Closed Fund Pensioner members.

6. MEMBERSHIP ENGAGEMENT

The Trustees encourage members of the Funds to make their views known by operating a website (www.itb-online.co.uk) for the Funds which includes a "feedback" button and contact details. This website is a useful resource for members looking for further information about their pension arrangement including guidance about contributions and how salary sacrifice arrangements operate, benefits available at retirement, investment choices and how to make changes to them. Members can also find the following documents on the website:

- The DC Scheme Member Booklet: This provides practical information about all aspects of DC Scheme membership.
- This Annual Report and Financial Statements, including the Chairman's Statement and Statement of Investment Principles

Implementation Statement.

- The annual newsletter, copies of which are distributed to all members who request it (currently 543 members).

DC Section members are provided with access to L&G's secure website from which they can obtain their annual pension statements and other comprehensive documentation and guidance on the Funds' DC section. Through this website members can communicate directly with the L&G administration team.

Engagement with members also takes place through communications with the Pensioners' Association and informally through the Members' Trustees, who frequently discuss pensions matters with workplace colleagues and provide feedback to the Trustee board.

The Trustees believe that the above arrangements are appropriate for the DC Section, having regard to the size, nature and demographic of the membership. In particular, the Trustees are conscious that the DC Section is a relatively small and new arrangement. The contact details of the Funds are as follows:

**The ITB Pension Funds, 23 King Street,
Watford, Herts, WD18 0BJ**

Telephone: 01923 226264

E-mail: pensions@itbpen.com

Website: www.itb-online.co.uk

Signed by the Chairman on behalf of the Trustees

Signed: 

Dated: 18 October 2021

David Newell McGuinness (Chairman of Trustees)

Chairman's Statement Schedule

DC SECTION STATEMENT OF INVESTMENT PRINCIPLES – 26 MAY 2021

WHAT IS THE TRUSTEES' OVERALL INVESTMENT OBJECTIVE?

The Trustees recognise that members of the Defined Contribution Section may have differing investment needs. These needs may change during the course of a member's working life and members may have differing attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances.

The Trustees' investment objective is, therefore, to make available a range of pooled investment funds which serve to meet in general the varying investment needs and risk tolerances of the members of the Defined Contribution Section.

WHAT RISKS DO THE TRUSTEES CONSIDER AND HOW ARE THESE MEASURED AND MANAGED?

The Trustees have considered risk for the Defined Contribution Section from a number of perspectives, including, but not limited to, those set out below. Some of the risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

Risk of Inadequate Long-Term Returns

As members' benefits are crucially dependent on the investment returns achieved, it is important that investment vehicles are available which can be expected to produce adequate real returns over the longer term.

Risk of Deterioration in Investment Conditions Near Retirement

For a given amount of money the level of pension secured for a member will depend upon investment conditions at retirement. A sharp deterioration in these conditions in the period just prior to retirement will have a substantial impact in the benefits provided. To protect against this, the Trustees have made a lifestyle strategy, the ITB Drawdown, which targets drawdown at retirement.

Risk of Lack of Diversification and Unsuitable Investments

Within each fund available to members the holdings should be adequately diversified. To achieve this, the Trustees have selected funds which invest in a suitable diversified range of holdings. The Trustees' policy is to make available to members funds which, in normal circumstances, should prove easy to buy and sell.

Risk from Excessive Charges

If the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive then the value of members' accounts will be reduced unnecessarily. The Trustees have, therefore, looked closely at the terms and conditions of the investment manager and are comfortable that the charges applicable to the Open Fund are in line with market practice and assess regularly whether these represent good value for members.

Investment Manager Risk

This is the risk that the investment manager fails to meet its investment objective. The Trustees monitor the investment manager on a regular basis.

Other Risks

The Trustees recognise that there are other, non-investment, risks within the Defined Contribution Section. Unlike the Defined Benefit Section, these risks fall generally on the individual Defined Contribution Section members rather than on the membership generally and/or the sponsoring employer. Examples of these risks include longevity risk (the risk that insurers expect members to live longer, which increases the cost of securing a pension), and knowledge/understanding risk (the risk that members make inappropriate investment choices, given their circumstances).

WHAT ARE THE INVESTMENT STRATEGY ARRANGEMENTS?

The Trustees have provided to members a range of investment options, having regard to the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns.

Following a review of the strategy in 2020, the Trustees decided to address the potential impact of climate change on members' Defined Contribution investments by changing the equity component of the Open Fund's Defined Contribution lifestyle investment strategies to equity funds which seek to reduce their exposure to carbon emissions over time. The full range of funds that is available is set out below.

Current Fund Range

MANAGER	FUND NAME	BENCHMARK	TARGET
L&G	Global Equity Market Weights (30:70) Index Fund – 75% GBP Currency Hedged	Composite of 30/70 distribution between UK and overseas, 75% GBP Hedged	To track the benchmark
L&G	Ethical Global Equity Index Fund	FTSE4Good Global Equity Index	To track the benchmark to within +/- 0.50% pa for two years in three
L&G	Low Carbon Transition Global Equity Index Fund Unhedged	Solactive L&G Low Carbon Transition Global Index	To track the benchmark
HSBC	Islamic Global Equity Index Fund	Dow Jones Islamic Titans 100 Index	To track the benchmark
L&G	Multi Asset Fund	ABI UK – Mixed Investment 40%-85% Shares Pension Sector	To provide long-term investment growth through exposure to a diversified range of asset classes
L&G	AAA-AA-A Corporate Bond (Over 15 Years) Fund	iBoxx £ Non Gilts (ex BBB) Over 15 year Index	To track the benchmark to within +/- 0.50% pa for two years in three
L&G	Over 5 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts (Over 5 Years) Index	To track the benchmark to within +/- 0.25% pa for two years in three
L&G	Over 15 Year Gilts Index Fund	FTSE Actuaries UK Conventional Gilts (Over 15 Years) Index	To track the benchmark to within +/- 0.25% pa for two years in three
L&G	Cash Fund	7 Day LIBID	To match the CAPS Pooled Pension Fund median.



DEFAULT OPTION

The Open Fund also has three lifestyle strategies and the default investment option is a lifestyle strategy which targets income drawdown at retirement. The default option provides an automated investment switching facility, following a pre-selected investment strategy, which will move the funds into lower risk investments as retirement approaches.

Until 15 years prior to each member's selected retirement age, the lifestyle strategy invests in:

- 35% in the L&G Low Carbon Transition Global Equity Index Fund GBP Hedged,

- 35% in the L&G Low Carbon Transition Global Equity Index Fund Unhedged; and
- 30% in the L&G Multi Asset Fund.

Fifteen years prior to each member's selected retirement age, automatic monthly switches commence.

The investment split at each member's target retirement age would be as follows:

- 75% in the L&G Multi Asset Fund; and
- 25% in the L&G Cash fund.

The table below outlines how the proportion of portfolio holdings changes in the 15 years up to retirement under the strategy.

YEARS TO RETIREMENT	GLOBAL EQUITIES (GBP HEDGED) (%)	GLOBAL EQUITIES (UNHEDGED) (%)	MULTI-ASSET (%)	CASH (%)
15 or more	35.00	35.00	30.00	0.00
14	32.75	32.75	34.50	0.00
13	30.50	30.50	39.00	0.00
12	28.25	28.25	43.50	0.00
11	26.00	26.00	48.00	0.00
10	23.75	23.75	52.50	0.00
9	21.50	21.50	57.00	0.00
8	19.25	19.25	61.50	0.00
7	17.00	17.00	66.00	0.00
6	14.75	14.75	70.50	0.00
5	12.50	12.50	75.00	0.00
4	10.00	10.00	75.00	5.00
3	7.50	7.50	75.00	10.00
2	5.00	5.00	75.00	15.00
1	2.50	2.50	75.00	20.00
0	0.00	0.00	75.00	25.00

It is for each member to decide on their required strategic allocation to each of the available investment funds. The fund range offered also includes three "lifestyle" strategies that automatically combine the investments in proportions that vary according to the proximity to retirement age. Each of the three lifestyle strategies targets a different investment option for members at retirement; income drawdown, a cash lump-sum or the purchase of an annuity. If a member does not choose an investment option, their account will be invested into the default lifestyle option, which targets income drawdown at retirement.

The lifestyle strategies are designed to offer some protection against the risks described above.

WHAT DID THE TRUSTEES CONSIDER IN SETTING THE OPEN FUND'S DEFINED CONTRIBUTION SECTION INVESTMENT STRATEGY ARRANGEMENTS?

In determining the investment arrangements for the DC Section the Trustees took into account:

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and



lifestyle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken. The main risks considered were inflation risk (the risk that a member's investments fail to keep pace with inflation over the longer term), conversion risk (the risk of a deterioration in the terms available for converting funds into pension at retirement – applicable to the annuity lifestyle), capital risk (the risk of a fall in the amount of cash available to take at retirement), and climate risk (the risk of a fall in the value of investments caused either by direct impacts of changes to the global climate or policy changes to mitigate the effects of climate change);

- the need for appropriate diversification within the default strategy and other lifestyle options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members;
- the Trustees' investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustees' key investment beliefs are set out below.

- In deciding upon the funds to offer to members, the Trustees' primary asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity and credit are the primary rewarded risks;
- risks that are typically not rewarded should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management (which includes a range of rules-based portfolio construction strategies), where available, is usually better value;

- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Open Fund's returns; and
- costs have a significant impact on long-term performance.

APPOINTMENT OF FUND PROVIDER

The Trustees have appointed one main provider to provide the funds in which the Defined Contribution Section invests. The provider offers funds managed internally and by third party investment managers.

The provider's primary role is to maintain the funds in which the Defined Contribution Section invests. The provider is authorised under the Financial Services and Markets Act 2000 to carry out such activities.