

THE ITB PENSION FUNDS 2021/2022

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT



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FOR THE YEAR ENDED 31 MARCH 2022

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 2022 and seven 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 performance of the DC Section investments
3. The financial transactions made within the DC Section
4. The charges and transaction costs within the DC Section
5. The Trustees' compliance with knowledge and understanding requirements
6. Appointment of Trustees
7. 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 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 DC Section of the latest Open Fund SIP, dated 1 December 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.

The next full DC Section investment strategy and performance review, including the default arrangement, is due in November 2023. The last full review was conducted in November 2020 and 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 to address the potential impact of climate change on members' investments and remove a bias to UK equities relative to market capitalisation weights. This was implemented in July 2021, by replacing the L&G Global Equity Market Weights 30:70 Index Fund with the L&G Low Carbon Transition Global Equity Index 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 Global Equity Index 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.

The Investment Committee has reviewed the performance of funds in the default arrangement at each quarter end during the year and concluded that they have been performing broadly as expected, consistent with the Trustees' targets and other objectives.

2. INVESTMENT PERFORMANCE

The return on investments (net of charges and transaction costs) for periods ended 31 March 2022 of the self-select investment funds in which member assets were invested during the year was as follows:

FUND	1 YEAR %	5 YEARS ANNUALISED %
Over 5 Years Index-Linked Gilts Index Fund	3.9	3.1
Over 15 Years Gilts Index Fund	-7.9	0.9
AAA-AA-A Corporate Bond Over 15 Years Index Fund	-9.8	1.7
Global Equity Market Weights 30:70 Index Fund (75% GBP Currency Hedged)	11.9	9.4
Ethical Global Equity Index Fund	18.4	12.2
HSBC Islamic Global Equity Index Fund	21.4	16.2
Multi Asset Fund	4.4	5.4
Cash Fund	0.1	0.4

Note: No investment performance returns are reported for the L&G Low Carbon Transition Global Equity Index Fund because as at 31 March 2022 it had been in existence for less than one year.

The net investment returns for the three lifestyle funds for periods ended 31 March 2022 are reported in the following table. These have been calculated based on an assumed target retirement age of 65, for members who were aged 25, 45 and 55 on 1 April 2021.

AGE OF MEMBER ON 1 APRIL 2021	DRAWDOWN (DEFAULT STRATEGY)		CASH LIFESTYLE		ANNUITY LIFESTYLE	
	1 year net return %	5 year net return %pa	1 year net return %	5 year net return %pa	1 year net return %	5 year net return %pa
25	8.7	7.6	8.7	7.6	8.7	7.6
45	8.7	7.6	8.7	7.6	8.7	7.6
55	7.5	6.4	7.5	6.4	6.3	5.7

The Trustees have had regard to statutory guidance in putting together the information about investment returns.

3. 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 help ensure the correct payments were deducted. All contributions deducted from members' pay by the participating employers were paid to L&G within the legislative requirements. 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, timescales for processing benefit payments and 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 L&G's quarterly SLA performance identified no substantive issues during the scheme year. Joiner and contribution files processing and the allocation of contributions to investments were all completed within the SLA throughout the year. As shown by the table below, during the financial year there were some improvements in SLA performance for payments processing and the servicing of member enquiries, including requests for quotes and issuing maturity and leaver packs. The exception to this was the September 2021 quarter, which was impacted by an increase in the volume of requests and payments.

	PAYMENTS PROCESSING		SERVICING OF REQUESTS / ENQUIRIES	
	PERCENTAGE PROCESSED WITHIN SLA	AVERAGE DELAY FOR PAYMENTS THAT MISSED THE SLA (DAYS)	PERCENTAGE PROCESSED WITHIN SLA	AVERAGE DELAY FOR CASES THAT MISSED THE SLA (DAYS)
June 2021 quarter	72%	5.7	96%	7.1
September 2021 quarter	56%	7.0	85%	11.0
December 2021 quarter	87%	3.5	91%	1.3
March 2022 quarter	79%	2.0	80%	3.9

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 and generally promptly during the scheme year and that for transactions processed outside service levels, the volume and delays were not excessive.

4. CHARGES AND TRANSACTION COSTS

Annual Charges

The level of annual charges (as measured by the total expense ratio (TER), which includes L&G's platform fee of 0.20% pa, but not transaction costs) for the lifestyle options, including the current default arrangement, varies according to the mix of assets, which begins to change when members are 15 years from retirement. For each of the three lifestyle options, Table 1 below shows the annual charge when a member is more than 15 years to retirement and 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)	0.29	0.29	0.31	0.32	0.32
Annuity Lifestyle	0.29	0.29	0.30	0.30	0.29
Cash Lifestyle	0.29	0.29	0.31	0.32	0.29

The annual 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	0.28
Over 15 Years Gilts Index Fund	0.28
AAA-AA-A Corp Bond Over 15 Years Index Fund	0.32
Global Equity Market Weights 30:70 Index Fund	0.34
Low Carbon Transition Global Equity Index Fund	0.27
Ethical Global Equity Index Fund	0.50
HSBC Islamic Global Equity Index Fund	0.55
Multi Asset Fund	0.33
Cash Fund	0.29

Transaction costs

The following types of transaction costs are borne by members:

1. Explicit costs: These are directly charged to or paid by the fund, e.g. taxes, levies and broker commissions.

2. Implicit costs: These reflect the theoretical value that is lost to the market during the process of

buying and selling, for example differences between selling and buying prices (spreads). Implicit costs may vary depending on market liquidity and the size of transaction. They are calculated on the 'slippage' basis, as recommended by the Financial Conduct Authority, under which a negative implicit cost can arise when the actual price paid

ends up being lower than the mid-market price at the time of placing an order.

Information provided by the Investment Manager, L&G, on the annual average transaction costs for the lifestyle options (including the default arrangement) is set out in Table 3 below, and for the self-select funds it is set out in Table 4 below.

Table 3: Transaction costs for lifestyle options

PERIOD TO RETIREMENT:	ANNUAL AVERAGE TO 31 MARCH 2022				
	MORE THAN 15YRS %PA	15 YRS %PA	10 YRS %PA	5 YRS %PA	0 YRS %PA
Drawdown Lifestyle (Default Option)	0.01	0.01	0.01	0.02	0.02
Annuity Lifestyle	0.01	0.01	0.02	0.02	0.02
Cash Lifestyle	0.01	0.01	0.01	0.02	0.00

Table 4: Transaction costs for self-select funds

FUND	YEAR TO 31 MARCH 2022 %PA	ANNUAL AVERAGE TOTAL* %PA
Over 5 Years Index-Linked Gilt Fund	0.02	0.05
Over 15 Years Gilts Index Fund	0.05	0.02
AAA-AA-A Corp Bond Over 15 Years Index Fund	0.00	0.00
Global Equity Market Weights 30:70 Index Fund	0.03	0.04
Low Carbon Transition Global Equity Index Fund	0.01	0.01
Ethical Global Equity Index Fund	0.00	0.00
HSBC Islamic Global Equity Index Fund	0.13	0.08
Multi Asset Fund	0.01	0.02
Cash Fund	0.00	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 2022 or, where data was available for fewer than 5 years, the average costs over the maximum number of years up to 31 March 2022 for which data was available.

Impact of all costs and charges

Table 5 below has been prepared in accordance with statutory guidance and provides an illustrative example of the cumulative effect of the member borne costs and charges as set out in tables 1 to 4 above. It covers the most popular funds, the funds with the highest and lowest expected return and the funds with the highest and lowest total charges.

Table 5: Projected pension pot in today's money

FUND CHOICE															
Yrs	"Most Popular"		"Most Popular, age 50, retiring at 65"		"Popular"				"Highest Expected Return" and "Lowest Cost"		"Lowest Expected Return"		"Highest Cost"		
	Default Fund Growth Phase		Default Fund at Age 50 Retiring at 65		Multi Asset		Cash		Low Carbon Transition Global Equity		Over 5 Year Index-Linked Gilts		Islamic Global Equity		
	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	Before charges
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
1	23,224	23,170	23,216	23,162	23,111	23,049	22,449	22,399	23,272	23,223	22,449	22,392	23,232	23,120	
3	35,287	35,069	35,226	35,004	34,845	34,594	32,321	32,130	35,478	35,281	32,321	32,104	35,319	34,866	
5	47,927	47,462	47,728	47,248	47,005	46,475	41,899	41,517	48,328	47,904	41,899	41,465	47,994	47,030	
10	82,231	80,741	81,034	79,468	79,372	77,710	64,616	63,555	83,491	82,122	64,616	63,411	82,440	79,364	
15	120,779	117,579	114,383	111,105	114,759	111,266	85,679	83,692	123,470	120,503	85,679	83,424	121,223	114,650	
20	164,095	158,358	N/A	N/A	153,447	147,315	105,210	102,092	168,924	163,555	105,210	101,674	164,888	153,156	
25	212,769	203,499	N/A	N/A	195,746	186,042	123,318	118,905	220,601	211,846	123,318	118,316	214,051	195,175	
30	267,465	253,469	N/A	N/A	241,990	227,646	140,109	134,268	279,356	266,013	140,109	133,492	269,404	241,030	
35	328,926	308,785	N/A	N/A	292,549	272,341	155,678	148,306	346,156	326,772	155,678	147,331	331,726	291,069	
40	397,991	370,017	N/A	N/A	347,826	320,357	170,113	161,133	422,103	394,925	170,113	159,951	401,894	345,675	

- Notes
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
 - The starting pot size is assumed to be £17,399 - the median pot size as at 31 March 2022.
 - Inflation is assumed to be 2.5% each year, which is the assumption used by Legal & General in members' 31 March 2022 benefit statements
 - It is assumed the current average level of contributions of £5,350pa is made each year.
 - There are no charges levied on contributions.
 - Values shown are estimates and are not guaranteed.
 - The projected growth rates for each fund or arrangement are as follows:
 Default Fund Growth Phase: 2.36% above inflation
 Multi Asset: 1.8% above inflation
 Global Equity Low Carbon Transition: 2.6% above inflation
 Over 5 Year Index-Linked Gilts: 1.5% below inflation
 Islamic Global Equity 2.4% above inflation
 Over 15 Years Gilts: 1.5% below inflation
 Cash: 1.5% below inflation

Value for money

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 which benchmarks the fees that DC Section members pay, against those paid in

relevant, comparator pension schemes with a similar level of DC investment assets. It also considers how the cost of membership compares with the services and benefits received in exchange, which include scheme governance and management, investment, administration and communications services. The assessment recognises 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.

An annual assessment, conducted on 5 November 2021, concluded that overall, members were receiving good value for money and that in most key areas the fees paid by members were being justified by the service levels being received. A positive view was provided on L&G's DC administration capabilities, with service standards noted as having recently improved. The fund range and lifestyle

strategies were concluded to be providing members with adequate options.

Whilst fees paid by members were considered reasonable given the size of the DC Section, there was nevertheless felt to be a possibility to reduce the L&G administration fee. In follow-up to this advice, negotiations were entered into with L&G which resulted in the administration fee being reduced from 0.3%pa to 0.2%pa with effect from 1 March 2022.

The latest value for money assessment, which covered the year ending 31 March 2022 and was issued after the year-end, concluded that following the reduction to L&G's fees, members were receiving very good value for money.

Other costs and charges borne by employers are kept as low as possible by rigorous budgetary control. The charges borne by members are well below the government 'charge cap' of 0.75% pa in respect of default funds.

5. 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 the 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 2022 there was one Pensioner Nominated Trustee vacancy and a vacancy for the Members' Deputy Chair position, both of which were 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 2022, the average period of service as a Trustee was 7 years with 4 Trustees having been in office for 5 years or less, whilst 4 Trustees, including the Chair and the Employers' Deputy Chair, had 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.
- All Trustees can access the ITB Pension Funds Trustees' website which contains all the key governance documentation for the Funds including the Trust Deed and Rules, Annual Report & Financial Statements, Statements of Investment Principles and Statements of

Funding Principles. Trustees are encouraged to maintain a good working knowledge of these documents. The website also includes links to training courses and the Pensions Regulator's online learning programme called the Trustee Toolkit, which all Trustees have completed.

- Trustees who are not members of the Investment Committee or Management Panel are invited, by rotation, to attend meetings of each to improve their knowledge and understanding of the matters that they deal with. There was one invited Trustee in attendance at each of the 4 Investment Committee and 3 Management Panel meetings that were held during the year.
- 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 year included an update on the governance of buy-in policies and an overview of the investment process of an equity fund targeting lower carbon emissions. Additional training may be provided at Management Panel and Investment Committee meetings, which during the year included guidance on governance and management of climate related risks for the Investment Committee.
- 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.
- After a year's break due to COVID-19, the annual



dedicated Trustees' training seminar was restored in July 2021 with the Funds' advisers providing training to the Trustees on investment strategy and performance, climate change governance and reporting, Trustee Board incorporation, Trustees' powers under the Trust Deed & Rules, GMP equalisation and actuarial developments.

All training needs and training received are 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 Trustees, together with the available advice, enables the Trustees to properly exercise their functions. The combined knowledge of the Trustees 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. Several Trustees have also had substantial involvement with other pension schemes or pensions industry bodies.

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 10 years' experience in life insurance and 15 years' experience in the pension industry, the Funds Accountant is also a Chartered Accountant with 24 years' experience in the pension industry, and the Pension Administration Manager has a CII Diploma and 33 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.

6. 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. The Funds' Trust Deed & Rules reflect the requirement of Regulation 22, such that a person cannot normally be appointed as a Trustee unless he or she is non-affiliated.

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 5 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.

NAME	POSITION	PROCESS	OTP REQUIREMENT COMPLIANCE
Peter Sparkes	CITB, Members' Trustee	Nominated by the trade union 'Unite'.	Unite represents the active members employed by CITB.
Terry Lazenby	ECITB, Employers' Trustee	Renominated by ECITB.	The ground rules were followed in making the selection.
Newell McGuinness	SECTT, Employers' Trustee	Renominated by SECTT.	The ground rules were followed in making the selection.
John Dearden	CAPITB, Employers' Trustee	Renominated by CAPITB.	The ground rules were followed in making the selection.
Steve Eddy	Enginuity, Members' Trustee	Appointed following a nomination process in which he was the sole nominee.	Nomination and selection was by Enginuity members.

7. 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 Annual

Governance Statement and Statement of Investment Principles Implementation Statement.

- The annual newsletter, copies of which are distributed to all members who request it (currently 504 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 remains a relatively small 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 2022

**David Newell McGuinness
(Chairman of the Trustees)**

CHAIRMAN'S STATEMENT SCHEDULE

DC SECTION STATEMENT OF INVESTMENT PRINCIPLES – 1 DECEMBER 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 ARE THE AIMS AND OBJECTIVES OF THE DEFAULT ARRANGEMENT?

For members who join the Scheme and who do not choose an investment option, the Trustees make available a default arrangement called ITB Drawdown. This is a lifestyle strategy 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 "at retirement" allocation which the Trustees consider appropriate for a member intending to drawdown in retirement.

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. In particular consideration is given to focus on ESG / climate change focussed investments; the next Section on Investment Strategy Arrangements describes the changes that were made to address climate change risk following a review of the strategy in 2020.

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.

CLIMATE RISK

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

OTHER ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISKS

Environmental, social and corporate governance (ESG) factors are sources of risk to the Open Fund's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices and unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

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.

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.

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

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 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 (including the structure of the default), 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;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- climate change risk is likely to have a material impact on financial markets and therefore is a risk that should be explicitly managed where appropriate;
- 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;
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

The Trustees have a process for identifying, assessing and managing climate related risks and opportunities, and this is documented in the Trustees' "Statement on Governance of Climate Related Risks and Opportunities". This statement also documents additional investment beliefs of the Trustees regarding climate change and its impact on the investments of the Fund.

APPOINTMENT OF INVESTMENT 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.



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