

**The ITB Pension Funds**  
**Trustees' Report & Financial Statements**  
**2010/2011**

**your scheme**  
working for  
**your future**



**INVESTORS  
IN PEOPLE**

Scheme Reference No. 10169800

## Profile

The ITB Pension Funds, consisting of the Open and Closed Funds, is set up under a Trust Deed and Rules and administered by a Board of Trustees comprising of Member (including Pensioner) Trustees and Employer Trustees. It is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004. Members are contracted-out of the State Second Pension (S2P).

The assets of the Funds are separate from those of its Participating Employers and are invested by independent investment managers who are appointed by the Trustees. The Closed Fund has no Participating Employers paying contributions, and while it is predominantly invested in assets that are intended to match the liability, it also employs a number of independent external investment managers appointed by the Trustees.

Employees of the Participating Employers may join the ITB Pension Funds (Open Fund) subject to eligibility conditions. The Open Fund is a 'defined benefit scheme' and provides pension and life assurance benefits based on a member's salary and service. With effect from 1 January 2007, the Open Fund consisted of three separate sections:

- the original section of the Open Fund, known as the 'Old Section'
- the 'New Section', which was introduced on 1 September 2003
- the '2007 Section', which was introduced on 1 January 2007.

Both the 'New' and '2007' Sections are available to those Employers who wish to provide a revised level of benefits and have made the necessary election.

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## Chairman's Statement



### Year under review

It has been yet another eventful year where your Trustees have once again worked extremely hard to address the many challenges faced by the ITB Funds.

One of the most significant events during the period has been the triennial actuarial valuation of the Open Fund as at 31 March 2010 and the action required following confirmation of the expected valuation deficit. The valuation was conducted against a difficult economic background and, as the year unfolded, we saw companies and governments adopting strategies to deal with the issues left by the financial crisis. Despite this difficult economic backdrop characterised by historically low interest rates, there was gradual further recovery in investment markets and our investment strategy in the period has served us well. We shall continue to adapt the investment policy for the Funds to suit the economic climate and have various triggers in place to further de-risk the Fund.

### Open Fund Actuarial Valuation

The purpose of a valuation is to determine the funding position of the Scheme by comparing the Scheme's assets and liabilities. While the assets of the Scheme are relatively straightforward to value, determining the present value of liabilities, which may or may not become due until many years in the future, is far more complex. In order to do so the Trustees, after obtaining actuarial advice, have the responsibility to agree a number of prudently chosen assumptions for the actuary to use when carrying out the valuation; such as those for salary and pensions increases, investment returns and life expectancy. A key part of the process is an examination of employer covenant which can influence the assumptions chosen. The intention is for the valuation to be undertaken on a prudent basis with the objective of securing the long term health of the Scheme for both Members and Employers.

The deficit revealed by the 2010 valuation result was not unexpected since the prospect of a deficit result had been forecast by the 2009 interim annual 'snapshot' of the Scheme's financial position, as reported in my statement to you last year.

Participating Employers have been kept abreast of this likely outcome and were forewarned of the prospect of a requirement for additional deficit contribution funding.

In setting the funding strategy for the Scheme the Trustees must make difficult judgments. They must assess the ability of the Employer to make good

**'The valuation was conducted against a difficult economic background and, as the year unfolded, we saw companies and governments adopting strategies to deal with the issues left by the financial crisis. Despite this difficult economic backdrop characterised by historically low interest rates, there was gradual further recovery in investment markets and our investment strategy in the period has served us well.'**

funding deficits in the short-term and they must set their long-term risk appetite in the context of the Employers' ability to underwrite adverse outcomes.

The decisions about the actuarial methods and assumptions as agreed by the Employers are defined in the Statement of Funding Principles. This sets out how the statutory funding objective will be met; in short meaning the Scheme must have sufficient assets to cover its technical provisions (broadly its liabilities), or a recovery plan for reaching that position. Consequently the fund deficit arising from the valuation therefore led to another critical strand of work around formulating a deficit recovery plan to be agreed by Employers.

Further details on the results of the valuation and deficit recovery plan are contained in the Actuarial Valuation section in this report.

### Recovery Plan

The implementation of a deficit recovery plan requires careful calibration to ensure the right balance between effectiveness and jeopardising Employers businesses. Similarly, a measured timetable over which to eliminate the deficit is vital and, in conjunction with our advisers, we are working with Employers to arrive at a sustainable recovery plan to take the Open Fund back to fully funded status as quickly as possible. In doing so we recognise that Employers pension contributions should remain affordable, being mindful that underpinning the future stability of the Funds is the long term viability of our Participating Employers. In response to this backdrop, combined with the difficult operating conditions faced by Employers, many have taken decisive and timely action using the flexibility allowed by the Rules to balance Scheme cost and benefit provision.

As part of the overall review, following the valuation the Trustees will again review the investment strategy of the Scheme, its asset allocation and fund managers and examine whether the Scheme's profile has altered in any way that would necessitate changing the current asset allocation.

### Statement of Investment Principles (SIP)

The Trustees' Statements of Investment Principles (SIP) embodies our investment approach and the current SIP can be found on the ITB Pension Funds' website at [www.itb-online.co.uk](http://www.itb-online.co.uk). Your Trustees regularly review the SIPS and are required to consult with the Participating Employers before changing the SIP and adopting any new investment strategy.

### Employer Covenant

As required by the Pensions Act 2004, this process has involved our advisers liaising with Employers over the examination of specific financial data in

order to establish if each Employer's covenant was robust enough to meet their contribution obligations to the Scheme. The use of the term covenant in this context refers to an Employer's willingness and ability to fund the Scheme on a continuing basis and to pay any statutory debts which might be triggered on winding-up or earlier insolvency. With the support of the Employers our covenant monitoring processes have become more regular and extensive.

### Subsequent Valuations

Valuations must be carried out at least every three years. At the next valuation of the Open Fund as at March 2013 the assumptions for the previous valuation, in this case the 2010 valuation, will be the starting point, which will need to be considered in the light of changing circumstances.

### PIETT/JTL/Skillfast UK

In my statement to you last year I reported on the termination of participation in the Scheme of three of our Participating Employers, PIETT, Skillfast-UK and JTL.

**PIETT:** We are now in the closing stages of what has been an extended and time consuming process which had involved PIETT going into liquidation, with the liquidators only recently releasing funds to go towards PIETT's outstanding debt to the Fund. During this period PIETT's participation in the Scheme was terminated.

**'Valuations must be carried out at least every three years. At the next valuation of the Open Fund as at March 2013 the assumptions for previous valuation, in this case the 2010 valuation, will be the starting point, which will need to be considered in the light of changing circumstances.'**

## Chairman's Statement

**Skillfast-UK:** Following the loss of its SSC licence to operate, Skillfast-UK terminated its participation in the Scheme as at 31 March 2010 after it had reached agreement with your Trustees over its prospective buy-out debt to the Scheme. The payment of the vast majority of the debt owed by Skillfast-UK was expedited by way of a compromise agreement with your Trustees.

**JTL:** After taking the decision to terminate its participation in the Scheme as at 31 March 2010 JTL made arrangements with your Trustees to settle in full its buy-out debt to the Scheme, which it did.

### Interim Financial Assessments

An interim assessment is essentially a 'snapshot' of a pension scheme's funding position carried out by the Scheme Actuary in the years between formal valuations of a pension scheme.

The purpose of the annual assessment is to alert trustees and employers to any factors that may have arisen which may affect the long-term liabilities of the pension scheme since the date of their previous formal valuation; for example, changes in interest rates, inflation and market values of investments, as well as mortality.

**Open Fund:** Before embarking on the interim assessment of the Open Fund as at 31 March 2011 it is firstly most important to finalise the 2010 valuation. However, we anticipate being in a position to consider the 2011 interim funding assessment later this year.

**Closed Fund:** The latest interim assessment of the Closed Fund carried out as at 31 March 2010 revealed that the funding level had improved from 104% at 31 March 2009 to 113% as at 31 March 2010 and the Fund's surplus had increased from £8 million to £24 million. Whilst liabilities were greater, there had been higher than expected investment returns and lower than expected pension increases, which had contributed to the funding improvement. The next valuation of the Closed Fund will be as at 31 March 2012.

Traditionally, the Investment Committee together with the Trustees' investment advisers regularly review the investment strategy of the Closed Fund, including the allocation and spread of index-linked gilts, particularly following an actuarial valuation. Following the most recent review we asked our investment advisers to explore ways of increasing the stability of the Closed Fund's funding level by measures such as; increasing the allocation to Index Linked Gilts and investigating an investment in a buy-in policy with an insurance company.

**'An interim assessment is essentially a 'snapshot' of a pension scheme's funding position carried out by the Scheme Actuary in the years between formal valuations of a pension scheme.'**

A buy-in was considered the most favourable investment option for the Closed Fund as an investment of this nature significantly reduces interest rate, inflation and longevity risks associated with the Scheme's liabilities. In practical terms in return for the required premium, the buy-in insurer would pay an agreed amount on agreed dates. The Funds' Office would then seamlessly continue to pay regular pension instalments to pensioners as normal. Although the completion of a buy-in with the chosen provider, the Pension Insurance Corporation (PIC), was concluded post 31 March 2011, I am reporting it here as it is a matter of some importance for the Funds and particularly to Closed Fund members. In proceeding with the buy-in we have taken similar action to the trustees of many other major UK pension schemes who had completed buy-ins over the last few years. Prior to the purchase was the completion of legal due diligence, which served to confirm material facts in relation to the purchase and the evaluation of the financial strength of PIC.

## Governance

The management and administration of the ITB Funds is considered and questioned both internally by the Funds' Office, the Trustees' Management Panel and Trustee Board and in the case of investment and asset liability modelling, by the Trustees' Investment Committee, the Trustees' external Investment Consultants and finally by the full Trustee Board. Moreover, all Trustees have a regular opportunity to raise questions at our regular quarterly meetings which are attended by the Funds' Actuary and the Funds' legal advisers.

Our overall risk management processes seek to enable the early identification, evaluation and effective management of the key risks facing the Funds at an operational level and to operate internal controls to mitigate these risks. The key risks and internal control procedures are regularly reviewed by the Funds' management and form part of the Funds' Office internal audit activities. In addition the Scheme's auditors undertake regular independent reviews of the Funds' risk processes.

### Conflict: Procedures to deal with Trustees' conflicts of interest

In accordance with increasing regulatory requirements we have procedures in place to deal with the situation where a Trustee has a conflict of interest. As part of this process we endeavour to consider each conflict situation separately on its particular facts and how it may conflict with the duties of the Trustee. Where authorisations are granted by the Trustee Board, the scope of any approvals given, or actions taken to attempt to eliminate actual or potential conflict, are recorded in the Trustees' minutes. Our procedures to deal with Trustees' conflicts of interest are regularly reviewed by the Funds' Office, Management Panel, full Trustee Board and external legal advisers.

### Legislation

The relentless pace of change in pension reform has continued under the new Government. The many

changes have included a substantial change in the Annual Allowance. Taking effect from April 2011 the maximum Annual Allowance, which is expressed as a capital value of tax-relievable pension built-up by a member in a Pensions Input Period, has been reduced from £255,000 to £50,000, with any excess subject to an Annual Allowance charge. The Pensions Input Period for the ITB Scheme is from 1 April to 31 March, inclusive.

There has also been a reduction taking effect from April 2012 in the amount of the Lifetime Allowance (LTA), from the current £1.8 million to £1.5 million. To recap the LTA is a limit on the overall pension benefits, expressed in capital value terms, which a

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member can take from a pension scheme tax-efficiently. Broadly speaking the multiple of pension for assessing the LTA value of pensions is 20:1.

The measure of inflation used for working out statutory minimum increases to pensions was also changed by Government. Instead of basing these increases on the Retail Prices Index (RPI), it now uses the Consumer Prices Index (CPI). The Scheme Rules, as they apply to the Open Fund (Old Section) and Closed Fund, specify that deferred pensions and pensions in payment will increase in line with the annual statutory order published by the UK Government. Consequently, those pensions were increased in April 2011 by the annual increase in CPI.

Moreover, at the request of Employers, the Trustees are considering Government plans to abolish the legal right of an employer to retire employees at age 65, the current default retirement age, in April 2011.

## Chairman's Statement

### Communication

Members may be interested to find out more about the ITB Pension Funds and the benefits provided. As part of our information flow to supplement our written communications are the Funds' websites, "itb-online" and "MyITB". With their 24 hour presence they are equipped to resolve many enquiries and provide both general and personal benefit information in a quick and convenient way. Our website facilities extend to active and deferred members and pensioners. We also have a bespoke website dedicated to support Employers.

### Trustees

Collectively, my colleague Trustees bring a wide range of experience and expertise to their board duties. I would especially like to thank them for their strong contributions over this period as we have taken some difficult decisions to work towards a more secure future for the Funds, whilst remaining mindful of balancing members' interests with the increasing pressures on Employers.

I am also indebted to my Trustee colleagues who sit with me on our Management Panel and Investment Committee, especially to my two Deputy Chairmen, Jonathan Swift and David Barnett, who give unstintingly of their time. All of their experience and sound judgement in all matters considered during this demanding year I have found to be of immeasurable benefit and assistance.

### Horace Parker and Alan Ross

It was with great sadness that we had to report during the year the deaths of two of our fellow Trustees.

Our long standing and much valued Trustee colleague, Horace Parker, passed away in December 2010 following illness. Horace served on the Board for almost fourteen years as the Closed Fund Pensioner Trustee and in that time helped steer the Funds through a period of considerable change. His pertinent experience and contribution to discussion will be greatly missed.

Furthermore, we were advised in February of this year of the sudden and unexpected death of Alan Ross, the Employer Trustee for the Scottish Electrical Charitable Training Trust. Although Alan had been a Board member for only one year he had made an important contribution to our debates. He too will be sadly missed.

### Funds' Office Staff

We would not have been able to meet the challenges we have faced during the year as well as we have done without the full support of the Funds' Office staff, under the expert guidance of the Director, Vincent Gordon, who is ably supported by Dennis Matthews and David Faulkner. They have been steadfast through one of the most testing periods in ITB's long history. On behalf of all of my colleagues on the ITB Trustee Board I wish to thank them for their continued support and dedication. I have no doubt we shall be drawing on their skills and commitment when meeting the challenges of 2011/12.

### Outlook

Looking ahead, although optimistic, we remain cautious given that the likely scale and speed of economic recovery remains uncertain, but we recognise we may have to adapt to changing market conditions when continuing to work to secure the successful future of the Funds for all concerned.

Our overriding objective put simply is to ensure the payment of valuable benefits for members that are also sustainable for Employers to provide.



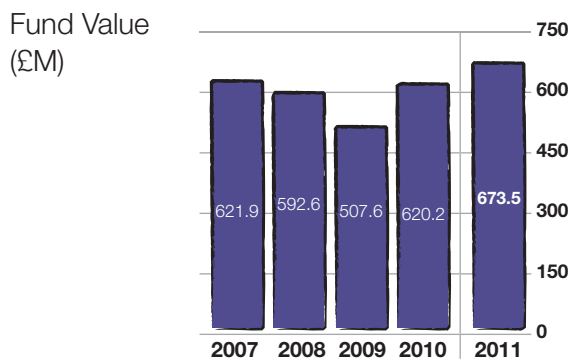
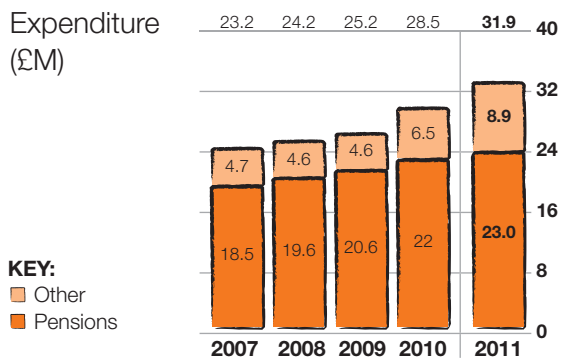
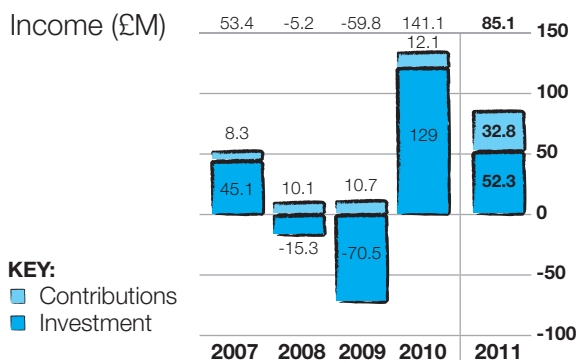
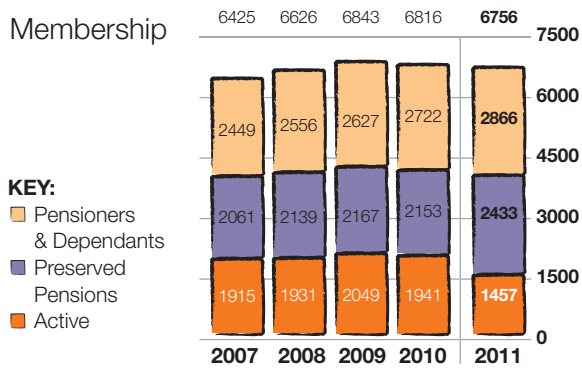
**Peter Rogerson OBE**

Chairman of Trustees - 1 July 2011

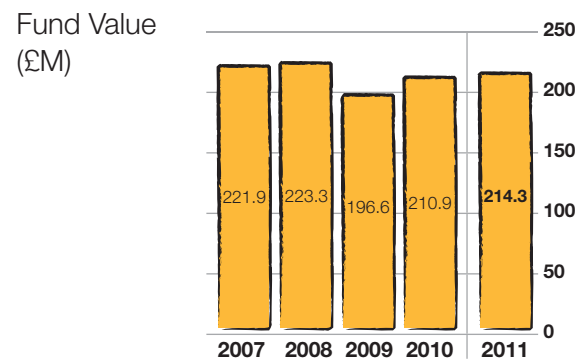
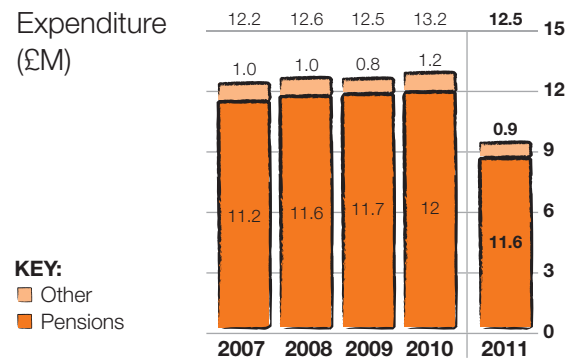
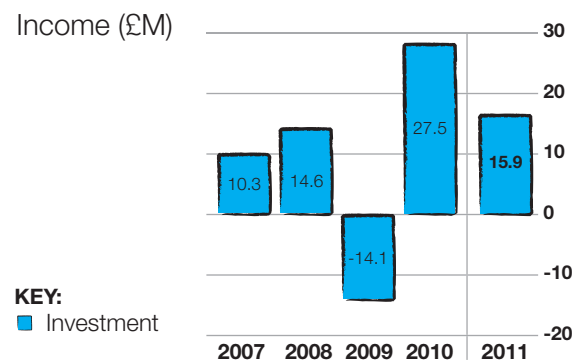
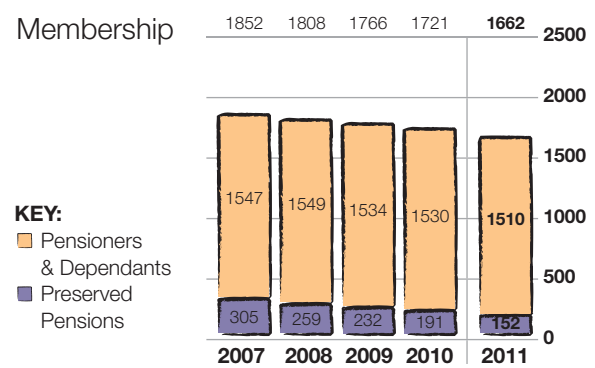


# Five Year Summary

## Open Fund



## Closed Fund



# Board of Trustees

## Employers' Trustees

### Peter Rogerson, OBE (Chairman)

Nominated by:  
ConstructionSkills\*  
(Retired Deputy Chairman of  
CITB-ConstructionSkills)



### Jonathan Swift (Deputy Chairman-Employers)

Nominated by:  
Lantra  
(Deputy Chairman of Lantra)



### Bob Monks

Nominated by:  
Skills for Logistics  
(General Secretary of the  
United Road Transport Union)



### David Birtwistle

Nominated by:  
Science, Engineering and  
Manufacturing Technologies  
Alliance  
(Global Reward Director of GKN plc)



### Tony Pringle

Nominated by:  
Cogent SSC Limited  
(Director of TPPLAST ltd)



### Simon Tarr

Nominated by:  
People 1st  
(Chief Operating Officer for People 1st)



### Jacki Day

Nominated by:  
OPITO Limited  
(Finance Director for OPITO Limited)



### Newell McGuiness

Nominated by:  
Scottish Electrical Charitable  
Training Trust (SECTT),  
CAPITB plc  
(Managing Director of SELECT)




### Terry Lazenby, MBE

Nominated by:  
Engineering Construction ITB  
(Chairman of ECITB)




\*ConstructionSkills is the trading name of Construction ITB

## Members' Trustees



**Lindsay Campbell**

Nominated by:  
People 1st  
(Operations Director – National Skills Academy for Hospitality)  
(Left service 20 May 2011 - New Trustee to be appointed)




**John Edwards**

Nominated by the  
Trade Union 'Unite' for:  
Engineering Construction ITB  
(Regional Account Manager - Engineering Design & Procurement Forum)




**Chris Hall**

Nominated by:  
Skills for Logistics, CAPITB plc,  
Cogent SSC Limited, Scottish Electrical Charitable Training Trust (SECTT)  
(Finance & Administration Director for Skills for Logistics)








**Gillian Black**

Nominated by:  
OPITO Limited  
(Policy Affairs Director for OPITO Limited)





**Mike Harris**

Nominated by the Trade Union 'Unite' for:  
ConstructionSkills\*  
(Training Adviser)  
(Succeeded Peter McCulloch who retired from service on 14 May 2010)




## Pensioners' Trustees



**Madge Moore**

Nominated by:  
Lantra  
(National Director - England for Lantra)

**David Barnett  
(Deputy Chairman-Members)**

Nominated by:  
Open Fund Pensioners  
Previously Road Transport ITB  
(Retired – Formerly Director General of RTITB)



**Reg D'Souza**

Nominated by the Trade Union 'Unite' for:  
Science, Engineering and Manufacturing Technologies Alliance  
(Research Team Leader for Sementa)




**Hugh Edwards**

Nominated by:  
Closed Fund Pensioners  
Previously Road Transport ITB  
(Retired – Formerly Training Assessment Manager RTITB)

# Trusteeship

## Appointment of Trustees

The ITB Pension Funds are controlled by 18 Trustees consisting of nine Employers', seven Members' and two Pensioners' Trustees. Details of the Trustees in office at the year-end are shown on pages 10-11 of this Report.

Of the nine Trustees nominated by Employers, the two Statutory Training Bodies each nominate one Trustee. Of the remaining Employers, the six with the largest average number of contributing Members at 31 December have a right to nominate an Employer Trustee for the three years commencing on the following 1 April (or such shorter period as the Trustee Board may determine), irrespective of annual changes in active membership numbers in the period following appointment. Where an Employer has one or more wholly-owned subsidiaries, those subsidiaries have no right to nominate Trustees, but the members in their employ are added to the Principal Employer's members for qualification purposes. Any successor bodies to a previous Training Board may join together for the purpose of Trustee nomination and, if necessary, tally their combined membership for the purpose of qualification.

The remaining Employers not large enough to appoint a Trustee on their own will co-operate in nominating a Joint Employers' Trustee. However, where the remaining Employers cannot reach agreement over a particular nomination then a nomination by majority vote of those Employers will stand. In the event that there was an equal vote then the largest Employer of the smaller Employer group will have a casting vote. Moreover, if a Larger Employer's participation is terminated then it would be replaced immediately by the largest of the Smaller Employers for the purposes of sole Trustee nomination.

Contributing members employed by each of the six Employers with the largest number of members are entitled to nominate one Trustee each by ballot. The exception to this is where an Employer recognises a Trade Union for the purpose of negotiating terms and conditions of service. The Trade Union concerned then nominates the Trustee.

The members of all remaining Employers elect one further Joint Members' Trustee by ballot.

All Trustees appointed are normally expected to serve a minimum of three years on the Trustee Board, subject to there being no change in any Employers status from Large to Small Employer for the purpose of nominating a Trustee at the next 31 December head-count. If so the period of appointment will come to an end as at following 31 March.

The next member head count date is 31 December 2012. Pensioners and members with preserved pensions who are in the Open Fund also nominate a Trustee by ballot, as do such members in the Closed Fund.

A Trustee may resign at any time and will automatically vacate office if he or she ceases to fulfil the eligibility qualifications. In addition, a Trustee will immediately vacate office upon becoming bankrupt or of unsound mind. The Trustees have the power by resolution to terminate a Trustee's appointment if, in their opinion, the individual concerned has been guilty of misconduct, or is otherwise unfit or unable to carry out his or her duties.

## Changes to the Trustees

### Members' Trustees

Peter McCulloch, the Member Trustee for ConstructionSkills, retired from service on 14 May 2010. He was succeeded by Mike Harris on 2 July 2010 after he had been nominated by the Trade Union 'Unite'.

John Edwards, the Member Trustee for Engineering Construction, retired by rotation on 31 December 2010 and was reappointed to serve a further term from 1 January 2011 by the Trade Union 'Unite'.

Chris Hall, the Joint Members' Trustee for CAPITB plc, Cogent SSC Ltd, Skills for Logistics and Scottish Electrical Charitable Training Trust, retired by rotation on 3 April 2011 and was reappointed to serve a further term from 4 April 2011.

### Pensioner Trustees

The Closed Fund Pensioner Trustee, Horace Parker, unfortunately died following illness on 4 December 2010. Therefore a nomination and ballot process was carried out with Closed Fund members, which resulted in Mr Hugh Edwards being appointed as the Closed Fund Pensioner Trustee on 1 April 2011.

The period of office of the Open Fund Pensioner Trustee, David Barnett, is due to end on 30 September 2011.

### **Employers' Trustees**

Peter Rogerson, the Employer Trustee for ConstructionSkills, retired by rotation on 31 March 2011 and was reappointed to serve a further term from 1 April 2011.

Jonathan Swift, the Employer Trustee for Lantra, retired by rotation on 31 March 2011 and was reappointed to serve a further term from 1 April 2011.

Alan Ross, the Joint Employers' Trustee for SECTT and CAPITB plc, unfortunately died suddenly on 8 February 2011. Under the Rules of the Scheme, SECTT, as the larger of the smaller Employers, was eligible to nominate the Joint Employers' Trustee from their organisation and therefore nominated Mr Newell McGuinness who was appointed on 1 April 2011.

### **Chairman**

The period of office of the Chairman, Peter Rogerson (OBE), is due to end on 31 March 2012.

### **Deputy Chairmen**

The period of office of Jonathan Swift as Deputy Chairman (Employers), is due to end on 13 April 2013.

The period of office of David Barnett as Deputy Chairman (Members), is due to end on 28 February 2013.

### **Trustee Training, Induction and Governance**

All new Trustees undertake an induction programme shortly after becoming a Trustee. The aim of this programme is to introduce new Trustees to the Funds' business, its operations and its governance arrangements. The induction programme includes meetings with the Director and Senior Managers at the Funds' Office in Watford. Upon appointment, new Trustees are issued with personal copies of all of the Funds' key documentation. Also, special arrangements are made for new Trustees to attend training courses arranged by outside providers. In addition, all Trustees regularly undergo a process to

identify their training needs. Based on these assessments relevant training courses are then organised throughout the year, and at least one annual training seminar for all Trustees is organised.

The Funds' Office also maintains a Trustees' 'Register of Interests'. The content of this Register has been updated during the past year to take account of the recent guidance issued by the Pensions Regulator. 'Conflicts of interest' are regarded as a priority area for the Trustees in their governance of the ITB Pension Funds.

The Trustees are committed to maintaining high standards of governance. The Board recognise that they, as Trustees of the ITB Pension Funds, are expected to act to the highest standards of responsibility at all times. A set of governance structures and practices, designed to ensure that the Funds are run responsibly in the best interests of all of the Funds' stakeholders, are therefore in place and are adhered to.

### **Meetings**

A meeting of all the Trustees is normally held at least four times a year where they are presented with detailed information by the Director, the Funds' legal and actuarial advisers and by the authorised sub-committees – the Investment Committee, the Management Panel and the Salaries Committee – serving the Trustees. On these occasions, matters of significance such as those concerning legal, actuarial, investment and administration are discussed and decisions made.

All of the Trustees are aware of the importance of their attendance at meetings.

There was overall 86% attendance at the Trustees' Board meetings.

### **Committees**

The Investment Committee, the Management Panel and the Salaries Committee are formally set up by resolution in accordance with the Rules and have carefully defined remits.

## Trusteeship

Where Members of the various Committees are unable to attend any meeting then agenda matters are addressed with them either in writing or by telephone, both prior to and after the meeting. Where possible any Committee Member who is not able to attend a meeting in person will take part in the meeting by way of a conference telephone call.

### Investment Committee

The Investment Committee's remit covers the financial and investment aspects of the Funds. They are assisted as appropriate in these roles by the Trustees' investment and other professional advisers.

The Investment Committee has at least five scheduled meetings during the year plus a number of other supplementary meetings as necessary.

During the Scheme year to 31 March 2011 the Investment Committee comprised four Trustees.

The members were:

Mr PG Rogerson OBE	Chairman
Mr JF Swift	Deputy Chairman (Employers)
Mr DC Barnett	Deputy Chairman (Members)
Mr SCV Tarr	Employer Trustee

There was overall 95% attendance at the Investment Committee meetings.

In addition to the formal members of the Investment Committee, an invited Trustee also attends meetings to both contribute and improve their knowledge and understanding.

### Management Panel

The Management Panel is a committee established by the Trustees to carry out research and investigation into pension matters not dealt with by the Investment Committee, making appropriate recommendations to the Trustee board where necessary. They are assisted as appropriate in these roles by the Trustees' professional advisers. The Management Panel meets as and when necessary.

During the year to 31 March 2011 the Management Panel comprised three Trustees. The members were:

Mr PG Rogerson OBE	Chairman
Mr JF Swift	Deputy Chairman (Employers)
Mr DC Barnett	Deputy Chairman (Members)

There was overall 100% attendance at the Management Panel meetings.

In addition to the formal members of the Management Panel, an invited Trustee frequently attends meetings to both contribute and improve their knowledge and understanding.

### Salaries Committee

The Salaries Committee was established by the Trustees to deal with Human Resource issues affecting staff employed by the ITB Pension Funds on behalf of the Trustees. The Salaries Committee meets as and when required.

During the year to 31 March 2011 the members of the Committee were:

Mr PG Rogerson OBE	Chairman
Mr JF Swift	Deputy Chairman (Employers)

There was overall 100% attendance at the Salaries Committee meetings.

## Officers and Advisers

### Officers

<b>Director</b>	Vincent Gordon FPMI
<b>Accountant</b>	Dave Faulkner FCA
<b>Communications &amp; Benefits Manager</b>	Dennis Matthews APMI

### Advisers

<b>Actuary</b>	Government Actuary
<b>Solicitors</b>	Mayer Brown International LLP
<b>Investment Managers</b>	AXA Rosenberg Investment Management Limited (terminated April 2010)
	BlackRock Advisors (UK) Limited
	BNY Mellon Asset Management
	Henderson Global Investors Limited
	Insight Investment
	Investec Asset Management
	Liongate Capital Management
	Longview Partners LP
	Ruffer LLP
	Schroder Investment Management (UK) Limited
	Stenham Asset Management
	Wegelin & Co (terminated August 2010)
<b>Property Investment Managers</b>	Fletcher King
<b>Investment Advisers</b>	BNY Mellon Asset Servicing
	Lane Clark & Peacock LLP
<b>Custodians</b>	BlackRock Advisors (UK) Limited
	JP Morgan Chase Bank
	Universal Pension Trustees Limited
	ITB Pension Trustees (1) Limited
	ITB Pension Trustees (2) Limited
<b>Auditor</b>	Chantrey Vellacott DFK LLP



**Vincent Gordon**



**Dave Faulkner**



**Dennis Matthews**

## Participating Employers

The Participating Employers comprise two Statutory Training Boards and eight Companies, which are in the main commercial enterprises and, along with their wholly-owned subsidiaries, are the Successor Bodies that have replaced former Statutory Training Boards.

During the year CAPITB plc merged RTITB into its operations. RTITB had been previously recorded as a subsidiary of CAPITB plc.

The Participating Employers at the Scheme year-end, each of which must be a Statutory Training Board or a Successor Body to a Training Board, are shown opposite:

- ✓ Education
- ✓ Training
- ✓ Knowledge
- ✓ Safety
- ✓ Skills
- ✓ Responsibility
- ✓ Excellence

### **CAPITB plc**

#### **Cogent SSC Limited**

Participating Subsidiary:

Cogent (Telford) Limited

#### **ConstructionSkills\***

#### **Engineering Construction ITB**

#### **Lantra**

#### **OPITO Limited**

#### **People 1st**

Participating Subsidiary:

National Skills Academy for Hospitality (NSAH)

#### **Science, Engineering and Manufacturing Technologies Alliance**

Participating Subsidiaries:

EMTA Awards Limited

Metals Industry Skills and Performance Limited (MetSkill)

Training Publications Limited

National Skills Academy for Manufacturing (NSAM)

#### **Scottish Electrical Charitable Training Trust**

#### **Skills for Logistics**

\* ConstructionSkills is the trading name of Construction ITB



## Review of Principal Activities

**Described below are a number of the most significant developments and initiatives that have influenced the activities of the ITB Pension Funds during the course of the year.**

### **Open Fund Actuarial Valuation**

The results of the formal triennial valuation of the Open Fund, carried out as at 31 March 2010, were announced to the Scheme during the Scheme Year and further details are provided under the Actuarial Section of this Report.

Under the requirements of the Pensions Act 2004, the Trustees, in conjunction with their advisers, undertook an in-depth review of the methodology and assumptions to be used for the valuation, acknowledging the Pensions Regulator's requirement that the Scheme's liabilities must be calculated on a prudent basis.

As anticipated following the interim assessment of Scheme carried out by the Scheme Actuary as at 31 March 2009, the results of this latest valuation revealed the Fund to be in a deficit position.

The actuarial methods and assumptions for the valuation have been agreed with Employers in a Statement of Funding Principles (SIPS). The Trustees' priority is now reaching agreement with all Employers on a Deficit Recovery Plan and Schedule of Contributions to eliminate the deficit within a set period, consistent with not damaging the prospects for otherwise viable sponsoring Employers. Given the impact the Scheme's deficit funding requirements can have on the businesses of the Participating Employers, it is important for the Trustees to establish that they have a clear understanding of the finances of Employers business operations. To achieve this outcome the Trustees are taking account of work done by their advisers in assessing affordability to Employers.

### **Employer Covenant**

The Pensions Act 2004 requires Trustees to perform regular reviews of the financial strengths and capabilities of the Participating Employers to ensure they are able to fulfil their legal and financial

obligations to the Scheme; put short, the Employer Covenant. The Pensions Regulator's 'Code of Practice' also emphasises the importance of such investigations. To manage this requirement the Trustees have measures in place with their advisers and with the support of the Employers, to receive regular updates of individual Employer's financial positions and prospects, in addition to the more rigorous financial analysis which is performed annually. This work proves invaluable when the Scheme has a deficit to contend with, as the information is of great assistance to the Trustees in setting both achievable funding policies and in formulating individually tailored deficit recovery plans for the Employers.

### **Employer Terminations**

Matters concerning the termination of 3 Employers, PIETT, JTL and Skillfast-UK, have continued to require a sizeable investment of time and application this year.

PIETT has been the most time consuming. Although its participation in the Scheme terminated a number of years ago, the company went into liquidation and only now, after considerable effort, have the Trustees received a payment from the liquidators in part settlement of the company's debt owed to the Scheme.

JTL terminated its participation on 31 March 2010 and fully discharged its financial obligations to the Scheme during the year. In dealing with the practical administration aspects of JTL's withdrawal their employees who were members of the Scheme at the time they withdrew from participation either became deferred members or pensioners of the ITB Scheme.

Skillfast-UK terminated its participation in the Scheme on 31 March 2010, after losing its licence to operate. The company reached agreement with the Trustees to discharge its debt to the Scheme and funds in settlement of its buy-out debt were received by the Trustees during the year. As with JTL the employees of Skillfast-UK, who were members of the Scheme at the time they withdrew from participation, either became deferred members or pensioners of the ITB Scheme.

## Review of Principal Activities

### Open Fund Flexibility

The Open Fund is currently comprised of three Sections; the Old, New and 2007 Sections, where benefits are based on members' length of service and final salary, typically averaged over one, three or six years salary.

As reported in the 2010 Trustees' Report, in recognising the effect that the increasing cost of defined benefit (final salary) pension provision was having on Employers' businesses, the Trustees agreed to a request from Employers for rule changes to the Open Fund that would allow Employers to move their Old and New Section members to the 2007 Section to earn pension benefits for future service, if they felt this was necessary. In doing so Employers are able to adopt what they regard as a more sustainable approach to the delivery of pension provision and also to share the future pension cost with members.

The subsequent programme of change carried out by Employers during the year in relation to future service pension provision heavily involved the Funds' Office in the various aspects of these activities, particularly communications and calculation and web software developments. Data migration was another important factor, which entailed converting member records from the Old and New Sections to the 2007 Section, yet integrally retaining Old and New Section pension built-up to the date of the change.

### Closed Fund

It remains a challenging UK pension environment, even for the Closed Fund. During the inter-valuation period to 31 March 2009 the funding level decreased from 121% at 31 March 2006 to 104% at 31 March 2009, principally as a result of the investment return on the Fund's assets being less than expected over the intervalation period. The decrease in yields on Gilts, which represents the vast majority of the Scheme assets, increases both the market value of the index-linked gilts held and the value placed on the Fund's liabilities. The remaining assets, invested in return seeking investments (such as equities), also performed below expectation over the period to the date of the last valuation.

The decrease in the funding level since the previous valuation illustrates the risks to which the Fund remains exposed. As normal following a valuation the Trustees review the Fund's investment strategy and consider options for reducing the financial risks to which the Fund is exposed. Recently, the Trustees analysed the costs and benefits of insuring Closed Fund liabilities through a buy-in. This is an option designed to offset investment risk, whereby the external provider would pay an agreed amount on agreed dates in return for the required premium. More about this is reported in the Chairman's Statement.

The next formal actuarial valuation of the Fund is due as at 31 March 2012. The results of the interim annual actuarial assessment of the Closed Fund as at 31 March 2010 are provided elsewhere in this Report under Summary Funding Statements. The Summary Funding Statement for the Closed Fund has been previously placed on the Funds' website [www.itb-online.co.uk](http://www.itb-online.co.uk).

### Legislative & Regulatory Changes

The UK pension industry generally faces a challenging time ahead in keeping abreast of legislation and the continuing flow of regulations and guidance from the Pensions Regulator, which can only be expected to increase in the coming years. Looking ahead it promises to be a very intensive time for the pensions industry as the timetable for change stretches beyond 2013 and includes:

**Annual Allowance (AA) and Lifetime Allowance (LTA):** Perhaps the two most significant legislative changes affecting members during the year have been those that may impact higher earners, following the Government's amendments to the amounts of the Annual Allowance (AA) and the Lifetime Allowance (LTA).

Commencing April 2011 the AA, which is the maximum tax-free increase in the value of a member's pension that is allowed in a Pensions Input Period, is reduced from £255,000 to £50,000. The Pensions Input Period for the Open Fund is April to March inclusive, coincident with the Scheme year.

Moreover, commencing 6 April 2012, the LTA is reduced from £1.8m to £1.5m. This will be the revised amount of maximum pension benefits, expressed as a capital value, which can be earned before taxation of any excess over the LTA.

Importantly, both the revised AA and LTA apply to pension earned from all registered sources and not just pension from the ITB Scheme. The HMRC requires that the LTA for those members who may have pensions in payment and have yet to commence receipt of pension from other sources, must have their total pension benefits assessed to establish if tax is payable on any excess. Broadly, this requires a capital value to be placed on the value of a member's pension, calculated on the basis of 20:1 and any tax free cash taken at retirement. Additional Voluntary Contributions (AVCs) or other pensions also need to be taken into account for the purpose of determining the measure of the total value of pension benefits against the LTA.

The new limitations involve complex rules and calculations that necessitate further administrative, communication and software work and the Funds' Office is working with their pension software developers to cater for informing members of the increase in their AA. Generally, for defined benefit schemes like the ITB Open Fund, the AA calculation requires the increase in pension in the Scheme year to be capitalised at 16:1 for the purpose of assessing any excess in the AA and its taxation implications. The HMRC does however have provisions in place that allow the bringing forward of any unused tax relief, up to an overall maximum of £50,000, from three earlier tax years. Generally, where an excess pension is realised then the amount of tax due on the excess will be converted into pension and deducted from the member's pension when drawn.

Intrinsically, to exceed the AA level of £50,000 it will require an increase in the value of a pension of currently £3,125 pa earned in a Scheme year. Additional payments by a member into AVCs, or other pension arrangements outside the Scheme,

will add to and further complicate the calculation of the AA.

Due to the complexity of the operation of the LTA and AA limitations members who feel they could exceed the new limitations may wish to seek professional advice from a suitably qualified independent financial adviser.

**Auto-enrolment:** the Government announced its decision to move forward with auto-enrolment and NEST (the National Employment Savings Trust), which will involve employers in new duties. Although the new duties come in from 1 October 2012, individual employers' own duties will be introduced gradually over the following four years and will be based on the size of the employer, typically by PAYE size and will require employers to auto-enrol nearly all their employees into a pension scheme and contribute to that scheme. Alternatively, employees may be registered in NEST, the new trust-based occupational pension scheme, which is in the process of being set up to help employers comply with their auto-enrolment obligations.

An eligible worker is an employee aged between 22 and state pension age and earning above the income tax personal allowance (£7,475 in 2011/12). Contributions become payable on earnings over the National Insurance primary threshold (£7,228 in 2011/12).

**Default Retirement Age:** The Government announced plans to abolish the legal right of an employer to retire employees at age 65, the current default retirement age, in April 2011. Consequently, Employers will no longer be able to automatically terminate service at normal retirement age.

#### Internal controls

The management of risk is a high priority for the Funds and the way in which the business of the Funds is conducted. In common with many pension funds, the ITB Funds are exposed to a range of risks. Some of these risks are an inherent part of the Funds' operations, such as investment of the Funds' assets and the Trustees' energies are focused on

## Review of Principal Activities

managing this risk, as opposed to eliminating it. The Funds' are also subject to regulatory and compliance risk which is actively managed.

There is a continuing process for identifying, evaluating and managing the risks faced by the Funds and the operational effectiveness of the related controls, which are regularly reviewed and independently audited. The Trustee board reviews annually, as a minimum, the risk management process and its implementation.

### Optimising performance

The Funds' Office small in-house team of staff is committed to achieving high standards of operational performance across all of the Funds' activities.

The ideal of continuous improvement features high on the Funds' Office agenda and is incorporated into the Funds' Office strategic and operational thinking. Following a formal review and assessment by the awarding body, the Funds' Office has retained its 'Investor in People' (IIP) accreditation that was first attained in November 2004 and subsequently renewed in 2007. Further credit was given in the 2010 review report, which recognised the real commitment from the top to ensure that staff are fully trained and educated in the business of pensions. It concluded in a very positive report, continuing the standard set at the previous review.

### Investment

Pension Fund investment is long term to meet the long term liabilities of the Funds. The Trustees' objectives as applicable to the Open Fund and the reserve assets of the Closed Fund include: the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with ongoing contributions from members and Employers, the cost of current and future benefits and to limit the risk of the assets failing to meet the liabilities over the long term. Bearing this principle in mind the Fund's maintain a diversification strategy for both the Open and Closed Funds.

On an ongoing basis Investment Managers' performances (against previously set targets) are monitored against an appropriate pre-determined benchmark and target, with several formal reviews held throughout the year by the Investment Committee. Should a Manager be found to be underperforming, they will be interviewed to ascertain the reasons and to confirm whether it is felt that the situation is likely to persist and the Trustees need to take remedial action.

The investment strategy of the Open Fund was not changed during the year, but triggers are in place which, when reached, will lead to a movement of assets thus resulting in a further reduction of risk.

The Statement of Investment Principles (SIPs) sets out the policy for the type of investments to be held within both the Open and Closed Funds and the balance between different types of investments. The SIPs are regularly reviewed. The full version of SIPs can be viewed by accessing the ITB website on [www.itb-online.co.uk](http://www.itb-online.co.uk) or obtained by requesting a copy from the Funds' Office.

### WEB

The web plays a central role in allowing the Funds to communicate with members. The ITB-online site ([www.itb-online.co.uk](http://www.itb-online.co.uk)) contains general information and documentation, such as Membership Booklets and Trustees' Reports. Moreover, pension modelling facilities are available on [www.myitb.com](http://www.myitb.com), allowing members to produce up-to-date benefits statements and to project estimated values of their pension and cash benefits into the future, combined, if required, with the benefits of paying Additional Voluntary Contributions (AVCs) on a 'what if' basis. There is high security attached to the web facilities in order to protect the integrity of member information.

Employers too have their own password protected version of the ITB-online site in order to provide quick and convenient access to various forms and information for conducting day to day business with the Funds' Office.

Trustees also have a site that allows them to carry out the duties they perform for the Fund.

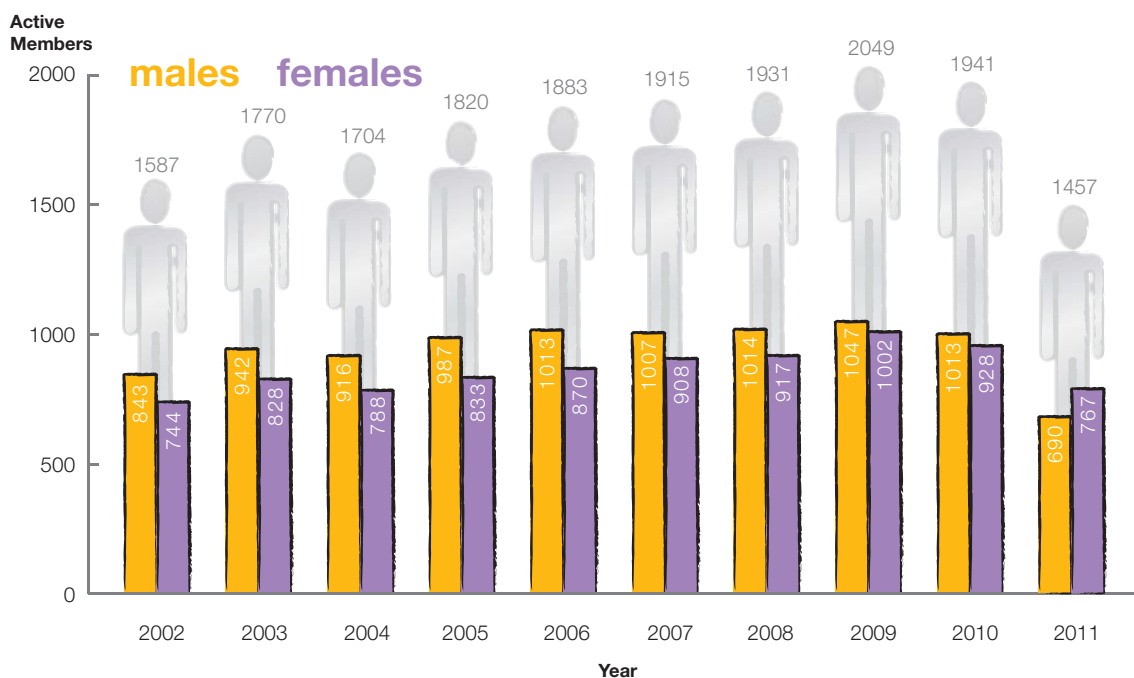
# Membership

The ITB Pension Funds consists of two separate Funds, the Open Fund and the Closed Fund.

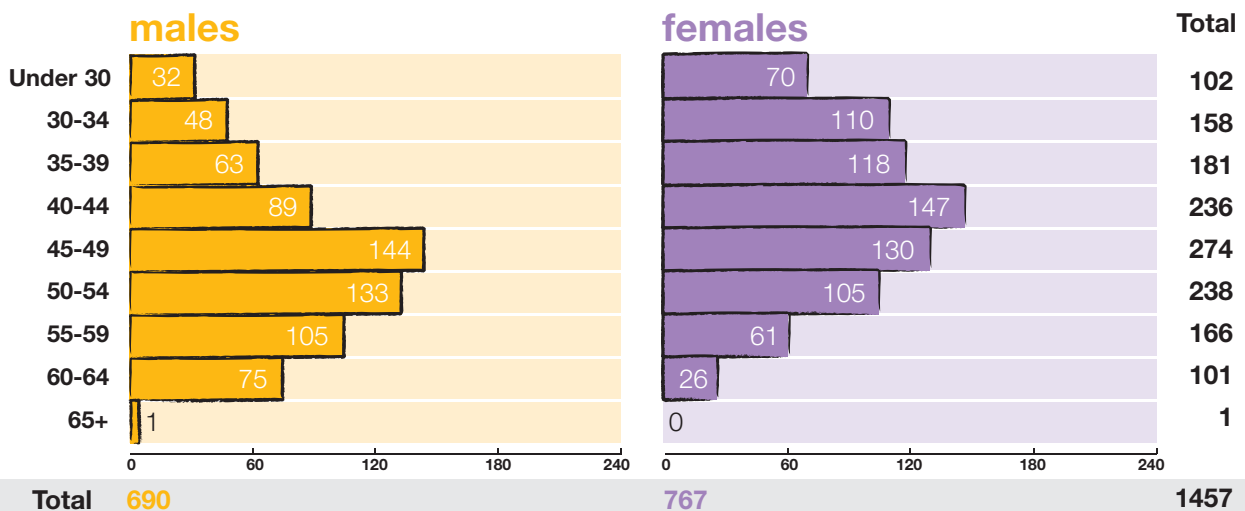
## Active Members - Open Fund

All active members are either in the "Old", "New" or "2007" Sections of the Open Fund. Over the past year the Open Fund has seen a decrease in its active membership, principally as a result of JTL and Skillfast-UK terminating their participation in the Scheme. The reduction in membership was supplemented as a consequence of various organisational changes undertaken during the year by some of the Participating Employers.

Chart 1



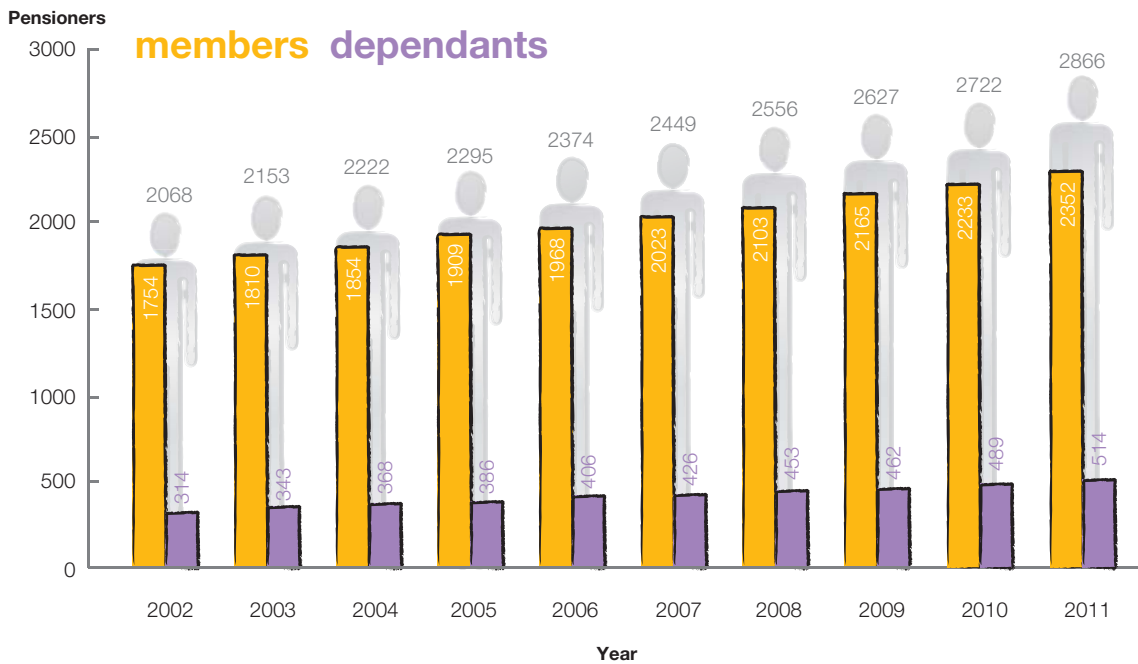
The age structure of the contributing members at 31 March 2011 was as follows:



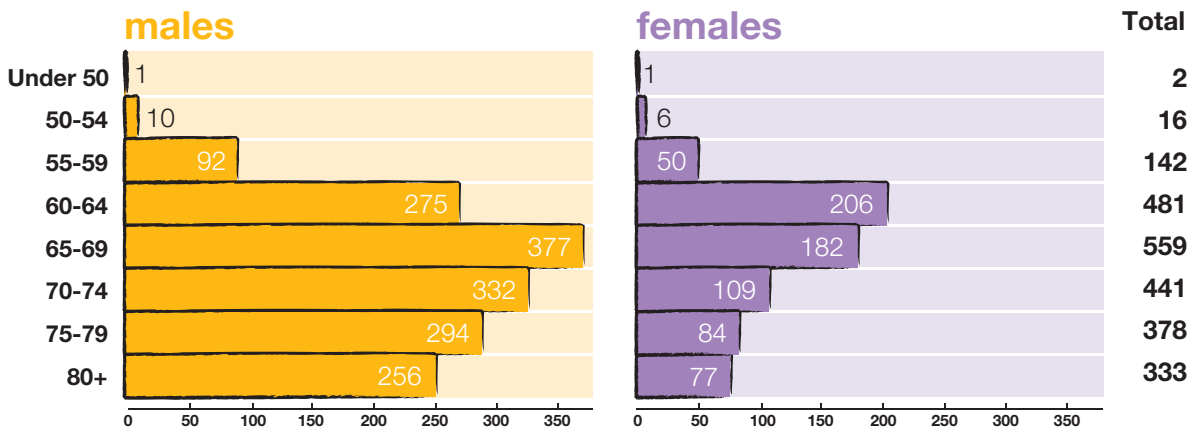
## Pensioners - Open Fund

Continuing the trend from previous years the Open Fund has seen a steady increase in the number of pensioners. Pensioners are either members or dependants and the number in each category is shown below.

Chart 2



The age structure of pensioners in the Open Fund as at 31 March 2011 is shown below. The benefits paid to the pensioners cover early, normal, late retirement, compulsory and disability retirement.

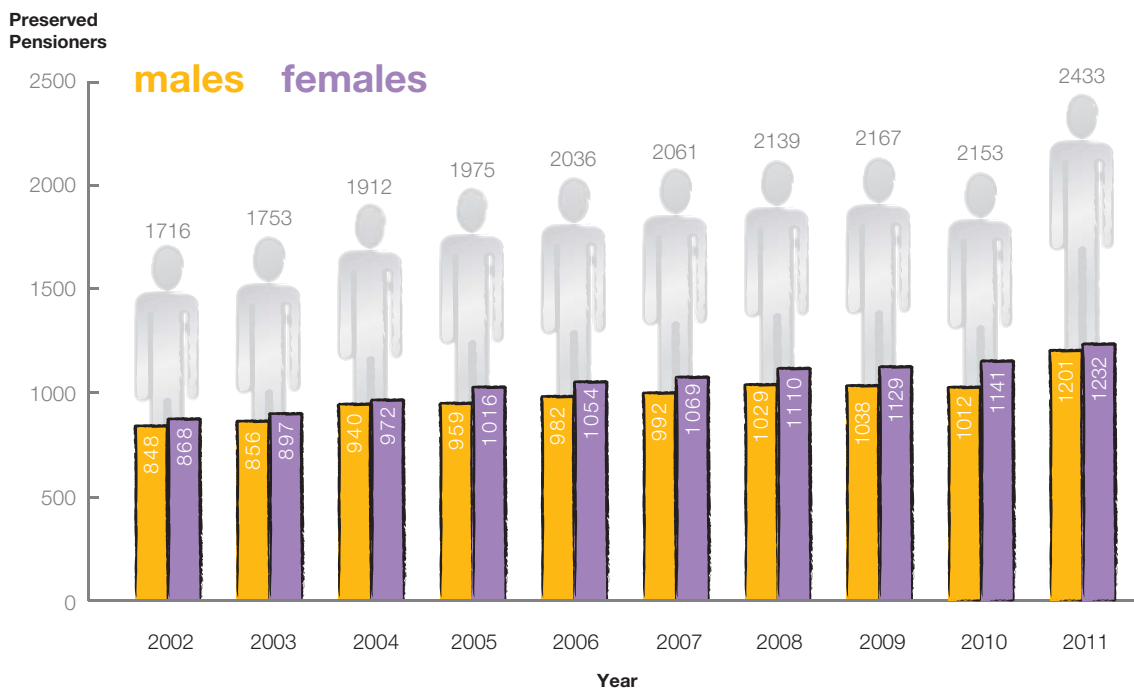


<b>Sub-total</b>	<b>1637</b>	<b>715</b>	<b>2352</b>
<b>Dependants</b>	<b>61</b>	<b>453</b>	<b>514</b>
<b>Total</b>	<b>1698</b>	<b>1168</b>	<b>2866</b>

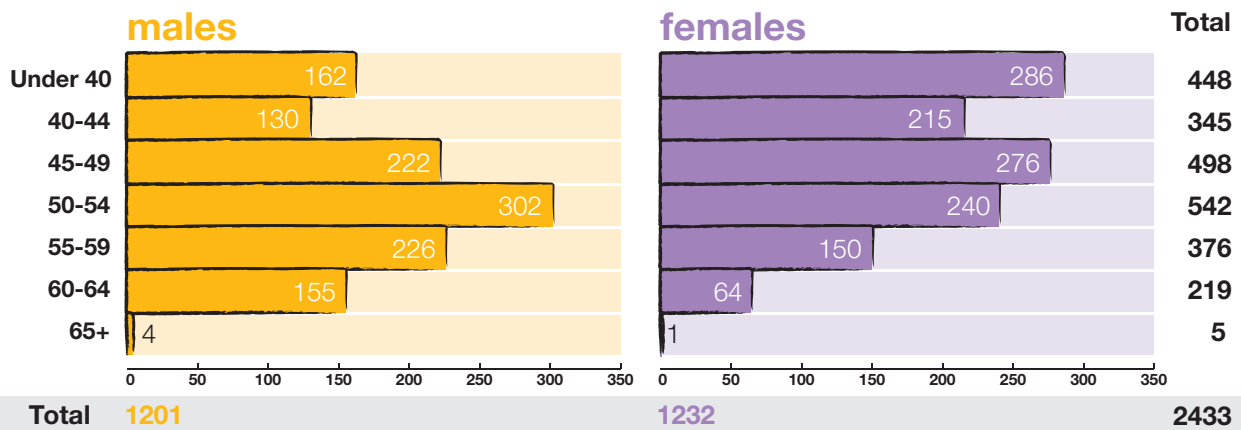
## Preserved - Open Fund

The number of preserved pensioners in the Open Fund as at 31 March 2011 is shown below. Preserved pensioners (also sometimes referred to as deferred pensioners) are members who have left service, but still hold a benefit within the Open Fund which will become payable on their retirement date or death. The Open Fund has seen an increase in its number of preserved pensioner's over the past year, primarily as a result of JTL and Skillfast-UK terminating their participation in the Scheme.

Chart 3



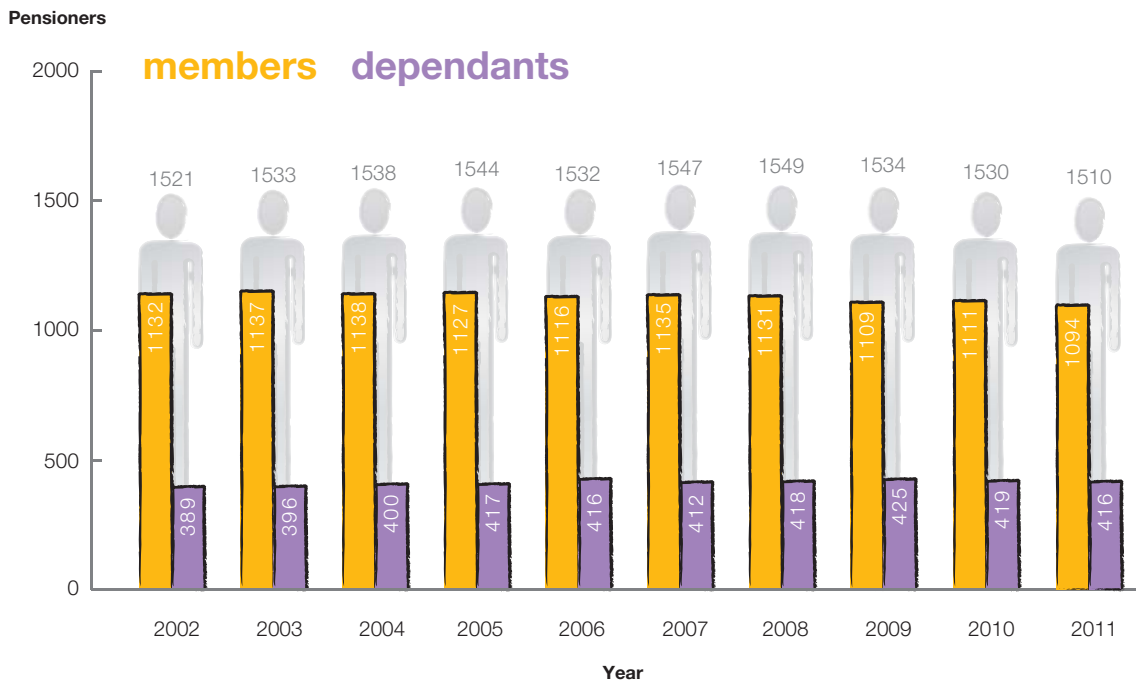
The age structure of preserved pensioners in the Open Fund as at 31 March 2011 is as follows:



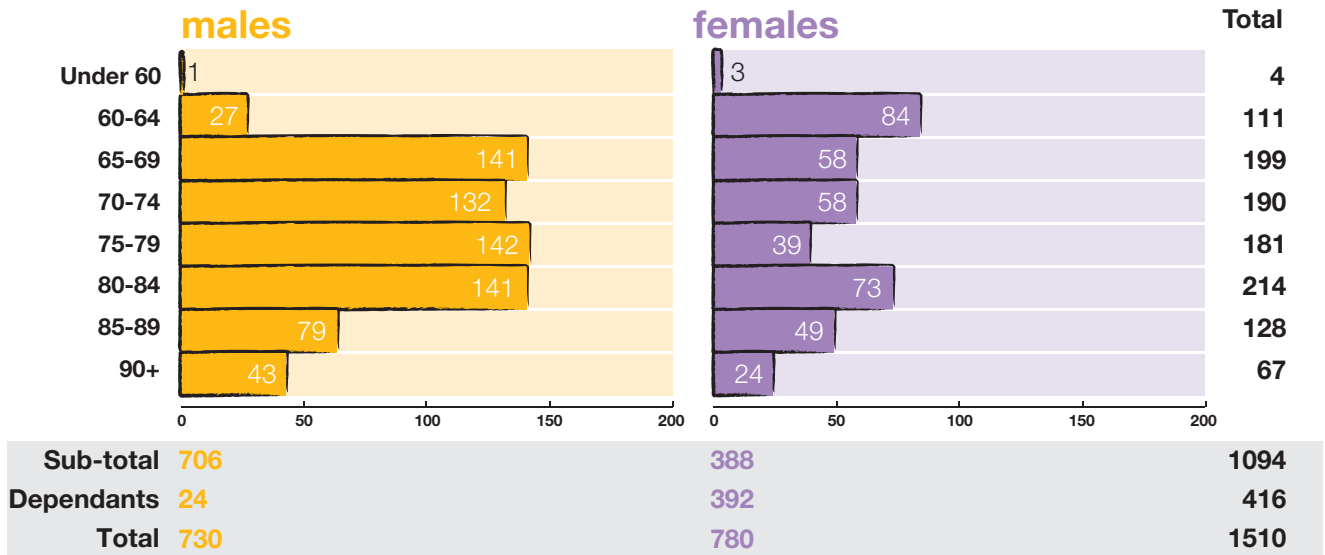
## Pensioners - Closed Fund

The Closed Fund was established in April 1983 after the Government had dissolved 16 Training Boards. Membership of the Closed Fund is fixed by a Memorandum of Agreement. There are no active members in the Closed Fund, it consists only of pensioners, dependants and preserved pensions. The Closed Fund membership has remained fairly static.

Chart 4



The age structure in the Closed Fund as at 31 March 2011 is shown below:

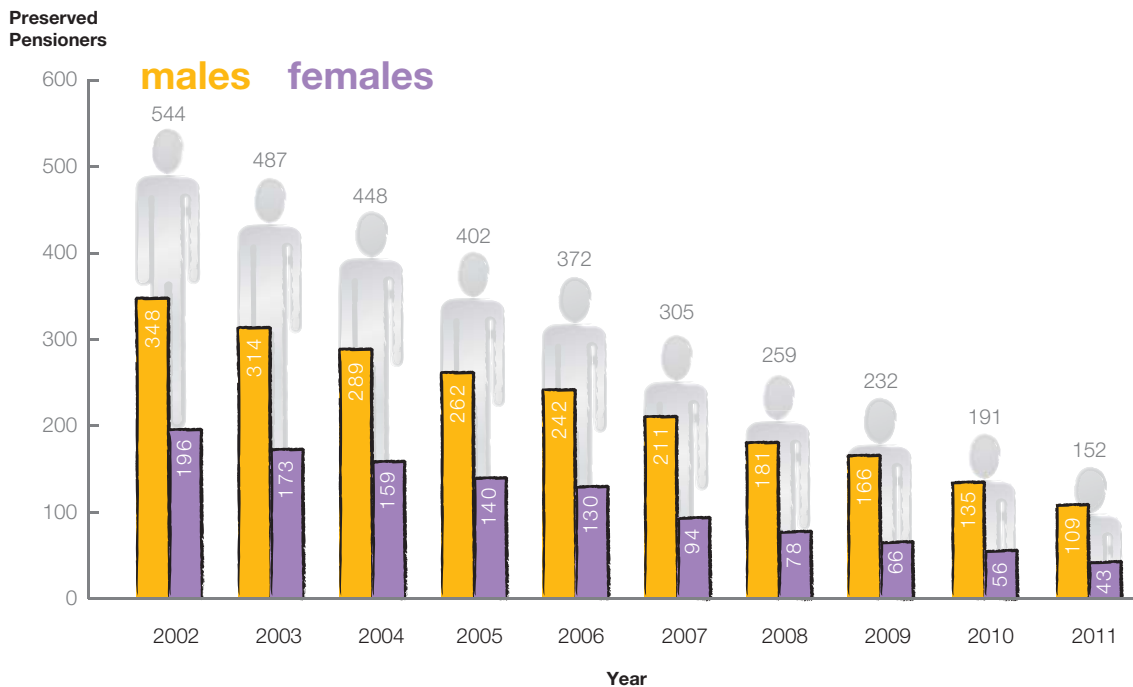




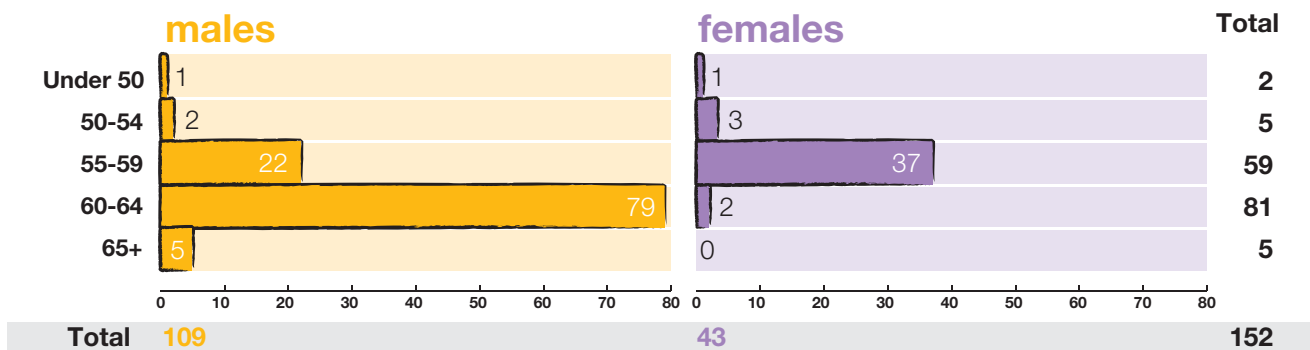
## Preserved - Closed Fund

The number of preserved pensioners in the Closed Fund as at 31 March 2011 is shown below. Preserved pensioners (also sometimes referred to as deferred pensioners) are members who have left service, but still hold a benefit within the Closed Fund which will become payable on their retirement or death. The number of preserved pensioners in the Closed Fund will continue to decline as their pensions come into payment.

Chart 5



The age structure of preserved pensioners in the Closed Fund as at 31 March 2011 is as follows:



## Increases in Pensions

### Open Fund (Old Section) and Closed Fund

The Rules require pensions to be increased as if they were 'official pensions' to which the Pensions (Increase) Act 1971 applied (since incorporated into s59 Social Security Pensions Act 1975).

As was reported in the 2010 ITB Trustees' Report and Financial Statements, the government announced that they were intending to change the basis for measuring inflation, for pension increase purposes, from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The increases are made in accordance with up-rating orders issued by the government each year, stating the percentage rate of increase for that year, based on the rise in the "general level of prices". The legislation leaves it to the Secretary of State to decide what the appropriate inflation measure is for this purpose from time to time. The Secretary of State has now decided that the CPI is a more appropriate measure of inflation than the RPI.

The annual up-rating orders must be laid before parliament before they take effect. The order for this year completed the parliamentary process on 17 March 2011.

The order, which took effect on 11 April 2011, states that the increase will be 3.1%. Because the Rules as they apply to Open Fund (Old Section) members and Closed Fund members require pensions to be increased as if they were official pensions to which the Pensions (Increase) Act 1971, this is the rate which applies.

As before, the increases commence on the first Monday after 6 April each year.

### Open Fund New and 2007 Sections

Under the Rules of the Open Fund New and 2007 Sections pensions are increased in line with the annual increase in the Retail Price Index (RPI), subject to a maximum increase cap as described for the New and 2007 Sections in the table below. Increases commence on the first Monday after 6 April each year.

	<b>Closed Fund &amp; Open Fund (Old Section)</b>	<b>Open Fund (New Section) &amp; Open Fund (2007 Section)</b>	<b>The State</b>
Before State Pension Age the Scheme increases total pension by:	In line with annual up-rating orders issued by the government	*RPI subject to a maximum in one year of: 5% for pensions accrued prior to 6 April 2005 and 2.5% for pensions accrued thereafter.	Nil
After State Pension Age the Scheme increases Excess over **GMP by:	In line with annual up-rating orders issued by the government	*RPI subject to a maximum in any one year of: 5% for pensions accrued prior to 6 April 2005 and 2.5% for pensions accrued thereafter.	Nil
For **GMP accrued between: 6 April 1978 to 5 April 1988 by:	Nil	Nil	In line with annual up-rating orders issued by the government
6 April 1988 to 5 April 1997 by:	Lesser of 3% and the annual up-rating orders issued by the government	Lesser of 3% and the annual up-rating orders issued by the government	Excess of the annual up-rating orders issued by the government

### 10 year pension increase history

<b>Date of Increase</b>	<b>Increase %</b>
8 April 2002	1.7
7 April 2003	1.7
12 April 2004	2.8
11 April 2005	3.1
10 April 2006	2.7
9 April 2007	3.6
7 April 2008	3.9
6 April 2009	5.0
12 April 2010	0.0
11 April 2011	3.1

### Preserved Pensions – Increase Methods (All ITB Scheme Sections)

The methods by which any annual increases to preserved pensions currently apply are shown below in the following table:

	<b>Closed Fund &amp; Open Fund (Old Section)</b>	<b>Open Fund (New Section) &amp; Open Fund (2007 Section)</b>
Pensions accrued before 6 April 2009:	In line with annual up-rating orders issued by the government	Increased in line with the lower of the accumulated rise in the RPI and 5% pa compound
Pensions accrued on or after 6 April 2009:	In line with annual up-rating orders issued by the government	Increased in line with the lower of the accumulated rise in the RPI and 2.5% pa compound

### Contracting out

From 6 April 1978 all members of the ITB Pension Funds were contracted-out of the Second Tier of the State Pension, known as the State Second Pension (S2P formerly called SERPS), up to 5 April 1997.

A requirement of contracting-out was that an occupational pension scheme had to provide its members with pension benefits which were broadly equivalent to the S2P pension that members would have accrued had they not been contracted-out. This was called a Guaranteed Minimum Pension (GMP). GMPs do not accrue for post 5 April 1997 pensionable service, but members remain contracted-out and still receive benefits broadly equivalent to the S2P pension based on the benefits set out under the statutory standard Reference Scheme (The Reference Scheme Test).

On attaining State Pension Age, members are advised by the Department of Work and Pensions (DWP) of the amount of the GMP that will be paid by the Funds as part of their total pension. The Department will also confirm that subsequent cost of living increases on the GMP will be payable by the Department by making the necessary addition to members' basic State Pensions. Spouses' GMPs are inflation protected by the State, irrespective of age.

## Transfer of Benefits

The policy of the Trustees in relation to transfer payments when a member of the Funds leaves Pensionable Service has always been that such a payment should be available, provided that after the transfer has been concluded the Funds should retain no further liability.

Members have a statutory right to request a statement of transfer value once every 12 months. The Pension Schemes Act 1993 gives members who have left the Funds a statutory right to a transfer value in respect of their accrued benefits, which must be calculated according to the regulations made under the Act.

Such transfer values can be paid to the occupational pension plan of the member's new employer, to a personal pension scheme, or into an insurance company pension policy.

Members who leave service and are granted a preserved pension may therefore elect to have their benefits transferred to another pension plan, or to an insurance pension policy, at any time thereafter, subject to the transfer being completed no less than one year before Normal Retirement Date.

All transfer values paid during the year were calculated

and verified in the manner prescribed under the regulations and made no allowance for discretionary benefits.

The rights granted to members either by Statute or by the Rules do not extend to members who have already started to receive a pension. However, there is an exception to this where a Pension Sharing Order is implemented following divorce proceedings as a transfer amount may be paid to a divorcing spouse with the member's pension being reduced accordingly.

In common with many other pension schemes the Trustees no longer accept transfers-in to the Open Fund because of concerns about the exposure to additional liabilities.

Legislation requires cash equivalent transfer values to be at least equivalent to the value of the benefits given up while Scheme funding levels allow this.

The Trustees, along with the Funds' Actuary, are currently reviewing the way cash equivalents are calculated to ensure that they remain consistent with legislative requirements and continue to reflect the expected cost to the Scheme of providing the benefits being valued.

# Actuarial Certificates

## Closed Fund

### Schedule of Contributions

This schedule of contributions has been prepared by the Trustees, after obtaining the advice of Trevor Llanwarne, the actuary to the scheme.

### **CONTRIBUTIONS TO BE PAID TOWARDS THE SCHEME FROM 1 APRIL 2009 to 31 MARCH 2015**

#### **Name of Scheme:**

#### **The ITB Pension Funds – The Closed Fund**

For each month after 1 April 2009, the following contributions will be paid:

By the Employers: **Nil**

There are no active members and so no member contributions will be paid.

No contributions are required from the Employers in respect of administration expenses or the PPF levy.

This schedule may be revised from time to time where the revisions are agreed between the Trustees and the Employers, for example at a subsequent actuarial valuation.

### **Actuary's Certification of Schedule of Contributions**

#### **Name of Scheme:**

#### **The ITB Pension Funds – The Closed Fund**

#### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to continue to be met for the period for which the schedule is to be in force.
2. I also certify that any rates of contributions forming part of this schedule which the scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

#### **Adherence to Statement of Funding Principles**

3. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 9 October 2009.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Trevor Llanwarne (Fellow of the Institute of Actuaries)  
Government Actuary's Department  
Finlaison House  
15-17 Furnival Street  
London EC4A 1AB

12 February 2010

# Actuarial Certificates

## Open Fund

### Actuarial Certificate - Schedule of Contributions

#### Name of Scheme:

#### The ITB Pension Funds – The Open Fund

#### Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions\* are such that the Statutory Funding Objective can be expected to continue to be met for the period for which the schedule is to be in force.
2. I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had the responsibility of preparing or revising the schedule, the Statement of Funding Principles and any recovery plan.

#### Adherence to Statement of Funding Principles

3. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 12 October 2007.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

C D Daykin FIA

Government Actuary's Department

Finlaison House

15-17 Furnival Street

London EC4A 1AB

10 March 2008

*\*The Schedule of Contributions referred to in this certificate is available on request.*

# Summary Funding Statements

## The ITB Pension Funds (Open Fund): Summary Funding Statement for Period ending 31 March 2010

The ITB Pension Funds' Trustees who look after the Scheme will provide an update of the Scheme's funding position each year in a statement similar to that shown below. This statement is based on the latest actuarial valuation. It is essentially a snapshot of the financial position of the Fund that is based on the actuarial values of the Fund's assets and liabilities as at the date of the valuation.

### The last ongoing funding valuation

The most recent funding valuation of the Open Fund showed that on 31 March 2010 the funding position was as follows:

Assets	£620.2 million
Liabilities	£671.5 million
Funding level	92%

The estimated amount as at 31 March 2010 needed to ensure that all members' benefits could have been paid in full if the Scheme had started winding up (full solvency) was £874.9 million. Therefore, the Scheme was 71% funded on a full solvency basis as at 31 March 2010. Inclusion of this information does not imply that the Participating Employers are thinking of winding-up the Scheme.

### Change in funding position

The funding level increased from 77% to 92% between 31 March 2009 and 31 March 2010. The increase in funding level reflects a number of factors, including higher than expected investment returns on the Fund's assets and the expected change in future indexation of Old Section benefits. These effects were partially offset by the effects of changes in some of the assumptions used to value the liabilities.

### Actions to return the Scheme to full funding

The withdrawals of Skillfast-UK and JTL resulted in statutory payments to the Scheme of over £14 million during 2010.

The Participating Employers have agreed to pay additional contributions to the Scheme to restore the Scheme to full funding. Additional contributions are all expected to be paid for between 7 and 10 years from January 2011. The Trustees expect that where such contributions extend beyond 7 years, Employers agree to provide additional security to the Scheme.

## Payment to the Participating Employers

There has not been any payment to the Participating Employers out of Scheme funds in the last twelve months.

### How the Scheme operates

#### How is my pension paid for?

The Participating Employers pay contributions to the Pension Scheme so that the Scheme can pay pensions to its members when they retire. Active members also pay contributions to the Scheme, and these are deducted from gross pay.

The money to pay for members' pensions is held in a common fund. It is not held in separate funds for each individual.

#### How is the amount the Scheme needs worked out?

The Trustees obtain regular valuations of the benefits earned by members. Using this information, the Trustees come to an agreement with the Participating Employers on future contributions.

### The importance of the Participating Employers' support

The Trustees' objective is to have enough money in the Scheme to pay pensions now and in the future. However, success of the Scheme relies on the Participating Employers continuing to support the Scheme because:

- the Participating Employers meet the administrative expenses of running the Scheme
- the funding level can fluctuate, and when there is a funding shortfall, the Participating Employers will usually need to put in more money
- the target funding level may turn out not to be enough so that the Participating Employers will need to put in more money.

### What is the Scheme invested in?

The Trustees' strategic target (which will be subject to periodic variation) is to invest in a broad range of assets subject to asset class targets as follows:

Global equities	37%
Bonds/LDI mandate	30%
Alternative Investments	17%
Property	13%
Cash	3%

# Summary Funding Statements

## Where can I get more information?

If you have any other questions, or would like any more information, please contact the ITB Funds' Office at Watford. A list of more detailed documents which provide further information is shown below. Most of the documents are available on the Funds' information website 'ITB Online' ([www.itb-online.co.uk](http://www.itb-online.co.uk)).

Members of the Scheme can also use the Funds' secure modelling website 'MyITB' ([www.myitb.com](http://www.myitb.com)) to estimate their own benefits.

## Additional documents available on request or in some cases on the Funds' website [www.itb-online.co.uk](http://www.itb-online.co.uk)

**The Statement of Investment Principles:** This explains how the Trustees invest the money paid into the Scheme.

**The Schedule of Contributions:** This shows how much money is being paid into the Scheme.

**The Recovery Plan:** This shows the agreed actions to restore the Scheme to full funding.

**The Annual Report and Accounts of the ITB Pension Fund,** which shows the Scheme's income and expenditure in the year up to 31 March 2011.

**The full Actuarial Valuation report** follows the Actuary's check of the Scheme's situation as at 31 March 2010.

**The ITB Open Fund '2007 Section', 'New Section' and 'Old Section' Member Booklets** (members should have been provided with a copy of the booklet relevant to their Scheme Section when you joined the Scheme, but a further copy can be requested).

**An Annual Benefit Statement:** If you are not getting a pension from the Scheme (and have not received a benefit statement in the previous 12 months) you can ask for a statement that provides an illustration of your likely pension, or visit [www.myitb.com](http://www.myitb.com) to view online benefits statements and model your pension.

**Important: If you are thinking of leaving the Scheme for any reason, you should consult a professional adviser, such as an independent financial adviser, before taking any action.**

## The ITB Pension Funds (Closed Fund): Summary Funding Statement for Period ending 31 March 2010

The ITB Pension Funds' Trustees who look after the Scheme will provide an update of the Scheme's funding position each year in a statement similar to that shown below. This statement is based on the latest annual actuarial report, which sets out how the Scheme's funding position has changed since the last full actuarial valuation. It is essentially a snapshot of the financial position of the Fund that is based on the actuarial values of the Fund's assets and liabilities as at the date of the report.

### The last ongoing funding valuation

The most recent funding valuation of the Closed Fund showed that on 31 March 2009 the funding position was as follows:

Assets	£196.7 million
Liabilities	£189.1 million
Funding level	104%

As a result, no further contributions were required, although the funding level was less than the Trustees' target level of 110%.

The Scheme Actuary assessed that, as at 31 March 2009, the assets of the Scheme were very likely to be sufficient to pay for the liabilities in full if the Scheme had started to wind up at that date. (The Scheme was 113% funded on a full solvency basis as at 31 March 2009.) Inclusion of this information does not imply that the Participating Employers are thinking of winding up the Scheme.

### Change in funding position

The Scheme Actuary carried out an interim review of the Closed Fund as at 31 March 2010. The purpose of that review was to assess how the Scheme's funding position has changed over the previous year. The interim review showed that the funding level increased from 104% to 113% between 31 March 2009 and 31 March 2010. The increase in surplus between March 2009 and March 2010 was principally



due to the investment return on the Scheme's assets being greater than expected. Further, the April 2010 pension increase was lower than expected.

### **Payment to the Employers**

There has not been any payment to the Employers out of Scheme funds in the last twelve months.

### **How the Scheme operates**

#### **How is my pension paid for?**

The Employers and employees have historically paid contributions to the Pension Scheme so that the Scheme can pay pensions to its members when they retire. There are no longer any contributing members in the Closed Fund.

The money to pay for members' pensions is held in a common fund. It is not held in separate funds for each individual.

#### **How is the amount the Scheme needs worked out?**

The Trustees obtain regular valuations of the benefits earned by members. Using this information, the Trustees come to a conclusion on whether the Scheme is adequately funded and if any further action is needed.

#### **What is the Scheme invested in?**

At 31 March 2010, the Trustees' policy was to invest the majority of the Scheme's assets in index-linked gilts to match the liabilities of the Scheme as they come due. Cash was held to pay the most imminent liabilities. More recently, the Trustees have insured the Scheme's benefits with an insurance company.

The reserve assets are invested in a broad range of assets, the majority of which are expected to be equities.

### **Where can I get more information?**

If you have any other questions, or would like any more information, please contact the ITB Funds' Office at Watford. A list of more detailed documents which provide further information is shown below.

Most of the documents are available on the Funds' information website 'ITB Online'

**[www.itb-online.co.uk](http://www.itb-online.co.uk)**

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The Statement of Investment Principles: This explains how the Trustees invest the money paid into the Scheme.

The Annual Report and Accounts of the ITB Pension Fund, which shows the Scheme's income and expenditure in the year up to 31 March 2011.

The full report on the Actuarial Valuation following the Actuary's check of the Scheme's situation as at 31 March 2009.

The report on the Interim Actuarial Review of the Scheme as at 31 March 2010.

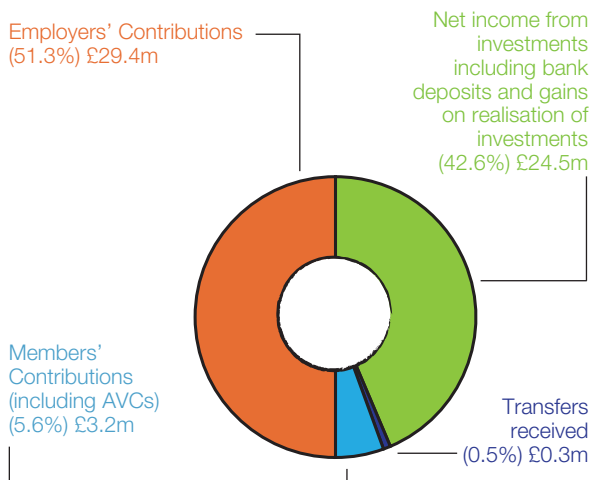
An Annual Benefit Statement. If you are not getting a pension from the Scheme you can ask for a statement that provides an illustration of your likely pension, or visit **[www.myitb.com](http://www.myitb.com)** to view online benefit statements and model your pension.

***Important: If you are thinking of leaving the ITB Pension Funds for any reason, you should consult a professional adviser, such as an independent financial adviser, before taking any action.***

## Fund Accounts

### Source of Income 2010/2011

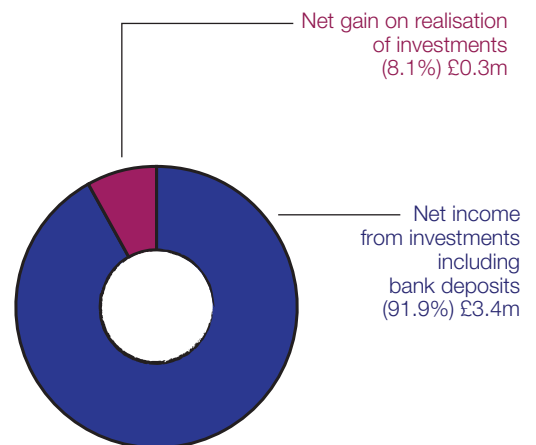
**Chart 6 Open Fund**



The way in which the income of the Open Fund of £57.4m was made up is shown in Chart 6. The total net investment income consists mainly of income from bond securities, property rentals and bank interest after adding the profits on foreign exchange and deducting Investment Managers' fees.

However, also included in the income shown above is an amount of £13.5m which represents realised profit on the sale of investments, including profits on foreign currency transactions.

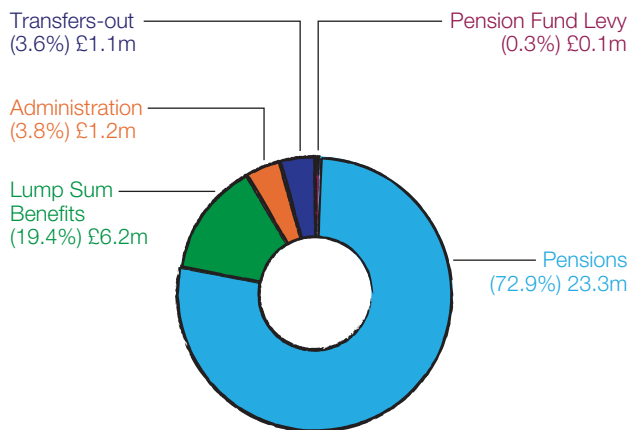
**Chart 7 Closed Fund**



The way in which the income of the Closed Fund, of £3.7m was made up is shown in Chart 7. The total net investment income consists of income from index-linked gilts and bank interest. The net investment income of the Closed Fund is made up in the same way as that for the Open Fund, excluding realised gains.

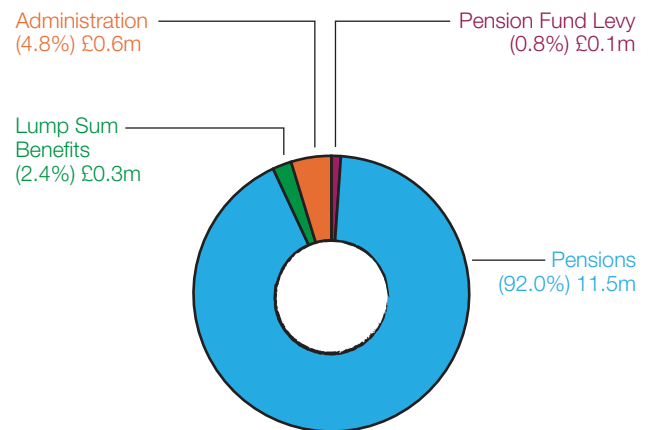
## Allocation of Expenditure 2010/2011

**Chart 8 Open Fund**



The way in which the total Open Fund expenditure of £31.9m was made up is shown in Chart 8.

**Chart 9 Closed Fund**



The way in which the total Closed Fund expenditure of £12.5m was made up is shown in Chart 9.

# Investment Report

## Statement of Investment Principles (SIPs)

The Pensions Act 1995, as amended, sets out certain requirements for trustees of pension schemes to prepare SIPs that govern their investment decisions. While the ultimate power and responsibility for deciding investment policy rests solely with trustees, they are expected to consult with participating employers about the preparation of the SIPs. The ITB Pension Funds' Trustees do this and they also seek advice from their investment consultants and actuarial advisers on the broad investment principles governing the investment policy of the Funds.

The SIPs are regularly reviewed. The full versions of SIPs can be viewed by accessing the ITB website on [www.itb-online.co.uk](http://www.itb-online.co.uk), or obtained by requesting a copy from the Funds' Office.

Specialist investment managers are employed by the Trustees to manage the portfolio of investments. Their appointments are reviewed by the Trustees annually in light of quarterly monitoring of the performance and investment process. The investment performance of both the Open and Closed Funds is shown on pages 42-44.

The recommendations of a report on institutional investment – the Myners Report – which have previously been accepted by the Government, identified a set of investment principles which pension schemes should comply with on a voluntary basis. The Trustees consider that the Funds are currently mostly compliant with the Report's recommendations (with a few relevant areas where the Trustees are working towards becoming fully compliant) and have taken steps, where appropriate, to integrate the recommendations into working practices and procedures.

## Closed Fund

As the Closed Fund has no current Participating Employers with active members, an investment strategy has historically been adopted whereby the liabilities have been broadly matched by an underlying portfolio of index-linked gilts. In addition

to the matched portfolio, the Closed Fund also has a portfolio invested in a range of return seeking assets such as UK and Overseas Equities, Global Tactical Asset Allocation and Diversified Growth Fund Strategies.

## Open Fund

Following a review of the investment strategy the Open Fund in June 2009, the Trustees along with their investment advisers gave detailed consideration to a report on the asset liability study carried out by the Fund's investment advisers, Lane Clark & Peacock LLP. With the benefit of this report the current investment strategy was set with the objective of achieving the Trustees' desired long term return of 2.2% in excess of gilts, while reducing the expected level of investment risk.

The current asset allocation of the Open Fund is shown on pages 40-41.

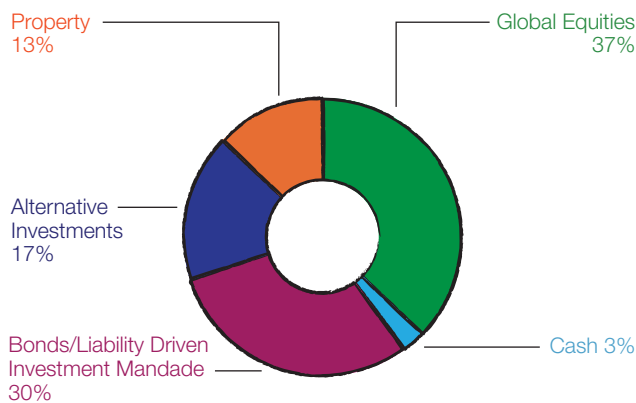
## Investment Management

The Trustees employ external investment managers who have discretion to invest the assets of the Funds within the Trustees' prescribed guidelines. The strategy to achieve the investment objectives involves the Funds' assets being invested across a range of asset classes and geographical areas. Although the Trustees have delegated day-to-day management of the Funds' investments to external managers, the custody (safe-keeping) of segregated assets is carried out independently of the managers through custodians JP Morgan Chase Bank, BlackRock Advisors (UK) Ltd, Universal Pension Trustees Limited, ITB Pension Trustee(1) Limited and ITB Pension Trustee(2) Limited.

Details of and the performance of the individual managers looking after Open Fund assets is shown within the Investment Performance Review on pages 42-44.

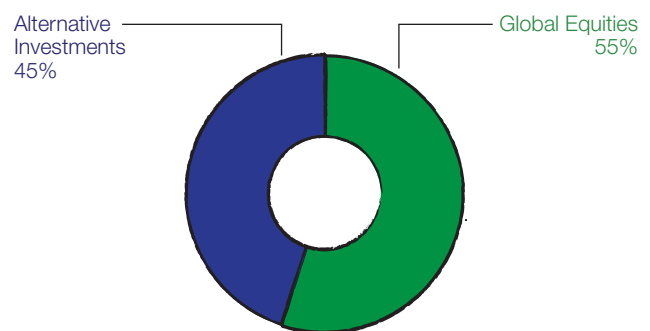
The Closed Fund's portfolio of index-linked gilts, the investment of which is entirely passive and advised by the Actuary, is under the control of the Trustees. The return seeking assets are managed by a number of external managers detailed on page 44.

The target asset allocation existing at 31 March 2011 for the Open Fund is as follows:



The Trustees' investment strategy aims, over the long term, to achieve good investment growth while maintaining a secure funding position for the Open Fund. Although an overall long-term strategic asset allocation is agreed by the Trustees, the investment managers are given individual benchmarks. The active managers are permitted to diverge from these benchmarks within policy guidelines which are determined periodically by the Trustees in conjunction with their investment advisers. The guidelines are reviewed by the Trustees' Investment Committee at regular quarterly meetings.

The benchmark existing at 31 March 2011 for the portion (23%) of the Closed Fund not invested in index-linked gilts and cash, was as follows:



Details of the Open and Closed Funds' total asset allocation, individual manager's allocation and mandates at the Funds' year-end, together with their investment performance for the year, are shown on pages 40-44.

### Financial Review

The overall expenditure of the Closed Fund continues to exceed total investment income. However, expenditure is met only from the Fund's holdings in index-linked stock and cash. The difference between the interest on the index-linked stock/cash and expenditure is met from the money received from the redemption of stock which takes place at regular intervals.

The ongoing contribution income of the Open Fund continued to be insufficient to meet benefit payments and other expenditure. The balance was made up from investment revenue, employers' buy-out contributions and employers' deficit contributions.

# Investment Background

## UK Equities

For the 12-month period as a whole the FTSE All-Share index rose 8.8% in sterling, total return terms. UK equity markets suffered a correction in the first half of the period as concerns over the strength of the global economy as well as the European debt crisis (particularly with regard to Greece) created a risk-averse environment. Subsequently, equities underperformed with the FTSE 100 retreating to 4800, before climbing back to over 5500.

The UK general election was held in May 2010 and without a clear majority emerging a coalition government was formed between the Conservatives and the Liberal Democrats. The market was keen to see how the government would tackle deficit reduction and the first budget revealed that the bulk of savings would come from reduced spending as opposed to higher taxes. Among the key measures announced was a 25% cut in spending for most government departments, as well as an increase in VAT to 20% in January 2011.

Many political and economic concerns dominated market activity in the second half of the period, including the impact of civil unrest in North Africa and the Middle East pushing up oil prices even further. Despite this backdrop, equity markets were modestly positive over the period as a whole, as improving economic data, corporate profitability and low interest rates supported investors' appetite for risk. Higher commodity prices, in particular, helped the mining and oil sector perform strongly.

## Europe ex UK equities

For the 12-month period as a whole the FTSE World Europe ex UK index rose 7.5% in sterling, total return terms. Markets were volatile over the period with headlines being dominated by wide range of geopolitical issues. European sovereign

debt concerns were particularly in the limelight with Ireland, Greece and Portugal all being bailed out by the EU and the IMF. However, European equity markets delivered positive returns over the period, as improving economic data, corporate profitability and low interest rates supported risk appetite. German equities were particularly strong as robust demand from the Far East for the country's luxury exports boosted returns.

## Global Equities

For the 12-month period as a whole the MSCI World index rose 7.9% in sterling, total return terms. Markets were volatile over the period as sharply rising commodity prices, especially in food, led to social unrest and political instability in North Africa and the Middle East. There were also large earthquakes in New Zealand and Japan, which contributed to economic concerns and fears of a disruption to global supply chains. European sovereign debt concerns were also in the news with Ireland, Greece and Portugal all being bailed out by the EU and the IMF. Despite this challenging environment, global equity markets were positive over the period, as improving economic data, improving corporate profitability and low interest rates have supported investors' appetite for risk.

## Bonds

The fixed income markets had a fairly volatile year. In corporate bonds, investment-grade spreads widened sharply from May as Greece's woes hit the headlines. Market concerns only eased once the EU and IMF announced a bailout package. Spreads then rallied until November, when the market experienced another sharp pull-back in risk sentiment after it became apparent that Ireland was next on the list of EU peripherals to need a bailout. As we moved into 2011, investment-grade yields hit four-year lows, although spreads remained some 150bps wider than the levels seen pre-credit crunch.

By contrast, the gilt market rallied sharply for most of 2010, benefiting from investors' need for a safe haven away from the eurozone's sovereign credit crisis. Yields on 10-year gilts tumbled from 4.02% to 2.95% by mid-October. However, they rose steadily from mid-October to early 2011, due to a combination of a sell-off in the US treasury market, and an improvement in UK economic data. Inflation concerns played an increasing role, with the Bank of England seemingly poised to raise interest rates. From mid-February, civil unrest in North Africa and the Middle East led investors to again seek out gilts as a safe haven, and this trend accelerated after the earthquake and tsunami in Japan in mid-March. Yields fell back, especially in short-dated maturities.

Inflation-linked bond markets operated against a background of increased inflation and interest rate fears. While yields did rise in the inflation-linked market, the rises were less than those experienced in the conventional market, and thus returns were positive over the period. Pension fund deficits have been decreasing amid a combination of rising equities (increasing the value of pension fund assets) and higher gilt yields (resulting in lower liabilities). As a result, pension funds have taken advantage of any weakness in long-dated index-linked gilts, keeping yields range bound.

### **Property**

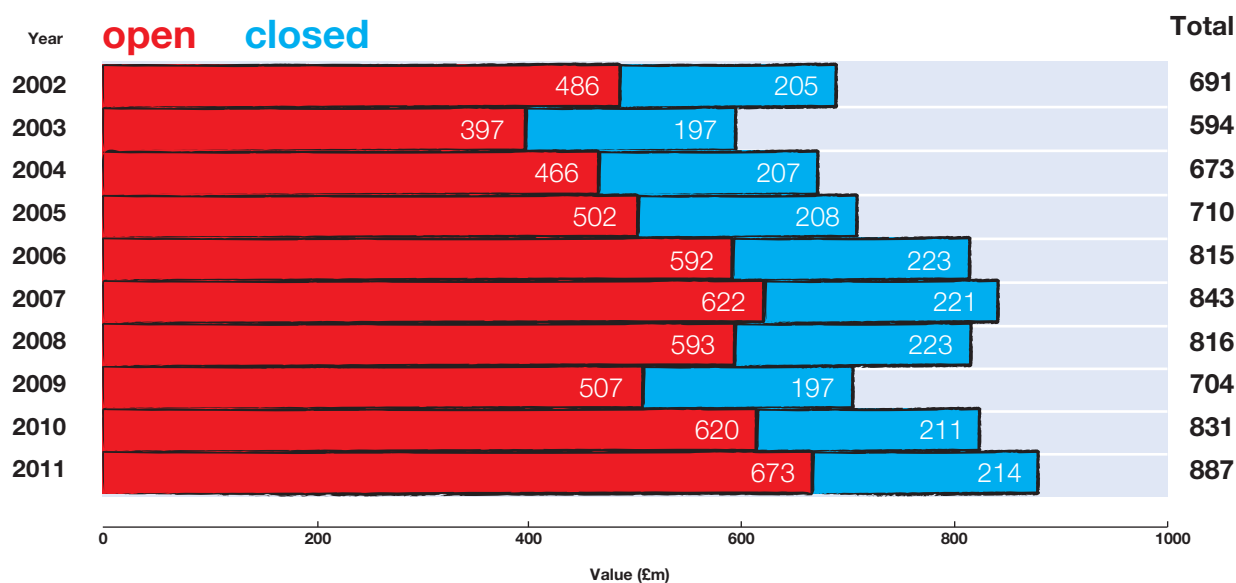
Over the 12 months to 31 March 2011 commercial property in the UK provided an annual total return of 10.7%, underpinned by 20 consecutive months of positive growth in capital values since the end of July 2009. While values have now risen by 17.0% since July 2009 when sentiment first began to turn, the recovery lost momentum in the second half of 2010. Investor demand has since stabilised and the underlying occupier market has remained relatively weak.

Although property values have started to level off since Q4 2010 the figures masked contrasting fortunes across different regions and quality of asset. While property continues to hold a historically high yield margin over long-term government bonds, rental expectations generally still remain poor for assets of secondary/tertiary quality and in locations outside of London and the South East where impending cuts to spending in the public sector are expected to hit both occupier and investment markets.

# Investment Report

The size of each Fund and the growth achieved in the past ten years is demonstrated in Chart 10.

**Chart 10 Growth of Total Funds (see page 51)**



## Asset Allocation (see page 58)

At the end of March 2011, the Funds' investments were allocated between the following categories:

Open Fund	Market Value £000's	Proportion of Market Value %
UK Equities	62,204	9.3
Overseas Equities	133,845	20.0
Fixed Interest:		
UK & Overseas	51,917	7.8
Index Linked	163,148	24.3
Derivatives	17,831	2.7
Property	73,777	11.0
Alternatives (e.g. Hedge Funds)	102,116	15.3
Cash	64,407	9.6
<b>Total</b>	<b>669,245</b>	

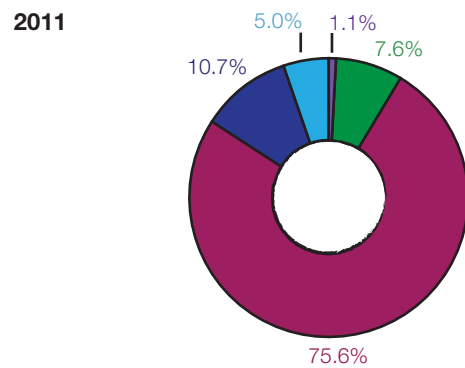
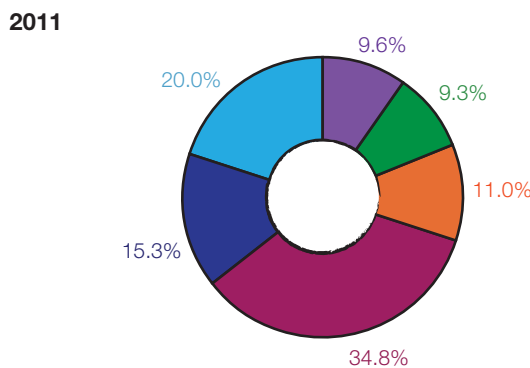
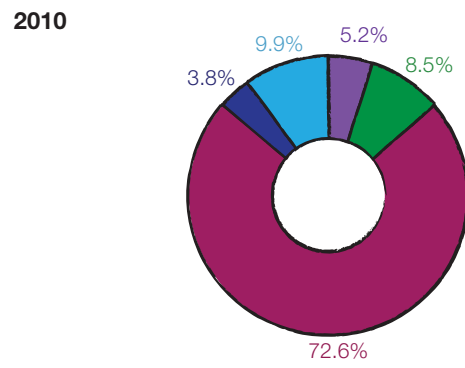
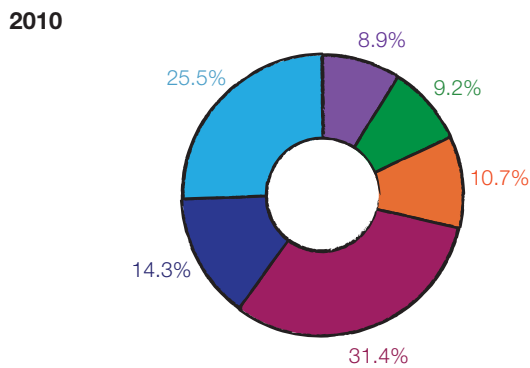
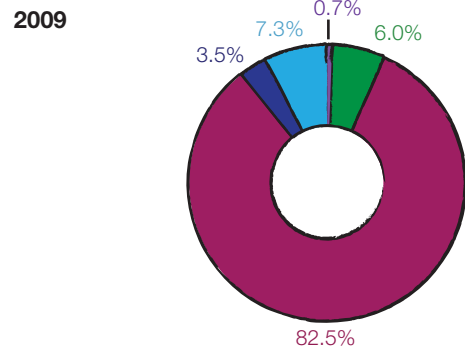
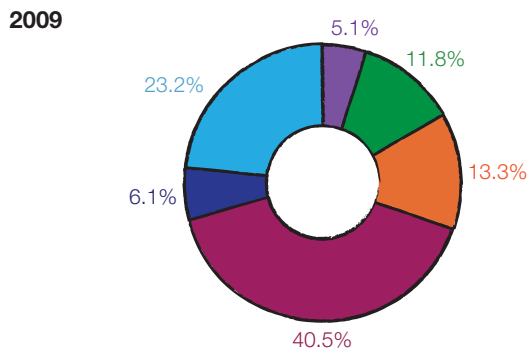
Closed Fund	Market Value £000's	Proportion of Market Value %
UK Equities	16,189	7.6
Overseas Equities	10,592	5.0
Fixed Interest:		
UK & Overseas	-	-
Index Linked	161,504	75.6
Alternatives	22,961	10.7
Cash	2,282	1.1
<b>Total</b>	<b>213,528</b>	



The overseas equities for both Funds consists of holdings in Europe, North America, Japan, South East Asia and emerging markets. The changes in asset allocation made since 2009 are shown in Charts 11 and 12.

**Chart 11**  
**Asset Allocation - Open Fund (%)**

**Chart 12**  
**Asset Allocation - Closed Fund (%)**



- Cash
- Property
- Alternatives
- UK Equities
- Fixed Interest, Index Linked and Derivatives
- Overseas Equities

The ITB Pension Funds' assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulations 1996. The Funds do not invest in any of the Participating Employers' businesses. No investment represents more than 3% of share capital of the company concerned.

## Investment Performance Review

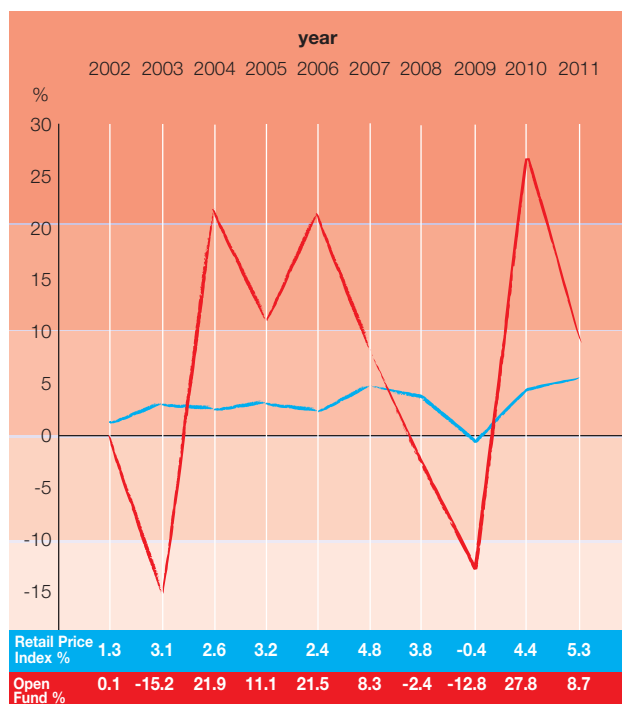
### Total Fund

The investment performance of both the Closed and Open Funds continues to be monitored by BNY Mellon Asset Servicing, an independent investment performance monitoring service which monitors the performance of over 1,100 pension fund portfolios and over 180 UK pension funds with a total market value in excess of £95 billion. For this purpose the Closed Fund and the Open Fund are treated separately and separate reports are provided in respect of each investment manager.

The period reviewed in the most recent full report relates to the year ended 31 March 2011. In addition, BNY Mellon Asset Servicing also provide an overview for each Fund and present year-end reports at an annual meeting of the Trustees' Investment Committee while they also attend and present at quarterly review meetings.

Investment performance is closely monitored by the Trustees. Benchmarks are based on various indices and the investment managers are set appropriate performance targets so as to ensure that, as far as is practicable, the Funds perform in line with their strategic benchmark.

### Chart 13 Rates of Return



The relevant benchmark return for the Open Fund this year was 6.5%, whereas the Fund achieved a return higher than this of 8.7%.

The Closed Fund achieved a return of 6.8% against the relevant benchmark of 6.1%. The overall performance of the Closed Fund reflected its large holding in index-linked gilts.

Chart 13 shows the rate of return on all assets achieved by the Open Fund (income and capital appreciation combined) in the recent past, compared with the increase in prices, as measured by the Retail Price Index. Past returns are, of course, no guarantee of future performance.

### Managers' Mandates and Performance – Open Fund

All figures include cash held with the investment manager. The charts shown on page 41 have cash shown separately.

#### UK Equities (including index-tracking equities) (14% of total fund)

##### **BlackRock Advisors (UK) Limited** (4% of total fund)

This part of the UK equity portfolio has the objective to match the UK FTSE All Share Index. BlackRock's fees are market value based. Over the year BlackRock marginally outperformed their benchmark.

##### **Henderson Global Investors Limited** (5% of total fund)

This part of the UK equity portfolio has the objective to outperform the UK FTSE All Share Index by 0.75% pa gross of base fees. Henderson's fees are market value based with a performance-related element. Over the year, Henderson outperformed their benchmark and their objective.

##### **Insight Investment (5% of total fund)**

This part of the UK equity portfolio has the objective to achieve an ongoing economic exposure broadly equivalent to the total return of the UK FTSE100 Index. A cap on performance will be put in place such that no additional gains will be made when the index reaches an agreed level. As at 31 March 2011 the index level had not been reached.

The fees for this portfolio are market value based.

#### Fixed Interest (including index-linked gilts and derivatives) (37% of total fund)

##### **Insight Investment (30% of total fund)**

The objective of the main fixed interest portfolio is to outperform a composite benchmark by 0.75% pa, net of base fees, over rolling three-year periods.

The fees for this portfolio are market value-based with a performance related element. Over the year this portfolio outperformed both its benchmark and objective.

The objective of the LDI (Liability Driven Investments) SWAP portfolio is to reduce the Scheme's exposure to interest rate and inflation risk by constructing and managing a portfolio with the objective of matching a specially calculated benchmark which is linked to the Fund's liabilities. The fees for this portfolio are market value-based with a performance-related element. Over the year this portfolio marginally outperformed its benchmark.

**BlackRock Advisers (UK) Limited (7% of total fund)**

Index linked gilts are held in this portfolio to support certain ex training boards' liabilities. The funds are passively managed and the fees are market value based.

**Global Equities (20% of total fund)**

**BlackRock Advisers (UK) Limited (11% of total fund)**

Part of this overseas equity portfolio is managed to track index benchmarks. The fees for these funds are market value based. Over the year, these funds closely matched their benchmarks.

BlackRock also operates a currency hedging fund which is managed on a passive basis. The passive fund is operated to greatly reduce the effect of currency fluctuations within the total overseas equity portfolio. Fees for the currency fund are market value-based.

**AXA Rosenberg**

The mandate with AXA was terminated during the year due to concerns over the management of the fund.

**Wegelin & Co**

The mandate with Wegelin was terminated during the year due to underperformance issues.

**Longview Partners LP (4% of total fund)**

The objective of this part of the global equity portfolio is to achieve a positive absolute return of between 8% and 10% pa after fees. The fees for this portfolio are market value-based. No performance fees are payable. Over the year, the portfolio underperformed its benchmark.

**Investec Asset Management (5% of total fund)**

The objective of this part of the global equity portfolio is to outperform the MSCI World Gross Total Return Index by 3% to 5% gross of fees over rolling three-year periods. The fees for this portfolio are market value-based. No performance fees are payable. Over the year, the portfolio outperformed its benchmark.

**Property (11% of total fund)**

**Fletcher King (9% of total fund)**

The objective of this portfolio is to match the Investment Property Database (IPD) Year End Annual Index. Fletcher King is remunerated on the basis of an annual retainer fee together with transaction fees related to acquisition, disposals and lettings. In addition, further fees are payable based on the gross rental income of the portfolio, together with fees for work on rent and lease renewals. Over the year Fletcher King underperformed their benchmark.

**Schroder Investment Management (UK) Limited (2% of total fund)**

The total investment committed for this European Property Fund will be paid in increments over a period up to and including 2011. The total commitment is approximately £19 million. The objective of this fund is to achieve an absolute return of between 8% and 10% pa net of fees over the 12-year life of the fund. The fees for this portfolio are market value-based. No performance fees are payable. Over the year, the portfolio underperformed its objective.

**Alternatives (15% of total fund)**

**Schroder Investment Management (UK) Limited Diversified Fund of Hedge Funds (1% of total fund)**

The mandate of Schrodgers was terminated during the 2009 Scheme Year due to concerns over the management of the fund. The investment is being liquidated over a period of time.

**BNY Mellon Asset Management**

**(1% of total fund) Global Tactical Asset Allocation Fund (GTAA)**

The objective of this part of the alternatives portfolio is to outperform by 20% pa the CITI Group GBP one month Euro deposit rate gross of fees over rolling three-year periods. The fees for this portfolio are market value-based with a performance-related element. Over the year, the portfolio outperformed its benchmark and its objective.

## Investment Performance Review

### **BlackRock Advisers (UK) Limited (4% of total fund) Global Tactical Asset Allocation Fund (GTAA)**

The objective of this part of the alternatives portfolio is to outperform three-month LIBOR (London Inter-bank Offer Rate) by 15% pa after fees. The fees for this portfolio are market value-based with a performance-related element. Over the year, the portfolio outperformed its LIBOR benchmark.

### **Liongate Capital Management (2% of total fund) - Fund of Hedge Funds**

The objective of this part of the alternatives portfolio is to outperform three month LIBOR by 5% per annum after fees. The fees for this fund are market value based with a performance related element. Over the year, the portfolio outperformed both its benchmark and its objective.

### **Stenham Asset Management (2% of total fund) - Fund of Hedge Funds**

The objective of this part of the alternatives portfolio is to outperform three month LIBOR by 4% per annum after fees. The fees for this fund are market value based. No performance fees are payable. Over the year, the portfolio outperformed the benchmark.

### **Ruffer LLP (5% of total fund) - Diversified Growth Fund**

Ruffer is an absolute return investment manager which aims to preserve capital and generate consistent returns and thus is necessarily unbenchmarked in order that it might preserve capital regardless of market conditions. However, the fund has an objective of outperforming three month LIBOR after fees. The fees for this fund are market value based. No performance fees are payable. Over the year, the portfolio outperformed its objective.

### **Cash (3% of total fund)**

This part of the portfolio is under the Trustees control and is retained to pay pension benefits and other Funds' expenses.

### **Managers' Mandates and Performance – Closed Fund**

#### **UK Equities (8% of total fund)**

##### **BlackRock Advisers (UK) Limited (8% of total fund)**

The objective of this portfolio is to match the UK FTSE All Share Index. The fees for the fund are market value based. Over the year, the portfolio matched its benchmark.

#### **Global Equities (5% of total fund)**

##### **BlackRock Advisers (UK) Limited (5% of total fund)**

This part of the overseas equity portfolio is managed to track index benchmarks. The fees for this part of the fund are market value based. Over the year these funds closely matched their benchmarks. BlackRock also operate a passive currency fund with the objective of greatly reducing the effect of currency fluctuations within the total overseas equity portfolio. The fees for this part of the fund are market value based.

##### **AXA Rosenberg**

The mandate of AXA was terminated during the year due to concerns over the management of the fund.

##### **Investec Asset Management**

The mandate of Investec was terminated during the year as a result of a revised investment strategy being implemented.

#### **Alternatives (11% of total fund)**

##### **BlackRock Advisers (UK) Limited (5% of total fund) Global Tactical Asset Allocation Fund (GTAA)**

The objective of this portfolio is to outperform three-month LIBOR by 15% pa after fees. The fees for this portfolio are market value-based with a performance related element. Over the year the fund outperformed its benchmark.

##### **Ruffer LLP (6% of total fund)**

Ruffer were appointed as a diversified growth manager in April 2010. Ruffer is an absolute return investment manager which aims to preserve capital and generate consistent returns and thus is necessarily unbenchmarked in order that it might preserve capital regardless of market conditions. However, the fund has an objective of outperforming three month LIBOR after fees. The fees for this fund are market value based. No performance fees are payable. As the manager was appointed part way through the year no annual performance figures are available.

#### **Trustees (76% of total fund)**

The remaining 76% of assets are held in index-linked securities and cash which are under the control of the Trustees.

## Statements of Trustees' Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Trustees.

Pension Scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

The Trustees are also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised, a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employers and the active members of the Scheme and the dates on, or before which, such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the Employers in accordance with the Schedule of Contributions. Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

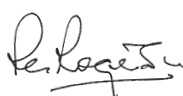
The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the Funds' website.

## Summary of Contributions payable in the year

During the year, the contributions payable to the Open Fund by the Employers under the Schedule of Contributions were as follows:

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<b>Contributions payable under the Schedule of Contributions</b>		
Employer normal contributions	6,382	7,388
Employee normal contributions	3,147	3,739
<b>Total contributions payable under the schedule</b>	<b>9,529</b>	<b>11,127</b>
<b>Other contributions</b>		
Employers' augmentation costs	4,026	443
Employers' buy-out contributions	15,024	-
Employers' deficit contributions	3,937	-
Employee additional voluntary contributions	28	71
Transfers from money purchase AVC schemes	289	434
<b>Total payable to the Scheme</b>	<b>32,833</b>	<b>12,075</b>

The Trustees Report was approved by the Trustees on 1 July 2011.



**P Rogerson**  
Trustee



**J Swift**  
Trustee

# Financial Statements

for the year ended 31 March 2011

# Independent Auditor's Report

## to the Trustees of the ITB Pension Funds

We have audited the financial statements of the ITB Pension Funds for the year ended 31 March 2011 which comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustees, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Trustees and the Auditors**

As explained more fully in the Statement of Trustees Responsibilities set out on page 45, the scheme's Trustees are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on

Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Trustees' Report and the supplementary information to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;



- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

**CHANTREY VELLACOTT DFK LLP**

Chartered Accountants and Statutory Auditor

LONDON

22 July 2011

# Independent Auditor's Statement

## to the Trustees of the ITB Pension Funds

We have examined the summary of contributions to the ITB Pension Funds in respect of the scheme year ended 31 March 2011 which is set out in the Trustees' Report on page 46.

This statement is made solely to the Trustees, as a body, in accordance with Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Trustees as a body, for our audit work, for this statement, or for the opinions we have formed.

### **Respective responsibilities of the Trustees and the Auditor**

As explained more fully in the Statement of Trustees' Responsibilities, the scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employers and the active members of the Scheme. The Trustees are also responsible for keeping records in respect of contributions received in respect of active members of the scheme and for monitoring whether contributions are made to the Scheme by the employers in accordance with the schedule of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedule of contributions and to report our opinion to you.

### **Scope of work on Statement about Contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedule of contributions.

### **Statement about contributions payable under the schedule of contributions**

In our opinion contributions for the scheme year ended 31 March 2011 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the scheme actuary on 10 March 2008.

### **CHANTREY VELLACOTT DFK LLP**

Chartered Accountants and Statutory Auditor

LONDON

22 July 2011

## Fund accounts

for the year ended 31 March 2011

	Notes	Closed fund 2011 £'000	Open fund 2011 £'000	Combined fund 2011 £'000	Combined fund 2010 £'000
<b>Income</b>					
Employers' contributions	3c	-	6,382	6,382	7,388
Employers' augmentation costs	3c	-	4,026	4,026	443
Employers' deficit funding	3c	-	3,937	3,937	-
Employers' buy-out contributions	3c	-	15,024	15,024	-
Total employers' contributions		-	29,369	29,369	7,831
Members' contributions	3c, 15	-	3,175	3,175	3,810
Transfers in	3g, 5	-	289	289	434
		-	32,833	32,833	12,075
<b>Expenditure</b>					
Retirement and death benefits	6	11,912	29,207	41,119	38,341
Payments to and on account of leavers:					
Contribution refunds		-	223	223	140
Transfers to other schemes		-	1,138	1,138	1,412
Other payments:					
Administration costs	7	568	1,209	1,777	1,738
Pension fund levy		36	110	146	137
		12,516	31,887	44,403	41,768
<b>Net withdrawals/additions from dealings with members</b>		(12,516)	946	(11,570)	(29,693)
<b>Returns on investments</b>					
Investment income	8	3,455	9,425	12,880	14,964
Change in market value of investments	11	12,512	44,600	57,112	143,510
Investment manager fees	9	(55)	(1,660)	(1,715)	(1,947)
<b>Net returns on investments</b>		15,912	52,365	68,277	156,527
<b>Net increase in the funds during the year</b>		3,396	53,311	56,707	126,834
Net assets as at 31 March 2010		210,886	620,239	831,125	704,291
<b>Net assets as at 31 March 2011</b>		<b>£214,282</b>	<b>£673,550</b>	<b>£887,832</b>	<b>£831,125</b>

The notes on pages 53 to 65 form part of these financial statements.

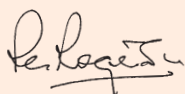
## Net assets statements

31 March 2011

	Notes	Closed fund 2011 £'000	Open fund 2011 £'000	Combined fund 2011 £'000	Combined fund 2010 £'000
<b>Investments</b>					
Assets	11	213,528	699,054	912,582	852,295
Liabilities	11	-	(29,809)	(29,809)	(25,424)
<b>Net investments</b>		213,528	669,245	882,773	826,871
<b>Fixed assets</b>	12	-	140	140	136
		213,528	669,385	882,913	827,007
<b>Current assets</b>					
External	13	1,018	7,886	8,904	6,354
Inter-fund balance	13	-	71	71	90
		1,018	7,957	8,975	6,444
<b>Current liabilities</b>					
External	14	193	3,792	3,985	2,236
Inter-fund balance	14	71	-	71	90
		264	3,792	4,056	2,326
<b>Net current assets</b>		754	4,165	4,919	4,118
<b>Net assets as at 31 March 2011</b>		<b>£214,282</b>	<b>£673,550</b>	<b>£887,832</b>	<b>£831,125</b>

The financial statements summarise the transactions of the Funds and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the year. The actuarial position of the Funds, which does take account of such obligations, is dealt with in the Summary Funding Statements and the certificates by the Actuary and these financial statements should be read in conjunction with them.

The financial statements were approved by the Trustees on 1 July 2011.



**P Rogerson**  
Trustee



**J Swift**  
Trustee

The notes on pages 53 to 65 form part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 1 Organisation of the funds

The financial statements reflect the Actuary's report dated 22 January 1985 regarding the apportionment of assets between the Closed and Open Funds. This apportionment of the market value of the assets was made on 1 April 1985. The Closed Fund relates to former employees of discontinued Industrial Training Boards; all employees of continuing Boards whose service ceased before 31 March 1982; and, certain other employees of those Boards whose service ceased before 31 March 1983 and whose membership was specifically agreed with Government.

## 2 Actuarial valuations

The Trustees have received and adopted the Valuation Report by the Actuary on the Closed Fund as at 31 March 2009 and on the Open Fund as at 31 March 2010.

## 3 Accounting policies

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and substantially within the guidelines set out in the Statement of Recommended Practice (revised May 2007), Financial Reports of Pension Schemes (the "revised SORP").

### a) Basis of preparation

These financial statements have been prepared on an accruals basis, that is, income and expenditure is recognised as it is earned or incurred, not as it is received or paid.

### b) Valuation of investment assets

All investments are valued at their market value determined as follows:

- i) Listed securities are valued at last traded price or bid-market price ruling at the balance sheet date.
- ii) Pooled investment vehicles are stated at the bid-point of the latest prices quoted by the managers prior to 31 March 2011.

- iii) Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling at the balance sheet date.
- iv) Properties were valued by Fletcher King, Property Asset Managers, at 31 March 2011, in accordance with the definition of open market value as defined in Practice Statement 4 of the Royal Institute of Chartered Surveyors' appraisal and valuation manual.
- v) Forward contracts are valued at amounts that assume settlement at the spot rates ruling on 31 March 2011.
- vi) Exchange traded derivatives are stated at market values determined using market quoted prices.
- vii) Over the counter derivatives are stated at market value using pricing models and relevant market data as at the year end date.

### c) Contribution income

Contributions relating to wages and salaries earned up to 31 March 2011 have been included in these financial statements. Augmentation costs represent amounts paid by employers to improve the benefits of certain employees and these are due to the Open Fund from the relevant participating employers. Employer's buy-out contributions, due under section 75 of the Pensions Act 1995 when an employer ceases to be a participating employer, are accounted for when received or determined by the scheme actuary, whichever is earliest. Deficit funding contributions have been paid to the scheme in anticipation of the implementation of a revised schedule of contributions. These are recognised when received.

### d) Investment income

Dividend income and interest on Government stocks have been recognised on the ex-dividend date. Rents and interest income are recognised on a receivable basis.

## Notes to the Financial Statements

### e) Foreign income

Foreign income has been translated into sterling at the rate ruling at the date of the transactions. Income due at the year end is translated at the rate ruling at 31 March 2011. All differences are taken to the Fund Accounts.

### f) Benefits payable

Benefits payable include all valid benefit claims notified to the Trustees during the financial year.

### g) Transfers receivable

Transfers receivable represent payments to the Open Fund from the separate money purchase schemes (see note 16). Amounts received into the Fund are paid out as part of a member's lump sum retirement benefit. Transfers are only taken into account where benefits are payable before 31 March 2011. Transfers from other pension funds are not currently accepted into the scheme.

### h) Withdrawal benefits

Transfers payable relate to those early leavers whose transfers have been agreed by the Trustees during the year. Included under withdrawal benefits are accruals of contributions and interest in respect of members who left the Funds on or before 31 March 2011 and who were entitled to a refund of these.

### i) Fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:  
Furniture - 10% per annum  
Equipment - 20% per annum

## 4 Contributions receivable

Normal contributions receivable by the Scheme during the year ended 31 March 2011, including amounts outstanding at the year end (see note 13), were paid in accordance with the Scheme Rules (and the recommendation of the Actuary).

Pending the formal agreement of a revised schedule of contributions to deal with the deficit arising in the Open Fund valuation as at 31 March 2010, several employers commenced deficit repair contributions and these have been included in the financial statements on the basis of amounts received.

In addition to these contributions the following section 75 debts arise in respect of former employers:

- a) PIETT's membership of the Open Fund was terminated on 30 September 2008 when the company went into administration. At that time a section 75 debt of £4,436,000 became due. £671,301 was received during the year and although the Trustees are still pursuing the debt with the joint administrators it is possible that no further money may be recovered.
- b) Skillfast-UK Limited ceased to employ active members on 31 March 2010 and subsequently was placed into liquidation. Their section 75 debt was calculated as £1,173,000. In order to safeguard the position of the Open Fund, the Trustees secured a payment of £951,725 in February 2010, on account of an estimate of the probable section 75 liability. This amount has been recognised in income. The compromise arrangement entered into with Skillfast-UK Limited to secure the payment has been validated by the Pension Protection Fund.
- c) JT Limited also left the scheme on 31 March 2010. Their section 75 debt of £13,401,354 was paid in full during the year.

**5 Transfers in**

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Individual transfers from money purchase AVC schemes (see note 16)	289	434

**6 Retirement and death benefits**

	<b>Closed fund 2011 £'000</b>	<b>Open fund 2011 £'000</b>	<b>Combined fund 2011 £'000</b>	<b>Combined fund 2010 £'000</b>
<b>Retirement benefits</b>				
Lump sums	264	5,886	6,150	4,232
Members' pensions	8,320	20,539	28,859	28,279
Total retirement benefits	8,584	26,425	35,009	32,511
<b>Death benefits</b>				
Lump sums	1	306	307	129
Dependants' pensions	3,327	2,476	5,803	5,701
Total death benefits	3,328	2,782	6,110	5,830
	£11,912	£29,207	£41,119	£38,341
<b>2010</b>	<b>£12,442</b>	<b>£25,899</b>		

# Notes to the Financial Statements

## 7 Administration costs

	Closed fund 2011 £'000	Open fund 2011 £'000	Combined fund 2011 £'000	Combined fund 2010 £'000
<b>General administration:</b>				
Employment costs	228	366	594	602
Office accommodation	38	62	100	100
General expenses	96	167	263	305
Trustees' honoraria	25	41	66	49
	387	636	1,023	1,056
<b>Professional services:</b>				
Auditor's fees	16	26	42	38
Legal and professional services	42	120	162	202
Investment consultancy	77	70	147	122
Actuarial services	44	240	284	271
Other	2	117	119	49
	£568	£1,209	£1,777	£1,738
<b>2010</b>	<b>£545</b>	<b>£1,193</b>		

## 8 Investment income

	Closed fund 2011 £'000	Open fund 2011 £'000	Combined fund 2011 £'000	Combined fund 2010 £'000
Income from fixed interest securities	-	3,282	3,282	4,376
Income from index linked securities	3,297	1,527	4,824	4,626
Income from pooled investment vehicles	125	1,760	1,885	1,172
Net rents from properties	-	3,122	3,122	3,917
Interest on cash deposits	33	412	445	475
Net income from derivatives	-	(678)	(678)	398
	£3,455	£9,425	£12,880	£14,964
<b>2010</b>	<b>£3,281</b>	<b>£11,683</b>		



## 9 Investment managers' fees

Under the powers given to them under the scheme rules, the Trustees delegate most investment management to external investment managers; the exception being the index linked gilt stock in the Closed Fund. The non-property investments were managed during the year by the following managers: BlackRock Advisors (UK) Limited, Henderson Global Investors Limited, Schroder Investment Management Limited, Insight Investment, AXA Rosenberg, Wegelin & Co., Longview Partners LP, Investec Asset Management, BNY Mellon Asset Management, Liongate Capital Management, Stenham Asset Management and Ruffer LLP all of which are registered in the UK with the exception of Wegelin & Co., which is registered in Switzerland.

The remuneration of these managers is calculated as a variable percentage of the market value of the assets under management. Performance fees are payable to certain managers if pre-determined performance targets are met. Properties are managed by Fletcher King who are remunerated on a fixed percentage of the market value of properties under management, with additional fees in respect of property purchases, sales, rent reviews and rental income.

## 10 Taxation

The ITB Pension Funds is a Registered Pension Scheme under Chapter 2 of Part IV of the Finance Act 2004.

# Notes to the Financial Statements

## 11 Investments

	Closed fund valuation 2011 £'000	Closed fund cost 2011 £'000	Open fund valuation 2011 £'000
<b>Fixed interest securities</b>			
Public sector	-	-	2,085
Other	-	-	49,832
<b>Equities</b>			
UK equities	-	144	-
<b>Index-linked securities</b>			
Public sector	161,504	90,353	111,679
UK other	-	-	6,766
<b>Pooled investment vehicles</b>			
Index linked	-	-	44,703
UK equities	16,189	14,577	62,204
Overseas equities	10,592	9,930	133,845
Diversified	22,961	20,783	102,116
Commercial property	-	-	17,377
<b>Derivative assets</b>	-	-	47,640
<b>Commercial property</b>			
Freehold	-	-	39,137
Long leasehold	-	-	17,263
<b>Bank deposits &amp; loan notes</b>	2,282	2,282	64,407
<b>Investment assets</b>	213,528	138,069	699,054
<b>Derivative liabilities</b>	-	-	(29,809)
<b>Net investments at 31 March 2011</b>	<b>£213,528</b>	<b>£138,069</b>	<b>£669,245</b>
31 March 2010:			
<b>Investment assets</b>	210,173	146,964	642,122
<b>Derivative liabilities</b>	-	-	(25,424)
<b>Net investments at 31 March 2010</b>	<b>£210,173</b>	<b>£146,964</b>	<b>£616,698</b>

- Basis of valuation - as set out in note 3 b).
- Commercial properties are mainly retail and office premises with rent review periods of five years.

Open fund cost 2011 £'000	Combined fund valuation 2011 £'000	Combined fund cost 2011 £'000	Combined fund valuation 2010 £'000	Combined fund cost 2010 £'000
2,093	2,085	2,093	2,122	2,119
48,110	49,832	48,110	55,433	51,076
504	-	648	-	648
102,117	273,183	192,470	265,365	194,676
5,422	6,766	5,422	7,023	5,855
42,338	44,703	42,338	13,382	13,210
58,969	78,393	73,546	74,890	75,717
125,178	144,437	135,108	178,179	170,857
96,081	125,077	116,864	95,822	96,266
20,107	17,377	20,107	12,589	15,949
(3,834)	47,640	(3,834)	28,242	(4,233)
37,266	39,137	37,266	41,514	39,113
13,836	17,263	13,836	12,063	9,561
64,073	66,689	66,355	65,671	65,267
612,260	912,582	750,329	852,295	736,081
1,677	(29,809)	1,677	(25,424)	147
<b>£613,937</b>	<b>£882,773</b>	<b>£752,006</b>	<b>£826,871</b>	<b>£736,228</b>
589,117	852,295	736,081		
147	(25,424)	147		
<b>£589,264</b>	<b>£826,871</b>	<b>£736,228</b>		

# Notes to the Financial Statements

## 11 Investments (continued)

The movements in investments during the year were:

	<b>Closed fund 2011 £'000</b>	<b>Open fund 2011 £'000</b>	<b>Combined fund 2011 £'000</b>	<b>Combined fund 2010 £'000</b>
Market value at 1 April 2010	210,173	616,698	826,871	685,938
<b>Purchases at cost and derivative payments:</b>				
Fixed interest	-	34,503	34,503	
Index linked	13,694	120,630	134,324	
Pooled investment vehicles	6,099	93,863	99,962	
Derivatives	-	889	889	
Property	-	4,995	4,995	
Bank deposits and loan notes	-	11,471	11,471	
	19,793	266,351	286,144	322,839
<b>Sales proceeds and derivative receipts:</b>				
Fixed interest	-	(39,379)	(39,379)	
Index linked	-	(127,859)	(127,859)	
Pooled investment vehicles	(20,156)	(80,705)	(100,861)	
Derivatives	-	(2,971)	(2,971)	
Property	-	(2,910)	(2,910)	
Bank deposits and loan notes	(8,794)	(2,343)	(11,137)	
	(28,950)	(256,167)	(285,117)	(325,416)
Change in market value of investments	12,512	42,363	54,875	143,510
<b>Market value at 31 March 2011</b>	<b>£213,528</b>	<b>£669,245</b>	<b>£882,773</b>	<b>£826,871</b>
Change in market value of investments comprises:	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Profit on realisation of investments	262	15,712	15,974	6,800
Profit on foreign currency transactions	-	1,014	1,014	2,332
	262	16,726	16,988	9,132
Movements in unrealised profits	12,250	27,874	40,124	134,378
	£12,512	£44,600	£57,112	£143,510
<b>2010</b>	<b>£24,312</b>	<b>£119,198</b>		

## 11 Investments (continued)

There are no transaction costs included within the above purchases and sales figures. Costs are borne by the scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

The ITB Pension Funds' assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulation 1996 and the Statements of Investment Principles adopted by the Trustees for both Funds. The Funds do not invest in any of the Participating Employers' businesses.

At 31 March 2011 there are no investments in which more than 5% of the total value of the net assets of the Funds is invested.

No investment represents more than 3% of the share capital of the company concerned.

### Derivatives

The Trustees hold derivatives in accordance with the Statement of Investment Principles for the Open Fund and use them to reduce the effect on the scheme of interest rate, inflation and foreign exchange fluctuations.

At 31 March 2011 the open arrangements may be summarised as follows:

#### a) Swaps

Type	Base	Settlement	Asset value £	Liability value £
Asset	Gilts / Bonds	2020 – 2049	900,278	3,385,719
Interest rate	3 month LIBOR	2011 – 2060	12,693,056	19,147,648
Retail price index ("RPI")	UK RPI	2011 – 2060	12,078,343	766,744
Liability driven	UK RPI	2011 – 2058	14,313,782	-
Credit default		2015 - 2016	396,418	-

The counterparties for all the swaps are banks. At 31 March 2011 the Funds held collateral of £16,827,119 in a mixture of cash and UK gilts.

#### b) Futures

Type	Expiration	Underlying Investment	Economic Exposure £	Market value £
Assets - Fixed income	June 2011	Govt Gilts	30,806,170	1,146,665
Liabilities – Fixed income	June 2011	Govt Gilts	(8,553,884)	(121,020)

The initial and variation margin amounts at 31 March 2011 were £1,725,441 and £1,025,645 respectively, and are included in bank deposits above.

#### c) Foreign exchange contracts

Settlement	Buy	Sell	Asset value £	Liability value £
April 2011	\$1,591,000	£992,567	5,880	-
April 2011	£3,524,999	\$5,650,000	7,151	5,693
April / May 2011	EUR2,461,000	£2,178,502	42,117	-
April / May 2011	£12,484,510	EUR14,105,000	160,537	325,415



**14 Current liabilities**

	<b>Closed fund 2011 £'000</b>	<b>Open fund 2011 £'000</b>	<b>Combined fund 2011 £'000</b>	<b>Combined fund 2010 £'000</b>
Withdrawal benefits:				
Transfers and contribution refunds	-	206	206	-
Amounts due to brokers	-	2,595	2,595	-
Sundry creditors	193	991	1,184	2,236
External current liabilities	193	3,792	£3,985	£2,236
Inter-fund balance	71	-		
<b>Individual Funds' current liabilities 2011</b>	<b>£264</b>	<b>£3,792</b>		

	<b>Closed fund £'000</b>	<b>Open fund £'000</b>	<b>Combined fund £'000</b>
31 March 2010:			
External current liabilities	209	2,027	£2,236
Inter-fund balance	90	-	
Individual Funds' current liabilities 2010	£299	£2,027	

**15 Member credited service**

Additional voluntary contributions (AVCs) made during the financial year to purchase added years under the principal scheme of £27,716 (2010 - £70,626) are shown in the income of the Open Fund and the assets acquired with the AVCs are included in the net assets statement.

## Notes to the Financial Statements

### 16 Money purchase schemes

Additional Voluntary Contributions (AVCs) are receivable for separate investment for the benefit of individual members. The Open Fund's AVC arrangements are operated by Scottish Life Assurance Company (SLAC) and the Prudential Assurance Company (PAC) and include a selection of unit linked investment funds.

The individual members receive details of their investments directly from the insurance company concerned and the investment and income are not treated as part of the Open Fund's assets and income as shown in the financial statements.

On retirement members may use the money purchase investments they may have accumulated under the AVC arrangements to provide a cash lump sum at retirement. This sum would be tax-free under current legislation and subject to certain limits. Such transfers from the AVC arrangements are included in individual transfers from Money Purchase Schemes (see note 5). There is also an 'Open Market Option' available to members where they may use their accumulated AVC funds to purchase an annuity with an insurer of their choosing.

All administration provided by the ITB Pension Funds does not incur any cost for Money Purchase members.

The amounts involved during the year are as follows:	<b>Prudential 2011 £'000</b>	<b>Scottish Life 2011 £'000</b>	<b>Prudential 2010 £'000</b>	<b>Scottish Life 2010 £'000</b>
Funds as at 1 April 2010	1,124	395	1,028	535
Members' AVC contributions	128	10	144	16
Interest credited by SLAC	-	15	-	5
Interest and bonuses credited by PAC	7	-	10	-
Change in market value of units	50	-	215	-
	1,309	420	1,397	556
Transfers out (including to main Fund)	(229)	(139)	(273)	(161)
<b>Funds at 31 March 2011</b>	<b>£1,080</b>	<b>£281</b>	<b>£1,124</b>	<b>£395</b>

Monies invested with SLAC are invested in the Scottish Life Deposit Administration Fund.

Monies invested with PAC are invested in any of the following funds at the discretion of the Member concerned:

- With Profits
- Deposit
- Aberdeen Life Balanced
- Overseas Equity (Passive)
- UK Equity (Passive)
- Fixed Interest
- Socially Responsible
- Retirement Protection



### **17 Post balance sheet event**

Following a review of the Closed Funds investment strategy, in April 2011 the Trustees invested in a buy-in contract covering most of the existing liabilities, with the Pension Insurance Corporation (PIC).

The cost of the contract was £152.7 million. The funds remaining under the direct control of the Trustees will continue to be used to meet ongoing administration costs, as a contingency margin and to increase pensions, subject to the discretion of the Trustees.

Scheme administration will remain unchanged with pensions being paid to members from the ITB Pension Funds office and all correspondence should continue to be directed there.

## Supplementary Information

### Internal Dispute Resolution

The Pensions Act 1995 (as amended by the Pensions Act 2004) requires that all pension schemes have a formal internal dispute resolution procedure in place allowing members, prospective members, beneficiaries and contingent beneficiaries an avenue for complaint.

It is hoped that members and beneficiaries will always be pleased with the service provided by the ITB Pension Funds' Office and that no-one has reason to complain. However, in the unlikely event that a complaint arises and a member of the Funds' staff fails to provide a satisfactory answer, then a copy of the formal internal dispute resolution procedure is available upon request from: The Director, The ITB Pension Funds, 23 King Street, Watford WD18 0BJ.

### The Pensions Advisory Service (TPAS)

The Pensions Advisory Service (TPAS) is an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of pensions covering State, occupational, personal and stakeholder schemes.

TPAS is commonly used by members and beneficiaries to help resolve a pensions query or any difficulty which they have failed to resolve with the trustees of their pension scheme, which may be before or during an official dispute procedure.

**Address:** 11 Belgrave Road, London SW1V 1RB

**Website:** [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

**Telephone:** 0845 601 2923

### The Pensions Ombudsman

If you are unable to resolve your dispute using the internal dispute resolution procedure, and normally only after having sought the assistance of TPAS, an application can be made to the Pensions Ombudsman for adjudication.

The Pensions Ombudsman's role and powers have been decided by Parliament, and he is appointed by the Secretary of State for Work and Pensions. He is completely independent and is available to investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme. He does not charge for his services.

The Pensions Ombudsman's decision is final and binding on all the parties to the complaint or dispute. It can be enforced in the Courts. His decision can only be changed by appealing to the appropriate court on a point of law.

**Address:** 11 Belgrave Road, London SW1V 1RB

**Website:** [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

### The Pensions Regulator

The Pensions Regulator is the UK regulator of work-based pension schemes. Under the Pensions Act 2004, the Pensions Regulator's objectives are to protect the benefits of members, promote good administration and to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund. The Pensions Regulator can intervene in the running of schemes where trustees, employers or professional advisers have failed in their duties.

**Address:** Napier House, Trafalgar Place, Brighton BN1 4DW

**Website:** [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

### The Pension Protection Fund

The Pension Protection Fund was set up under the provisions of the Pensions Act 2004 in April 2005 and is classified as a public financial corporation. It was established to pay regular compensation to members of eligible defined benefit schemes when there has been a qualifying insolvency event in relation to the employer, and where there are insufficient assets in

the pension scheme to cover Pension Protection Fund levels of compensation.

The Pension Protection Fund is also responsible for the Fraud Compensation Fund - a fund that will provide compensation to occupational pension schemes that suffer a loss that can be attributable to dishonesty.

**Address:** Pension Protection Fund, Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR

**Website:** [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)

**Email:** [information@ppf.gsi.gov.uk](mailto:information@ppf.gsi.gov.uk)

**Telephone:** 0845 600 2541

#### **Pension Tracing Service**

If you think you may have an old pension, but are not sure of the details, contact the Pension Tracing Service. The Service (part of the Department for Work and Pensions) has access to a database of over 200,000 pension schemes and can be used, free of charge, to search for a scheme.

**Address:** Pension Tracing Service, The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne NE98 1BA

**Website:** [www.direct.gov.uk](http://www.direct.gov.uk)

**Telephone:** 0845 6002 537

#### **HM Revenue & Customs Registration**

The ITB Pension Funds is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 (HM Revenue & Customs Pension Scheme Tax Reference No. 00329981RF).

#### **Keeping us Informed**

Please ensure that you keep the Trustees of the ITB Pension Funds advised of any change of address. You can do this by writing to the Funds' Office or using the Funds' website **[www.myitb.com](http://www.myitb.com)**.

#### **ITB Pension Funds Tax Office**

The Tax Office dealing with the ITB Pension Funds can be contacted via:

**Address:** West Yorkshire and Craven Area, Taxpayer Service Office, Centenary Court, 1 St. Blaise Way, Bradford, BD1 4YD

**Telephone:** 0845 3021432

**Open Fund Reference:** 073/I1012A

**Closed Fund Reference:** 073/I1012

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## Contact

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

Telephone: 01923 226 264

E-mail: [pensions@itbpen.com](mailto:pensions@itbpen.com)

Websites: [www.itb-online.co.uk](http://www.itb-online.co.uk) and [www.myitb.com](http://www.myitb.com)



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