



The ITB Pension Funds

YOUR SCHEME
WORKING FOR
YOUR FUTURE

The ITB Pension Funds Trustees'
Annual Report & Financial Statements

2017/18



TRUSTEES' ANNUAL REPORT

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The scheme year ending 31 March 2018 was my first full year as Chairman and has seen the ITB Funds experience a number of positive developments as well as some significant challenges resulting from legislation.

There have also been numerous important external events and issues, such as the continuing uncertainty around the Brexit negotiations and the return to power of a Conservative Government without an overall majority. These factors contributed to a background of both political and economic uncertainty.

Despite this background, the ITB Pension Funds achieved a number of positive internal objectives, some of which I will highlight below, with further information contained in the main body of the report.

THE OPEN FUND

Defined Benefit (DB) Actuarial

For a number of years defined benefit pension schemes have been facing difficult headwinds. The issues to be dealt with are varied, but they include historically low long term interest rates and increasing life expectancy. The latter is good news for individuals, but puts a strain on pension schemes because pensions have to be paid for longer than previously assumed.

The last formal triennial valuation of the Open Fund was as at 31 March 2016. A formal valuation is the process by which the financial health of a pension scheme is assessed and future contribution requirements determined. The valuation was conducted by the Scheme Actuary, Martin Clarke of the Government Actuary's Department (GAD), who advises the Trustees on assumptions about factors such as long term interest rates, membership mortality rates and the return on the Funds assets, to estimate if the Open Fund will be able to provide all the current and future benefits due to be paid.

The outcome of the valuation as at 31 March 2016 was that the Fund had cleared the previous deficit and had a small surplus.

Against a background of continuing low interest rates and the majority of other DB schemes remaining in deficit, this was seen as a very positive development with the DB Section of the Open Fund once again fully funded on an ongoing basis.

DB Section Investment Strategy

At the beginning of the Scheme year, the Trustees had a policy of seeking to de-risk the Open Fund's investment strategy over the next 15 years or so and to move to a position where the Fund has sufficient lower risk assets to pay the benefits as they fall due, without requiring contributions from the employers.

The Trustees, along with their investment advisers, are constantly seeking opportunities to increase the security of benefit payments from the Fund given the uncertainty of markets and increasing life expectancies.

The advice from our advisers during the year was that there were market opportunities to invest in additional annuities from an insurance company and to hold them alongside the Fund's other investments. Using this approach, the Trustees are still responsible for paying members pensions, but the risk of paying pensions longer than previously assumed will be insured. This is called a "buy-in".

I can report that, during the last Scheme year, two further selection exercises were successfully completed, with the result that the Trustees purchased two further buy-in annuity policies for the Open Fund, with the last of the two contracts being signed on 6 April 2018. They were both with Pension Insurance Corporation, who offered the most competitive terms on both occasions.

Consequently, the de-risking strategy is now at the point where the Open Fund has already achieved a position of self-sufficiency on the Trustees chosen assumptions, with virtually all current pensioner benefits now secured by investments in buy-in policies. Members and Participating Employers will be re-assured by this achievement.

The Defined Contribution (DC) Section

In recent years, most ITB employers have changed their policy on pension provision by only offering new employees membership of the Open Fund DC Section. The majority of the employers have also moved their existing DB Section members to the DC Section for future service. The effect of this is that at the time of writing there are now only a handful of active members in the DB Section of the Open Fund, with most members now accruing future benefits in the DC Section. The members affected will have been advised by their employer of the terms of the move to the DC Section.

The ITB Open Fund employers are following a well-established trend, as the UK has seen a significant move from DB to DC pension provision in recent years and in line with this, greater regulatory attention has focused on DC pension arrangements. The most significant development affecting the ITB DC Section is the new legislation relating to DC Master Trusts.

It was initially believed by the ITB Trustees that the Government's Master Trust Regulations were intended to cover commercial DC schemes providing pension arrangements to a wide range of employers. These Master Trusts are often very different from the ITB DC Section and are often operated to make a profit. The ITB Trustees and many of the Participating Employers lobbied the Department for Work and Pensions explaining how the ITB DC Section should not be considered a commercial Master Trust and seeking an exemption from the Regulations. Unfortunately, we were not successful in obtaining an exemption and we are currently investigating what is required to obtain authorisation under the new regime.

THE CLOSED FUND

The last formal Closed Fund actuarial valuation was in 2015 and the next one will be as at 31 March 2018. We are therefore now well into the process of working with the Scheme's actuary to carry out the 2018 valuation.

However, every year the Government Actuary's Department conduct an interim review to check that the financial position of the Closed Fund has not changed to the extent that action is required. I can report that the last completed interim review as at 31 March 2017 confirmed that the Closed Fund remains in good financial shape and well positioned to provide members with all their promised benefits.

EMPLOYER COVENANT

For the ITB Trustees the strength of the employers' covenant is an important factor when formulating decisions about the appropriate actuarial assumptions and investment strategy for the Open Fund DB Section. As it is such a key element of our risk assessment process, we have appointed an independent firm to advise on covenant strength and to report to us on each employer's financial position and business prospects. We work hard to understand the issues confronted by our sponsoring employers as they react to the economic and

business environment. An important activity for the Trustees is to monitor their ability to meet their funding obligations to the Fund.

For some time our covenant advisers CVR Global, have been highlighting their concerns with the financial performance of People 1st which was making financial losses. These concerns increased in the early part of 2018 when our advisers concluded that People 1st were approaching a situation where it appeared they might fail with insufficient reserves to meet their debt obligations to the pension scheme. Having taken advice and working in conjunction with the other Participating Employers, in March 2018 the Trustees decided to ask People 1st to withdraw from the Fund and pay its s75 debt, essentially the amount required from the company to meet its share of the Fund's unfunded benefit obligations if it was ever to wind-up. People 1st was unable to pay the debt and, after an unsuccessful period looking for a purchaser for the whole business, went into administration on 23 April 2018. The Trustees are now working with the liquidators to recover as much of the outstanding debt of circa £6.4 million as possible. However, based on the size of its reserves at termination, the Fund is likely to receive only a relatively small percentage of what is owed.

TRUSTEES

The wide and varied business experience, skills and diversity of thought on the Trustee Board makes a real and positive contribution to our decision making on the many varied and complex issues the Trustees have to contend with. I remain grateful for the support and input of my fellow Trustees, who have done much to contribute to the success of the ITB Funds over the years.

A number of my Trustee colleagues have left during the scheme year or shortly afterwards. These include; Brian Wisdom, the employer nominated Trustee for People 1st, John McDonald, the employer nominated Trustees for OPITO Ltd and Andrew Doyle the member nominated Trustee for People 1st. I would like to formally thank them all for their service and contribution over the years that they acted as Trustees and wish them well for the future.

I also welcome to the Trustee Board two new Trustees; David Lewis as the member nominated Trustee for ECITB and David Wake, the member nominated Trustee for CITB.

GOVERNANCE

The ITB Trustees have long regarded the subject of governance as a high priority. The operation and authority delegated to the three key trustee sub-committees; the Management Panel, the Investment Committee and the Salaries Committee, is reviewed regularly.

The question of conflicts of interest is likewise taken very seriously and is the first item of business at every Trustee Board and sub-committee meeting. We have a clear policy for identifying and managing conflicts that all my fellow Trustees are aware of and support.

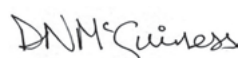
In addition, we value the quality of advice and service we receive from our professional advisers. We review our advisers regularly to ensure that quality and value for money are maintained.

FUNDS' STAFF

The Funds' Office Chief Executive and Director, Vincent Gordon, and the rest of the team at the Funds' Office once again made a significant contribution to our operational success. The team strive for high standards of management and administration to provide the desired level of service to all members of the Trustee Board, the Funds' employers and to you the members, active, retired or yet to draw benefits. On behalf of my fellow Trustees I would like to thank the team for its support.

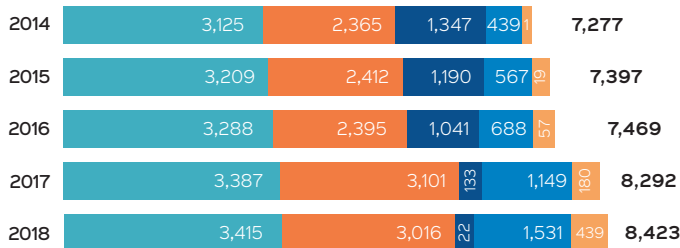
OUTLOOK

The Trustees feel that this past scheme year has been a successful one, with the DB Fund having achieved a very sound financial situation, based on a lower risk investment strategy as well as remaining in surplus and with the DC Section continuing to grow and achieving satisfactory investment returns on the various funds offered. Nonetheless, challenges remain as political and economic uncertainty continues to influence markets and the full impact of the Master Trust Regulations is still being investigated. However, the ITB Pension Funds approaches these challenges from a position of strength based on the sound financial platform we have been able to build.



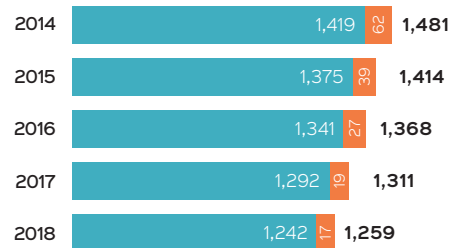
David Newell McGuinness
29 June 2018

OPEN FUND – Membership

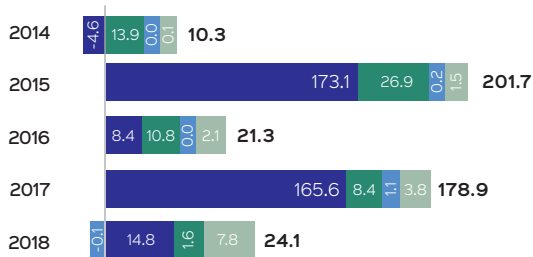


KEY: PENSIONERS & DEPENDANTS DEFERRED (DB) ACTIVE (DB) ACTIVE (DC) DEFERRED (DC)

CLOSED FUND – Membership

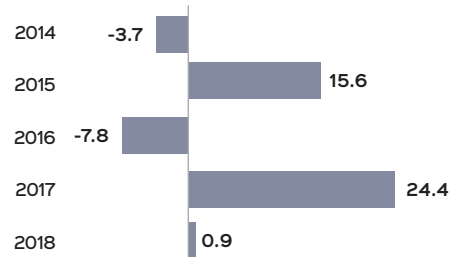


OPEN FUND (DB & DC SECTIONS) – Income (£m)

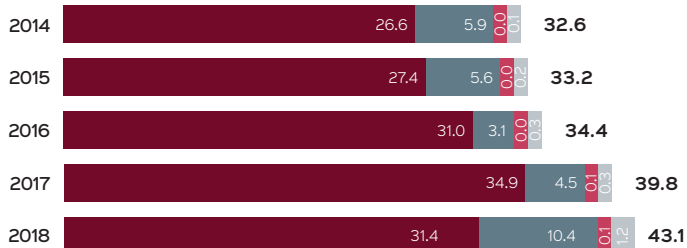


KEY: INVESTMENT (DB) CONTRIBUTIONS (DB) INVESTMENT (DC) CONTRIBUTIONS (DC) INVESTMENT CLOSED FUND

CLOSED FUND – Income (£m)

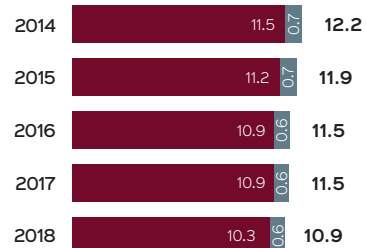


OPEN FUND (DB & DC SECTIONS) – Expenditure (£m)

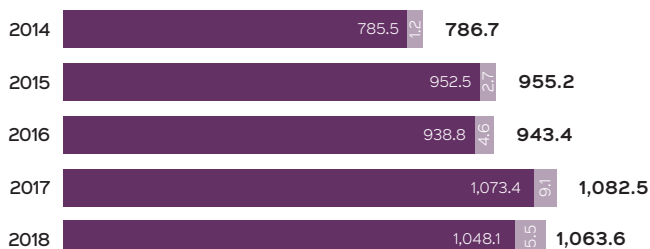


KEY: PENSIONS (DB) OTHER (DB) PENSIONS (DC) OTHER (DC)

CLOSED FUND – Expenditure (£m)

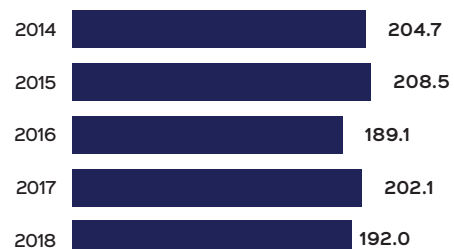


OPEN FUND (DB & DC SECTIONS) – Fund Value (£m)



KEY: OPEN FUND (DB SECTION) OPEN FUND (DC SECTION) CLOSED FUND

CLOSED FUND – Fund Value (£m)



BOARD OF TRUSTEES

as at 31 March 2018

EMPLOYERS' TRUSTEES

DAVID BIRTWISTLE

Nominated by:
Science, Engineering
and Manufacturing
Technologies Alliance
(Independent Consultant)



JOHN DEARDEN

Nominated by:
CAPITB Limited
(Retired Chief Executive
of CAPITB Limited)



CAPITB Ltd

TERRY LAZENBY, MBE

Nominated by:
Engineering
Construction ITB
(Retired Chairman of ECITB)



NEWELL MCGUINNESS

(Chairman)
Nominated by:
Scottish Electrical
Charitable Training
Trust (SECTT)
(Managing Director
of SELECT)



TONY PRINGLE

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



PETER ROGERSON, OBE

(Deputy Chairman-
Employers)
Nominated by:
Construction ITB
(Retired Deputy Chairman of
Construction ITB)



NIGEL TITCHEN

Nominated by:
Lantra
(Lantra Trustee and
Board Member)



MEMBERS' TRUSTEES

DAVID LEWIS

Nominated by:
Engineering
Construction ITB
(Senior Account Manager)



MARTIN MCMANUS

Nominated by:
Cogent SSC Limited
(Policy & Standards
Manager – Nuclear)



SARAH PARKIN

Nominated by:
Scottish Electrical
Charitable Training
Trust (SECTT), CAPITB
Limited, OPITO Limited
(Finance/Administration
Manager for SECTT)



PENSIONERS' TRUSTEES

MAURICE ALSTON

Nominated by:
Closed Fund Pensioners
Previously Chemical
and Allied Products ITB
(Retired – formerly Senior
Training Adviser Chemical
and Allied Products ITB)



JAS SALL

Nominated by the
trades union Unite for:
Science, Engineering
and Manufacturing
Technologies Alliance
(External Quality Assurer
for SEMTA)



ROBERT TABOR

Nominated by:
Lantra
(Director of Lantra Awards)



DAVID WAKE

Nominated by the
trades union Unite for:
Construction ITB
(CITB Advisor – London East)



DAVID BARNETT

**(Deputy Chairman-
Members)**
Nominated by:
Open Fund Pensioners
Previously Road
Transport ITB
(Retired – Formerly Director
General of RTITB)



OFFICERS AND ADVISERS

OFFICERS

Chief Executive and Director

Vincent Gordon FPMI

Funds' Accountant

Mike Thorpe ACA

Pensions Administration Manager

Chris Bettles DipPMI

ADVISERS

Actuary

Martin Clarke FIA Government Actuary's Department

Auditor

Moore Stephens LLP

Covenant Adviser

CVR Global LLP

Investment Adviser and Performance Monitor

Lane Clark & Peacock LLP

Solicitors

Mayer Brown International LLP

Investment Managers

Allianz Global Investors GmbH

BlackRock Investment Management (UK) Ltd

Capital International Portfolios
(terminated 29 November 2017)

Fidelity International

Fletcher King

GMO Funds PLC (terminated 24 November 2017)

Insight Investment Management (Global) Ltd

Investec Asset Management Ltd
(terminated 27 November 2017)

Just Retirement Ltd

Legal & General Assurance Society Ltd
(DC Section and AVCs)

Pension Insurance Corporation PLC

Prudential Retirement Income Ltd (AVCs)

Royal London Mutual Insurance Society Ltd (AVCs)

Ruffer LLP

Schroder Investment Management (Luxembourg) S.A.

Custodians

JP Morgan Chase Bank NA

The Bank of New York Mellon (International) Ltd



PARTICIPATING EMPLOYERS

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

People 1st's participation in the Funds was terminated with effect from 26 March 2018.

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:

CAPITB Limited

Cogent SSC Limited

Participating Subsidiaries:

Cogent Skills Services Limited
Science Industry Assessment Service Ltd
Cogent (Telford) Limited

Construction ITB

Engineering Construction ITB

Lantra

OPITO Limited

Science, Engineering
and Manufacturing
Technologies Alliance

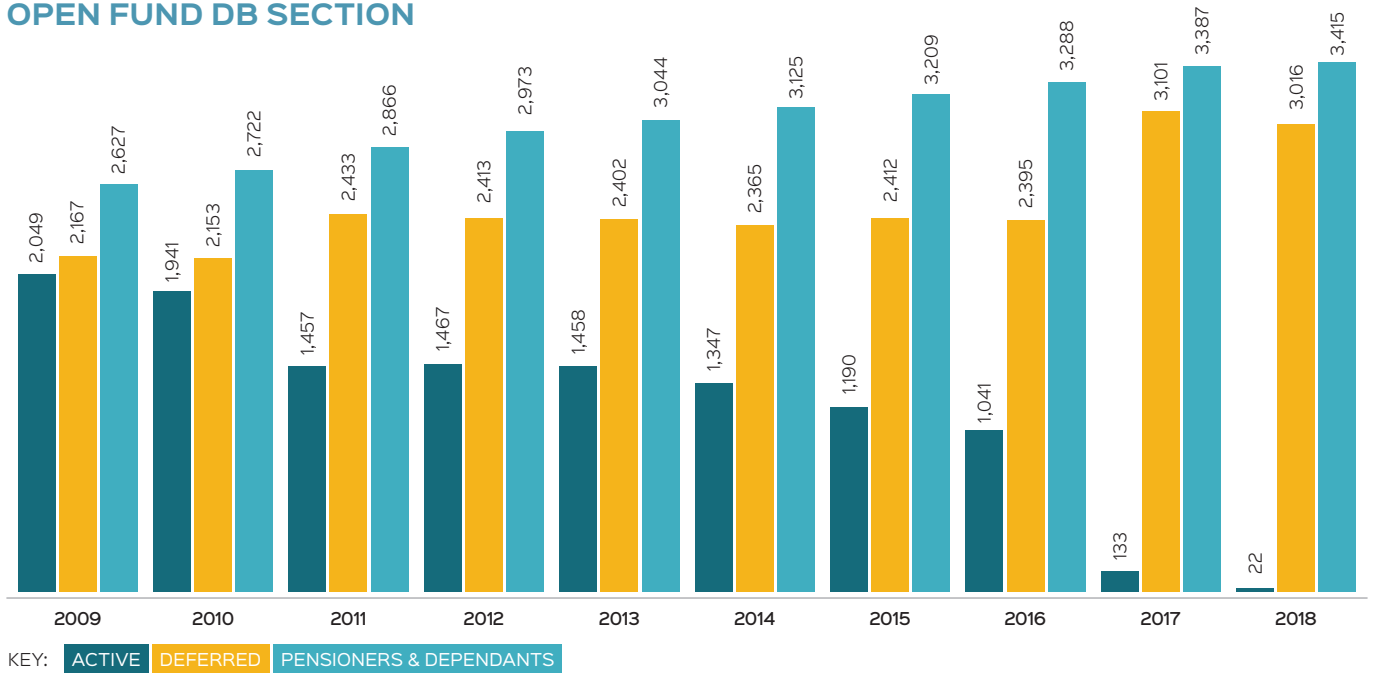
Participating Subsidiaries:

Excellence, Achievement and Learning Limited
Metals Industry Skills and Performance Limited
Training Publications Limited
National Skills Academy for Manufacturing

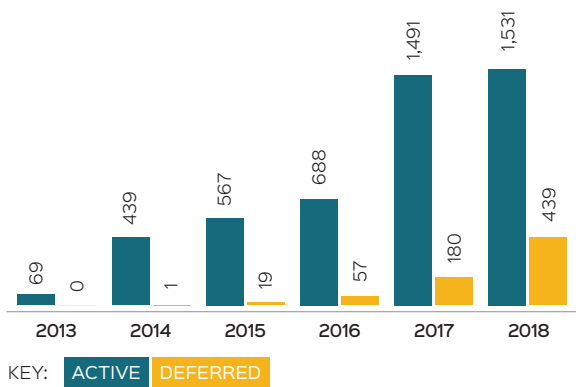
Scottish Electrical
Charitable Training Trust

MEMBERSHIP

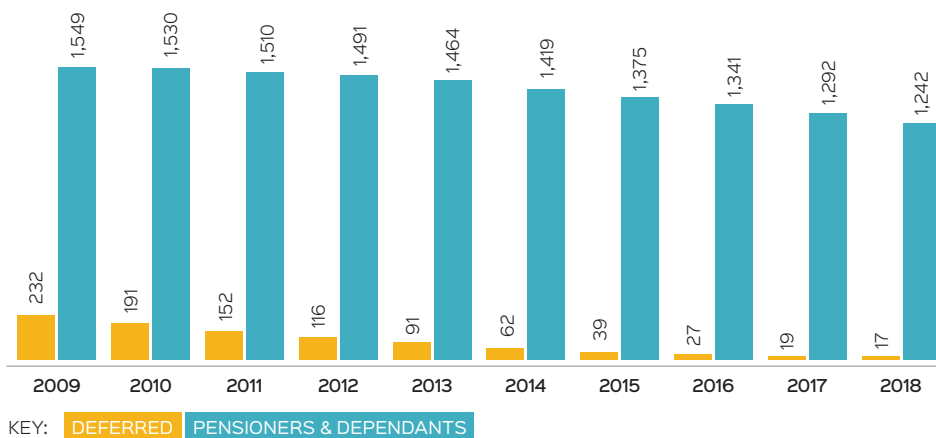
OPEN FUND DB SECTION



OPEN FUND DC SECTION



CLOSED FUND



The Trustees present their annual report together with the financial statements for the year ended 31 March 2018. The financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

FUNDS CONSTITUTION

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 Member (including Pensioner) Trustees and Employer Trustees. It is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004.

The assets of the Funds are separate from those of its Participating Employers and are held in trust by the Trustees, to apply them for paying pensions and other benefits in accordance with the Trust Deed and Rules.

FUNDS STRUCTURE

The Open Fund consists of four 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, and
- the 'DC Section', which was introduced on 1 April 2012.

Employees of Participating Employers may join the Open Fund subject to eligibility conditions and elections made by Employers. The benefits received by members are determined by elections made by the Employers. All Employers have elected not to offer further DB benefits from the following dates:

- ECITB from 6 April 2016
- CITB from 1 January 2017
- Lantra from 1 February 2017
- Cogent SSC Ltd (and subsidiaries) and OPITO Ltd from 1 April 2017
- SEMTA and CAPITB from 1 October 2017, and
- SECTT from 1 July 2018.

The Closed Fund has no Participating Employers paying contributions, and it is predominantly invested in an insurance policy intended to match its liabilities.

PEOPLE 1ST

People 1st, a Participating Employer, left the ITB Pension Funds on 26 March 2018. As at that date People 1st's membership of the Open Fund was terminated and its Trustees' appointments were terminated. At that time a section 75 debt of £6.4m became due from People 1st. No monies have yet been received and recovery proceedings are ongoing. Due to the uncertainty of recovery no credit for this amount has been taken in the financial statements.

TRUSTEESHIP APPOINTMENT AND REMOVAL OF TRUSTEES

Normally, based on the current number of Participating Employers, the ITB Pension Funds is governed by 18 Trustees consisting of nine Employers', seven Members' and two Pensioners' Trustees. Since People 1st left the Funds on 26 March 2018, the Trustee Board has been short of one Employers' Trustee and one Employees' Trustee. Details of the Trustees in office at the year-end are shown on pages 8 and 9.

Of the nine Trustees currently nominated by Employers, the two Statutory Training Bodies each nominate one Trustee. Of the remaining Employers, the six with the largest average number of active members at each triennial 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. The next head-count date is 31 December 2018. 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 for the purpose of Trustee nomination and, if necessary, tally their combined membership for qualification.

The remaining Employers not large enough to appoint a Trustee on their own will co-operate in nominating a Joint Employers' Trustee. However, the only Employer that currently falls into the smaller Employer category under the Rules is CAPITB.

Active 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 trades union for negotiating terms and conditions of service. The trades union concerned then nominates the

TRUSTEES' REPORT

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

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

Open Fund pensioners and members with preserved pensions, who are not also active members of the DC Section, 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.

To comply with the Charges & Governance Regulations 2015, the Funds' Employer Trustees must be appointed by an open and transparent process (OTP). Consequently, any appointment or re-appointment of an Employer's Trustee of the Funds will be undertaken under an OTP and moreover, all newly appointed Trustees will have a maximum tenure of 10 years.

CHANGES TO THE TRUSTEES

Employers' Trustees

The period of office of Jonathan Swift (Chairman of Trustees) as Employer Trustee for Lantra ended on 31 March 2017. Following an OTP Lantra nominated Nigel Titchen as its Employer Trustee, who was subsequently appointed as Trustee on 1 April 2017.

Peter Rogerson, the Employer Trustee for CITB, retired by rotation on 31 March 2017 and was re-nominated by CITB for a further three-year term under an OTP.

Tony Pringle, the Employer Trustee for Cogent, was due to retire by rotation on 9 October 2017 but as Cogent has not yet nominated a replacement, Tony remains in office.

John McDonald, the Employer Trustee for OPITO Ltd, tendered his resignation as Trustee on 1 January 2018. After OPITO had undertaken an OTP, Darren Thow was appointed to succeed John on 29 June 2018.

Brian Wisdom, the Employer Trustee for People 1st ceased to be a Trustee on 26 March 2018, when People 1st's participation in the Funds was terminated.

Members' Trustees

Rob Sweeney, the Member Trustee for CITB, left the service of CITB and resigned as a Trustee on 8 March 2017. David Wake was nominated by the trades union, Unite, to succeed him as a Members' Trustee and was appointed on 30 June 2017.

Roisin Boyer, the Member Trustee for People 1st left the service of People 1st on 30 April 2017 and Andrew Doyle was appointed by ballot to succeed her on 6 October 2017. Andrew Doyle was removed as Trustee on 26 March 2018, when People 1st's participation in the Funds was terminated.

Phillip Jefferies, the Member Trustee for ECITB, left the service of ECITB and resigned as a Trustee on 21 July 2017. David Lewis was appointed by ballot to succeed him as ECITB Members' Trustee on 6 October 2017.

The term of office of Robert Tabor, Lantra Members' Trustee, came to an end on 31 March 2018 and following a nomination process, he was reappointed for a further three-year term.

Pensioner Trustees

The term of office of Maurice Alston, Closed Fund Pensioner Trustee, came to an end on 3 April 2017 and following a nomination process, he was reappointed for a further three-year term.

The term of office of David Barnett, Open Fund Pensioner Trustee, came to an end on 1 October 2017 and following a ballot, he was re-elected for a further three-year term.

Chairman of Trustees

In the nomination process for Chairman of Trustees to succeed Jonathan Swift, Newell McGuinness, the Employer Trustee for SECTT, stood unopposed and was appointed Chairman as of 1 April 2017.

Employers' Deputy Chairman

Peter Rogerson's period of office came to an end on 31 March 2018 and as he was the sole nominee in the nomination process his period of office continues for a further three-year term.

MEETINGS

Trustees normally meet at least four times a year.

COMMITTEES

The Trustees have appointed the following committees – an Investment Committee, a Management Panel and a Salaries Committee. The Investment Committee meets at least four times a year. The Management Panel meets as frequently as is required by the projects it is delegated to undertake. The Salaries Committee meets at least once a year.

MEMBERSHIP

The membership for the year to 31 March 2018 was as follows:

OPEN FUND DB SECTION

| | 1 April 2017 | Additions | Leavers Retirements, & Transfers | Deaths | 31 March 2018 |
|------------------|--------------|------------|--|--------------|---------------|
| Active Members | 133 | 1 | (112) | - | 22 |
| Deferred Members | 3,101 | 85 | (165) | (5) | 3,016 |
| Pensioners | 2,789 | 121 | - | (97) | 2,813 |
| Dependants | 598 | 39 | - | (35) | 602 |
| Total | 6,621 | 246 | (277) | (137) | 6,453 |

OPEN FUND DC SECTION

| | 1 April 2017 | Additions | Leavers Retirements, & Transfers | Deaths | 31 March 2018 |
|------------------|--------------|------------|--|------------|---------------|
| Active Members | 1,491 | 341 | (299) | (2) | 1,531 |
| Deferred Members | 180 | 284 | (25) | - | 439 |
| Total | 1,671 | 625 | (324) | (2) | 1,970 |

CLOSED FUND

| | 1 April 2017 | Additions | Leavers Retirements, & Transfers | Deaths | 31 March 2018 |
|------------------|--------------|-----------|--|-------------|---------------|
| Deferred Members | 19 | - | (2) | - | 17 |
| Pensioners | 911 | 2 | - | (42) | 871 |
| Dependants | 381 | 14 | - | (24) | 371 |
| Total | 1,311 | 16 | (2) | (66) | 1,259 |

PENSION INCREASES

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).

The level of increase is currently determined by reference to the annual rise in the Consumer Prices Index (CPI) at the end of the previous September each year, with any increase being applied from the first Monday on or following the beginning of the new tax year. This year the level of CPI increase was 1% and was payable from 10 April 2017.

OPEN FUND NEW AND 2007 SECTIONS

Under the rules of the Open Fund, New and 2007 Sections the level of increase is currently determined by reference to the annual rise in the Retail Prices Index (RPI) at the end of the previous September each year, with any increase being applied from the first Monday on or following the beginning of the new tax year. The actual increase is subject to a maximum increase cap as described for the New and 2007 Sections in the table below. This year the level of RPI increase was 2% and was payable from 10 April 2017.

PENSIONS IN PAYMENT – INCREASE METHODS (ALL ITB DB SCHEMES):

| | Closed Fund & Open Fund (Old Section) | Open Fund (New Section) & Open Fund (2007 Section) | The State |
|--|---|---|--|
| 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 |
| The **GMP is increased as follows: 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 | Any excess over 3% of the annual up-rating orders issued by the Government |

*RPI = Retail Prices Index **GMP = Guaranteed Minimum Pension

PRESERVED PENSIONS – INCREASE METHODS (ALL ITB SCHEME SECTIONS)

Annual increases to preserved pensions for the Closed Fund and Open Fund (Old Section) are in line with annual up-rating orders issued by the Government as described in Pension Increases above. Preserved pensions for the Open Fund (New Section) and Open Fund (2007 Section) are increased by the lower of (a) 5% to the extent that the pension is attributable to pensionable service which accrued before 6 April 2005 and 2.5% (or other such percentage as shall be specified for the purposes of section 51 of the 1995 Act) to the extent that the pension is attributable to pensionable service which accrued on or after 6 April 2005 and (b) an amount which is in line with the RPI over the 12 months to the preceding 30 September.

CONTRACTING-OUT – CURRENT POSITION

The introduction of the new state pension system on 6 April 2016 brought an end to the ability for defined benefit schemes to contract members out of the additional state pension.

Prior to that, from 6 April 1978, all members of the ITB Pension Funds (DB Section) were contracted out of the Second Tier of the State Pension, known as the State Second Pension (S2P, formerly called SERPS). DC members participated in S2P as they and their Participating Employers paid full rate National Insurance contributions.

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 known as a Guaranteed Minimum Pension (GMP). GMPs do not accrue for post 5 April 1997 Pensionable Service, but members remained contracted-out and still receive benefits broadly equivalent to the S2P pension.

Where applicable, 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 VALUES

In accordance with guidance from the Pensions Regulator, transfer value calculations under the ITB Pension Funds (DB Section) use a method and basis determined by the Trustees, after taking advice from the Scheme Actuary, to be consistent with the relevant legislation and the rules of the ITB Pension Funds (DB Section).

Transfer values paid under the ITB Pension Funds (DC Section) equal the value of a members DC account as at the date of disinvestment. The Trustees do not accept transfers in to the DB Section. However, members of the DC Section may apply to the Trustees for the acceptance of transfer values from similarly approved schemes.

REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions.

The technical provisions represent the present value of benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Participating Employers and set out in the Statement of Funding Principles, which are available to members on request.

OPEN FUND – VALUATION RESULTS

The most recent full actuarial valuation of the Open Fund was carried out as at 31 March 2016. This showed that on that date:

**The value of technical provisions was:
£932,500,000**

**The value of the assets at that date was:
£942,200,000**

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Annex to the Statement of Funding Principles):

OPEN FUND – METHOD

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

OPEN FUND – SIGNIFICANT ACTUARIAL ASSUMPTIONS

- Discount rate for determining the technical provisions (or, equivalently, the expected return on the assets): The expected return on the assets is assumed to be the redemption yield available on fixed interest gilts of a similar duration to that of the Fund liabilities, plus a prudent margin to allow for expected returns on the Fund's assets exceeding those from gilts and minus an allowance for an inflation risk premium of 0.25% a year. The discount rate in the period before retirement reflects the expected investment returns on a portfolio consisting largely of return-seeking assets, whereas for the period after retirement the discount rate reflects the expected return on the liability driven investment portfolio. The trustees allow for 2.5%pa outperformance relative to the gilt yield before retirement and 0.5%pa outperformance relative to the gilt yield after retirement.

- Future Retail Price Inflation (RPI): The future RPI is derived from the difference between annually compounded redemption yields on fixed interest gilts and index linked gilts of a similar duration to that of the Fund liabilities, less an adjustment of 0.25% a year for the inflation risk premium.
- Future Consumer Price Inflation (CPI): The future CPI is derived from the assumption for RPI less a prudent adjustment equal to 0.9% a year.
- Pension increases: Pension increases are in line with the provisions under the Fund's rules, in line with the assumption for future CPI or RPI as appropriate, allowing for any caps and floors.
- Pay increases: Pay increases are assumed to be in line with RPI increases for the three years following the valuation date. Thereafter, salary inflation has been assumed to exceed RPI increases by 0.85% a year.
- Mortality (post retirement): Post retirement mortality is assumed to be in line with the S2NMA, S2NFA and S2DFA tables published by the UK actuarial profession, rated down 2 years of age for normal health retirements and rated up 2 years of age for ill-health retirements.
- Mortality Improvements: Projected improvements in mortality rates are assumed to be in accordance with an average of those underlying the principal and 'high' life expectancy variant improvements incorporated in the Office for National Statistics' 2014-based population projections for the United Kingdom. Improvements to mortality rates are assumed to be broadly in line with actual improvements in UK population mortality between 1 January 2007 (the date at which the S2 tables apply) and mid-2014.

CLOSED FUND – VALUATION RESULTS

The most recently completed actuarial valuation of the Closed Fund was carried out as at 31 March 2015. The valuation of the Fund's liabilities excludes those liabilities which will be met by a bulk annuity policy and for consistency the bulk annuity policy is excluded from the valuation of the Fund's assets. This most recent valuation showed that on that date:

**The value of technical provisions was:
£38,300,000**

**The value of the assets at that date was:
£74,300,000**

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Annex to the Statement of Funding Principles):

CLOSED FUND – METHOD

Scheme funding legislation requires trustees to determine which actuarial funding method to use. However, since the differences between the permissible methods arise solely in relation to the treatment of active members no such decision is necessary for the Closed Fund as it has no active members. The valuation then assesses the extent to which the Fund's residual assets are sufficient to meet future expenditure not met by the bulk annuity policy. The Fund's liabilities are valued using financial assumptions consistent with market conditions at the valuation date.

CLOSED FUND – SIGNIFICANT ACTUARIAL ASSUMPTIONS

The largest part of the Closed Fund's liabilities is insured by a bulk annuity policy. Therefore, the significant assumptions relate to differences in the Fund's liabilities and the terms of the bulk annuity policy and to the provisions for insurer insolvency and future expenses.

- Discount rate for determining the technical provisions (or, equivalently, the expected return on the assets): The expected return on the assets is assumed to be the redemption yield available on fixed interest gilts of a similar duration to that of the Fund liabilities minus an allowance for an inflation risk premium of 0.25% a year.
- Future Retail Price Inflation (RPI): Future RPI is derived from the difference between annually compounded redemption yield on fixed interest gilts and index linked gilts of a similar duration to that of the Fund liabilities less an adjustment of 0.25% a year for the inflation risk premium.
- Difference between RPI and CPI: There is no excess of the insurers benefit indexation (Retail Prices Index – RPI) above the Fund's benefit indexation (Consumer Prices Index – CPI).
- Mortality (post retirement): Post retirement mortality is assumed to be in line with the S2NMA, S2NFA and S2DFA tables published by the UK actuarial profession with no age rating.
- Mortality Improvements: Projected improvements in mortality rates are assumed to be in accordance with those underlying the principal variant improvements incorporated in the Office for National Statistics' 2012-based population projections for the United Kingdom.
- Insurer insolvency: The technical provisions include a provision for insurer insolvency, sufficient to cover an insolvency event in the year following the valuation date by setting a reserve equal to the present value of three years of benefit payments.
- Future expenses: The technical provisions include a provision for the Fund's expenses of £750,000 a year increasing in line with RPI until 2029-30.

FINANCIAL DEVELOPMENT DURING THE YEAR

The financial statements of the Funds for the year ended 31 March 2018 are set out on pages 36 to 57. During the year, the net assets of the Funds decreased from £1.28bn to £1.26bn.

CONTACT

If members have a query or wish to make their views known to the Trustees on any aspect of the ITB Pension Funds they should in the first instance write to the ITB Pension Funds, 23 King Street, Watford, Herts, WD18 0BJ or email pensions@itbpen.com.

INTRODUCTION

This statement has been prepared by the Trustees to demonstrate how the Funds have complied with the governance standards introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015. It covers the year to 31 March 2018 and six key areas relating to the Open Fund – Defined Contribution (DC) Section:

- The investment strategy relating to the DC default investment option
- The financial transactions made within the DC Section
- The charges and transactions costs within the DC Section
- The Trustees compliance with knowledge and understanding requirements
- Appointment of Trustees
- Membership Engagement

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

1 DC DEFAULT INVESTMENT OPTION

The DC Section was introduced in April 2012 and the latest comprehensive review of the arrangements was concluded in November 2017. The review was undertaken in 2017 because there was a significant increase in the membership of the DC Section and it was the third anniversary of the last full review. During 2017, the membership of the DC Section increased by 1,010 members (109%) due to employers switching from defined benefit accrual to defined contribution accrual.

The review was comprehensive and took account of DC market trends, performance and strategy of the existing default option, analyses of members ages and current and projected account sizes, data about how members had taken benefits in the past, the investment consultant's views on the investment options and funds and an assessment of value for members.

As a result of the review the Trustees concluded that the drawdown lifestyle strategy remained an appropriate default option, and that the cash and annuity lifestyle strategies would remain as options. The Trustees further concluded that the self-select range of funds offered a sufficiently broad range of options to members. However, the Trustees decided to make the following changes to better achieve the aims and objectives of the default arrangement and other arrangements as set out in the Statement of Investment Principles (SIP). The changes were implemented on 9 April 2018.

- The allocation between equities and multi-asset was changed in the growth phase of all lifestyles from 50% equities 50% multi-asset to 70% equities 30% multi-asset to maintain expected returns and reduce charges;
- The global equity fund was changed from the L&G Global Equity Fixed Weights 50:50 Index Fund to the L&G Global Equity Market Weights 30:70 Index Fund 75% GBP Hedged to reduce an overweight allocation to UK equity;
- The Newton Real Return Fund was removed from the fund range on the recommendation of the investment adviser due to concerns over its outlook and changes in the fund management team; and
- A bespoke Passive Multi-Asset Fund was replaced by the L&G Multi Asset Fund to reduce charges.

A review of the AVC arrangements with Royal London and Prudential was completed in May 2016. The review was conducted with advice from the Trustees' investment adviser and it assessed the financial strength of the provider, fund performance, charges and value-for-money, administration and communications. It was concluded that these AVC fund arrangements remained fit for purpose and accordingly the arrangements were left unchanged. The next review is scheduled for May 2019. The Investment Committee monitors the performance of the AVC funds each quarter.

The Trustees have adopted a SIP which covers both the DB and DC sections of the Funds. The latest DC Section SIP, dated 6 April 2018, is reproduced in the schedule to this statement. It sets out the investment principles for the DC funds, including the new default arrangement introduced in April 2018.

2 FINANCIAL TRANSACTIONS

The Trustees regularly monitor that core financial transactions of the DC Section are processed promptly and accurately. These transactions include the investment of contributions, transfers out, fund switches, and payments out, both to and in respect of members, and are undertaken on the Trustees behalf by the Funds' DC platform provider, Legal & General Assurance Society Ltd. (L&G), under a policy to administer the Funds' DC assets.

The Trustees work closely with the participating employers to help them understand their responsibilities as regards contributions and sharing information about members. Staff at the ITB Pension Funds (the Funds Office) are in regular communication with the employers about the detail of their obligations in respect of the DC Section. The Funds Office is

CHAIRMAN'S STATEMENT

for the Year Ended 31 March 2018

notified by the participating employers of the various percentage of employer and employee contributions due and performs reconciliations to ensure the correct payments are deducted.

All contributions deducted from members pay by the participating employers are paid to L&G by the end of the first week following the end of the calendar month in which they were taken from members' pay. This is within the legislative requirement, which is within 22 days of the end of the calendar month in which they were taken from members' pay if it is paid by electronic means (or 19 days in any other case). L&G invests the contributions in funds within 24 hours following receipt of contributions, whereas the Pensions Regulator expects contributions to be invested within a maximum of three working days following receipt.

The Trustees review reporting from L&G each quarter, which shows its performance against service level agreements for processing all core financial transactions, including investing contributions promptly on time and within legislative timescales. The Trustees also review the annual AAF 01/06 / ISAE 3402 Assurance Report on Internal Controls issued by L&G Investment Management, which gives independent assurance on the strength of the systems and controls operating within L&G Investment Management, the investment manager of the DC funds.

Staff at the ITB Pension Funds reconcile L&G's quarterly reports to monthly contribution summaries supplied by the participating employers to monitor whether contributions have been processed accurately. Any identified errors are rectified quickly and processes at L&G and the employers are reviewed to prevent further similar errors. Contributions to AVC arrangements are monitored in the same way.

Transfers out, fund switches and payments out, both to and in respect of members, are processed by L&G, on behalf of the Trustees. The promptness of processing these transactions is monitored by the Trustees through the service level performance reporting each quarter. The accuracy of processing these transactions is monitored by the Funds Office, which reconciles L&G's advance notice of the transactions to separate fund accounting reports.

The Trustees review of the DC Section's governance processes and internal controls each quarter, the most recent of which was completed on 29 June 2018, and have confirmed their view that they comply with the Pensions Regulator's DC Code of Practice No. 13. Based on the above, the Trustees are satisfied that the core financial transactions relating to the DC Section and AVCs have been processed promptly and accurately during the year.

3 CHARGES AND TRANSACTION COSTS

The level of annual charges (as measured by the total expense ratio (TER), which includes L&G's platform fee of 0.30% pa, but not transaction charges) for the lifestyle options, including the default option and the self-select funds, are as shown below. Charges are shown both for the period prior to the changes made as a result of the 2017 review and afterwards. The annual charges for the lifestyle options vary according to the mix of assets, which begins to change from when members are 15 years from retirement. Shown in the table below is the annual charge before 15 years to retirement and the highest and lowest annual charges within the period from 15 years to retirement.

| | Up to March 2018 | | | From April 2018 | | |
|---|------------------|------------------|--------|------------------|------------------|--------|
| LIFESTYLE OPTIONS Period to retirement: | MORE THAN 15 YRS | LESS THAN 15 YRS | | MORE THAN 15 YRS | LESS THAN 15 YRS | |
| | | Highest | Lowest | | Highest | Lowest |
| | % pa | % pa | % pa | % pa | % pa | % pa |
| Drawdown Lifestyle (Default Option) | 0.57 | 0.66 | 0.66 | 0.44 | 0.62 | 0.45 |
| Annuity Lifestyle | 0.57 | 0.57 | 0.39 | 0.44 | 0.49 | 0.39 |
| Cash Lifestyle | 0.57 | 0.65 | 0.40 | 0.44 | 0.61 | 0.40 |
| SELF-SELECT FUNDS | % pa | | | % pa | | |
| Over 5 years index-linked gilts index fund | 0.38 | | | 0.38 | | |
| Over 15 years gilts index fund | 0.38 | | | 0.38 | | |
| AAA-AA-A Corporate Bond over 15 year index fund | 0.42 | | | 0.42 | | |
| Global equity fixed weights 50:50 index fund | 0.40 | | | N/A | | |
| Global equity market weights 30:70 index fund (75% GBP Hedged) | N/A | | | 0.44 | | |
| Ethical global equity index fund | 0.60 | | | 0.60 | | |
| Passive Multi Asset Fund | 0.53 | | | N/A | | |
| Multi Asset Fund | N/A | | | 0.43 | | |
| Standard Life Global Absolute Return Strategies fund | 1.26 | | | 1.16 | | |
| Newton Real Return Fund | 1.21 | | | N/A | | |
| HSBC Islamic Global Equity Index Fund | 1.15 | | | 0.65 | | |
| Cash Fund | 0.40 | | | 0.40 | | |

The Investment Manager, L&G, has provided the following transaction costs for the year ended 31 December 2017 for funds managed by L&G available within the DC Section. Explicit costs are those directly charged to or paid by the fund, e.g. taxes, levies and broker commissions, whereas implicit costs are costs such as differences between selling and buying process (spreads) which may vary depending on market

liquidity and the size of transaction. Negative implicit costs arise when the actual price paid ends up being lower than the mid-market price at the time of placing an order. Transaction costs for funds available through L&G's platform but managed by another investment manager are not yet available from L&G. The Trustees have requested these costs from L&G.

CHAIRMAN'S STATEMENT

for the Year Ended 31 March 2018

| FUND | PERIOD AVAILABLE IF RESTRICTED | YEAR ENDED 31 DECEMBER 2017 | | |
|---|--------------------------------|-----------------------------|-----------------|--------------|
| | | Implicit %pa | Explicit %pa | Total %pa |
| Over 5 Years Index-Linked Gilt Fund | | -0.03 | 0.00 | -0.03 |
| Over 15 Years Gilts Index Fund | | 0.01 | 0.00 | 0.01 |
| AAA-AA-A Corp Bond Over 15 Years Index | | -0.02 | 0.00 | -0.02 |
| Global Equity Fixed Weights 50:50 Index Fund | To March 2018 | 0.00 | 0.00 | 0.00 |
| Global Equity Market Weights 30:70 Index Fund | From April 2018 | 0.00 | 0.00 | 0.00 |
| Ethical Global Equity Index Fund | | 0.01 | 0.01 | 0.02 |
| Multi Asset Fund | From April 2018 | -0.03 | 0.01 | -0.01 |
| Cash Fund | | -0.02 | 0.00 | -0.02 |

It is a constant objective of the Trustees that members receive value for money, as small differences in charges can have a major impact on the size of members' pension funds by the time they retire. In order to meet this objective, a value for money assessment of the DC arrangements was carried out by the Trustees as part of the comprehensive DC strategy review conducted in November 2017. The Trustees will review value for money each year. The Trustees considered the extent to which the cost of membership compares against the services and benefits provided by the DC Section, which include scheme governance and management, investment, administration and communications services. The review and assessment recognised that the only charges borne by members are the charges deducted from the funds (i.e. the TERs shown above, plus transaction costs), while the charges for all other services are borne by the participating employers.

The Trustees' assessment concludes that the TERs are competitive and that the new DC arrangements offer members good and improved value for money. This assessment was made after considering the advice of the investment adviser on the level of TERs based on their knowledge of the market as a whole, that members only pay the direct cost charged within the investment funds and all other services are paid for directly by employers. In addition, the other costs and charges are kept as low as possible by rigorous budgetary control and the charges borne by members are well below the government 'charge cap' of 0.75% pa in respect of default funds.

4 TRUSTEE KNOWLEDGE AND UNDERSTANDING

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

principles of funding and investment. The Trustees consider that the overall Funds' training programme satisfies this requirement.

The Trustee board comprises 16 members, either nominated by the participating employer or the employees and pensioners of participating employers. Each Trustee serves for a fixed three-year term, and can be re-appointed following each term. As at 31 March 2018, the average period of appointment is 5 years 10 months – 6 Trustees have been appointed for two years or less, whilst 6 Trustees, including the Chairman and the Deputy Chairmen, have been appointed for over 7 years. There is a wide spectrum of trustee experience and, therefore, the training programme both keeps the experienced Trustees up to date with pension developments and gives newer Trustees a basis, in line with the minimum requirements, on which to develop their knowledge and experience.

The training programme comprises the following elements:

- All new Trustees attend an induction programme that introduces the trust's deed and rules, statement of investment principles, statement of funding principles and other Funds policy documents, for example the Funds' management of conflicts of interest policy.
- Every year, each Trustee completes a training needs self-assessment and the Funds Office uses this assessment to identify areas where training is required and prepares a training plan for each Trustee. Through this process Trustees identified investment as a training need and, therefore, attended training on investments provided by an Investment Manager. New Trustees identified a need for a comprehensive introduction to trusteeship and attended a trustee foundation course provided by the Funds' legal advisers.
- The Funds also provide access to an ITB Funds Trustee website on which all key documentation can

be accessed, including the trust's deed and rules, statement of investment principles and statement of funding principles. The website also includes links to training course providers and the Pensions Regulator's e-learning course, the Trustee Toolkit, which all Trustees are required to complete.

- A formal training session is provided following each quarterly Trustee meeting, that is attended by all Trustees. Sessions during the scheme year included "Implications for Investors of recent elections" by investment management firm Ruffer, "Master Trust regulation" by the legal adviser Mayer Brown, "DC Investment Strategy Review" by the investment consultant LCP and "Update on Buy-in Insurance" by Pension Insurance Corporation.
- Significant training is provided in the form of formal briefings and training provided at Trustee and Investment Committee meetings. This year all Trustees have received briefings on the employer covenant review process, data protection and the Pensions Regulator's DB investment guidance.
- Each year all the Trustees attend a dedicated training seminar. This year, training was provided by the Funds advisers on the latest 2018 investment strategy review, the management of the Fund's property portfolio, the latest DC legal and regulatory developments including Master Trusts, Trust Law and Trustee responsibilities, the Trust Deed and Rules, GMP equalisation, employer debt legislation, developments in mortality data and actuarial assumptions and the March 2018 DWP White Paper on protecting private pensions and scheme funding and consolidation.

All training needs and training received is logged on a central training register that is used by the Funds Office to identify relevant subjects for training, which are then delivered within the framework described above. The Trustees consider that each new individual Trustee will take six months to complete the Trustee Toolkit and other training to meet the requirements for knowledge and understanding.

The combined training, knowledge and understanding of the trustee board currently enables the Trustees to properly exercise their functions. The combined knowledge of the board includes many years trustee experience and training as described above. Several of the Trustees are current or former senior executives with substantial experience of financial, managerial and governance matters; for example, one of the trustees was a Trustee of a major Master Trust; another of the trustees was an HR Director with substantial pensions knowledge and another is Chairman of a separate pension fund. Trustees are nominated by participating employers, or employees and pensioners

of participating employers, and that ensures detailed knowledge of the participating employers is available to the board, which is useful for interpreting and understanding advice on employer covenant strength, subject to managing conflicts of interest. The Trustees combined knowledge and understanding is also enhanced by the support of the Funds Office. The Funds Chief Executive is a qualified PMI professional of more than 31 years' experience in the pension industry, the Funds Accountant is a Chartered Accountant with 9 years' experience in life insurance and 11 years' experience in the pension industry, and the Pension Administration Manager has a PMI Diploma and 41 years' experience in the pension industry. Trustees also have ready access to actuarial advice from the Government Actuary's Department, investment advice from LCP and legal advice from Mayer Brown International. The actuarial and legal adviser attend each Trustee board meeting and the investment adviser attends each Investment Committee meeting. This combined support is part of the combined knowledge that enables the Trustees to properly exercise their functions.

5 APPOINTMENT OF TRUSTEES

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

All Trustees including the Chairman, are non-affiliated either because they have been appointed through an OTP or, where they were appointed prior to the 2015 Regulations coming into force, deemed non-affiliated in accordance with the DC Code of Practice No. 13.

In order to ensure compliance with Regulation 22, the Trustees have, during the scheme year and over the longer term, made arrangements with a view to ensuring that new Trustees are appointed via an OTP as explained below, and have monitored compliance with the conditions as to independence and term of office. Members' Trustees are nominated and appointed by members or by trades unions which represent them, and the Trustees are satisfied that these arrangements meet the OTP requirement. Employers' Trustees are appointed by Employers but, to ensure that the OTP requirement is met, the Trustees stipulate that Employers should follow certain ground rules when making appointments. Under the ground rules, Employers must determine the

CHAIRMAN'S STATEMENT

for the Year Ended 31 March 2018

constituency from which Trustees will be selected and the process used to make the selection, which must involve a panel of at least three individuals; notice as to these matters must be given to people in the constituency and to the Employer's active members (the "interested parties"); the selection must take account of candidates' fitness and propriety to act as Trustees; the Chairman of Trustees must be consulted as to the proposed appointment; notice as to the final decision must be given to the interested parties; and the Employer must confirm to the Trustees that the ground rules have been followed.

As regards non-affiliated Trustees appointed or re-appointed during the scheme year, the OTP requirement was met as follows. Nigel Titchen, Employer's Trustee, Lantra: was appointed by an OTP; Peter Rogerson, Employer's Trustee, CITB: was appointed by an OTP; Maurice Alston, Closed Fund Pensioner Trustee: was appointed following a nomination process; Andrew Doyle, Members' Trustee, People 1st: the selection was made by ballot of active members employed by People 1st; David Lewis, Members' Trustee, ECITB: the selection was made by ballot of active members employed by ECITB; David Wake, Members' Trustee, CITB: the selection was made by the trades union Unite which represents active members employed by CITB; Robert Tabor, Employer's Trustee, Lantra: Lantra followed the ground rules in making its selection; David Barnett, Open Fund Pensioner Trustee: re-appointed following a ballot of Open Fund pensioner members.

6 MEMBERSHIP ENGAGEMENT

During the scheme year, the Trustees have encouraged members of the Funds to make their views known by operating a website for the Funds which includes a "feedback" button and contact details; by publishing an annual newsletter which is issued to all members who request it (currently 731 members) and which is available on the Funds' website where all members can view it; by liaising with the Pensioners' Association and informally through the Members' Trustees. DC members also have access to L&G's website where comprehensive documentation and guidance on the Funds' DC section is available and which also facilitates direct communication with the L&G administration team. Furthermore, all members with DC and AVC benefits were sent an updated newsletter during the year explaining the changes to the DC and AVC funds made as a result of the DC investment strategy review and were invited to send comments and questions to the Funds Office about the changes.

The contact details of the Funds are as follows:
The ITB Pension Funds, 23 King Street, Watford, Herts, WD18 0BJ
Telephone: 01923 226 264
E-mail: pensions@itbpen.com
Website: www.itb-online.co.uk

Signed by the Chairman on behalf of the Trustees

Signed: *DNM McGuinness*

Dated: 29 June 2018

David Newell McGuinness (Chairman of Trustees)

WHAT IS THE TRUSTEES' OVERALL INVESTMENT OBJECTIVE?

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

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

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

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

RISK OF INADEQUATE LONG-TERM RETURNS

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

RISK OF DETERIORATION IN INVESTMENT CONDITIONS NEAR RETIREMENT

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

RISK OF LACK OF DIVERSIFICATION AND UNSUITABLE INVESTMENTS

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

RISK FROM EXCESSIVE CHARGES

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

INVESTMENT MANAGER RISK

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

OTHER RISKS

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

WHAT ARE THE INVESTMENT STRATEGY ARRANGEMENTS?

The Trustees have provided a range of investment options, having regard to the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns. The range of investment options were reviewed by the Trustees in November 2017. The range of funds available is set out below.

CHAIRMAN'S STATEMENT – SCHEDULE

DC Section Statement of Investment Principles – 6 April 2018

| Manager | Fund name | Benchmark | Target |
|----------------------|---|---|--|
| L&G | Global Equity Market Weights (30:70) Index Fund – 75% GBP Currency Hedged | Composite of 30/70 distribution between UK and overseas, 75% GBP Hedged | To track the benchmark |
| L&G | Ethical Global Equity Index Fund | FTSE4Good Global Equity Index | To track the benchmark to within +/- 0.50% pa for two years in three |
| HSBC | Islamic Global Equity Index Fund | Dow Jones Islamic Titans 100 Index | To track the benchmark |
| Standard Life | Global Absolute Return Strategies Fund | 6 Month £ LIBOR | To outperform the benchmark by 5% pa (gross) over rolling three-year periods |
| L&G | Multi Asset Fund | ABI UK – Mixed Investment 40%-85% Shares Pension Sector | To track the benchmark |
| L&G | AAA-AA-A Corporate Bond (Over 15 Years) Fund | iBoxx £ Non-Gilts (ex BBB) Over 15-year Index | To track the benchmark to within +/- 0.50% pa for two years in three |
| L&G | Over 5 Year Index-Linked Gilts Index Fund | FTSE A Index-linked Gilts (Over 5 year) Index | To track the benchmark to within +/- 0.25% pa for two years in three |
| L&G | Over 15 Year Gilts Index Fund | FTSE A Gilts (Over 15 year) Index | To track the benchmark to within +/- 0.25% pa for two years in three |
| L&G | Cash Fund | 7 Day LIBID | To match the CAPS Pooled Pension Fund median. |

DEFAULT OPTION

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

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

- 70% in L&G's Global Equity Market Weights 30:70 Index Fund – 75% GBP Currency Hedged; and
- 30% in L&G's Multi Asset Fund.

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

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

- 50% in the Multi Asset Fund;
- 25% in Standard Life's Global Absolute Return Strategies Fund; and
- 25% in the L&G Cash fund.

It is for each member to decide on their required strategic allocation to each of the available investment funds. The fund range offered also includes three "lifestyle" strategies that automatically combine the

investments in proportions that vary according to the proximity to retirement age. Each of the three lifestyle strategies targets a different investment option for members at retirement; income drawdown, a cash lump-sum or the purchase of an annuity. If a member does not choose an investment option, their account will be invested into the default lifestyle option, which targets income drawdown at retirement.

The lifestyle strategy is designed to offer some protection against environmental, social and governance risks.

WHAT DID THE TRUSTEES CONSIDER IN SETTING THE OPEN FUND'S DC SECTION INVESTMENT ARRANGEMENTS?

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

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifestyle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken. The main risks considered were

inflation risk (the risk that a member's investments fail to keep pace with inflation over the longer term), conversion risk (the risk of a deterioration in the terms available for converting funds into pension at retirement – applicable to the annuity lifestyle) and capital risk (the risk of a fall in the amount of cash available to take at retirement);

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

The Trustees' key investment beliefs are set out below:

- In deciding upon the funds to offer to members, the Trustees believe asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity and credit are the primary rewarded risks;
- risks that are typically not rewarded should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Open Fund's returns; and
- costs have a significant impact on long-term performance.

APPOINTMENT OF INVESTMENT PROVIDER

The Trustees have appointed Legal & General to provide the funds in which the DC Section invests. The provider offers funds managed internally and by third party investment managers.

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

¹ Passive management includes a range of rules-based portfolio construction strategies

OPEN FUND – DB SECTION

Investment Strategy

In November 2017 the Investment Committee reviewed the investment strategy, against the background of good investment performance, the success of the liability-matching LDI portfolio in protecting the Fund against the impact of falls in gilt yields, the attractive buy-in terms achieved for the pensioner liability buy-in policy purchased in November 2017 and the results of the 31 March 2017 annual valuation update that showed the Fund's funding level to be 102% measured on a Technical Provisions basis. As a result of the review, and in consultation with the Employers, the Trustees agreed to revise the investment strategy and reduce risk substantially.

The Investment Committee introduced a strategy whereby all current pensioners at the time, would be bought-in under insurance policies and reduce the growth assets to 6% of total assets. The strategy moved from one with an expected return above gilts of 1.5% pa and risk of £45m to one that targeted an expected return above gilts of 0.6% pa and risk of £15m. Risk is 1 year 90% value at risk, which means there is a 10% chance that the funding deficit as measured on a technical provisions basis could worsen in any given year by £45m/£15m or more. The target allocation is considered to be a "self-sufficient" investment strategy.

Self-sufficiency is taken to mean fully funded on a basis that assumes little or no outperformance over gilts and at this stage there would only be a small risk that the Open Fund would require additional contributions as a result of adverse market conditions or better than assumed longevity experience.

By 31 March 2018 the Committee had made good progress in implementing the revised strategy. The equity and diversified growth fund allocations had been reduced to close to the 6% target, half (by value) of the property assets had been sold and a further buy-in transaction to insure the remaining pensioner liabilities was completed early in April 2018.

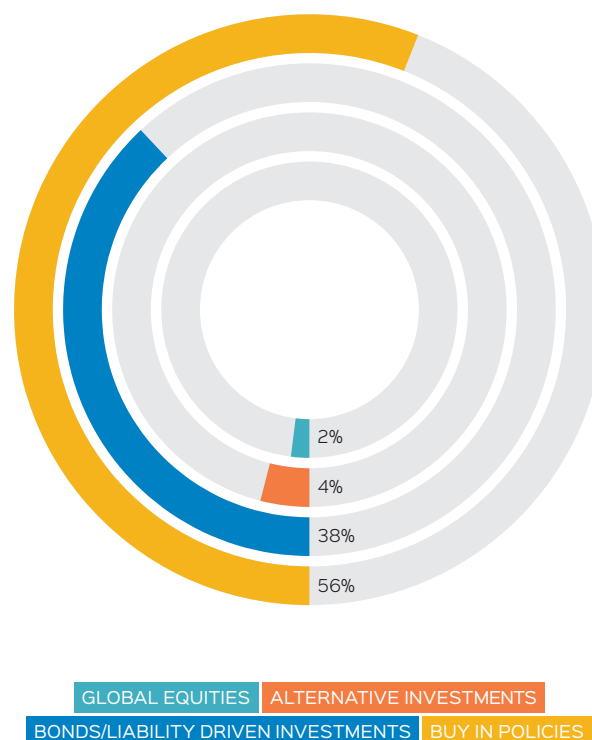
Asset Allocation

In accordance with the revised investment strategy, in November 2017 the Trustees disinvested from the BlackRock and Investec equity funds, the GMO diversified growth fund and the Capital International emerging markets multi asset fund. The proceeds of these disinvestments were re-invested in a third buy-in policy with Pension Insurance Corporation. Soon after the year end, in April 2018, a fourth buy-in policy was purchased, again with Pension Insurance Corporation.

The buy-in policies reduce risk in the investment strategy by transferring investment and longevity risk to the insurer and the Trustees achieved this at a price lower than the value placed on the insured liabilities in the 2017 annual actuarial valuation update.

The Trustees have also agreed a plan to sell the property assets. By the end of the scheme year half (by value) had been sold and the Trustees expect the remainder to be sold by the end of the next financial year, depending on property market conditions.

The target asset allocation, including buy-in policies, as at 31 March 2018 was as below. The Trustees review the allocation regularly to ensure that the investments remain appropriate when compared with the Fund's liabilities and the amount of risk the Trustees are prepared to accept.



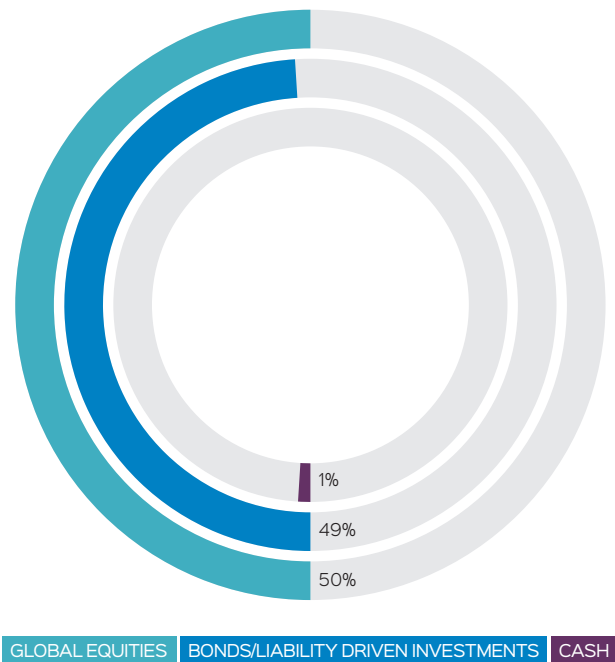
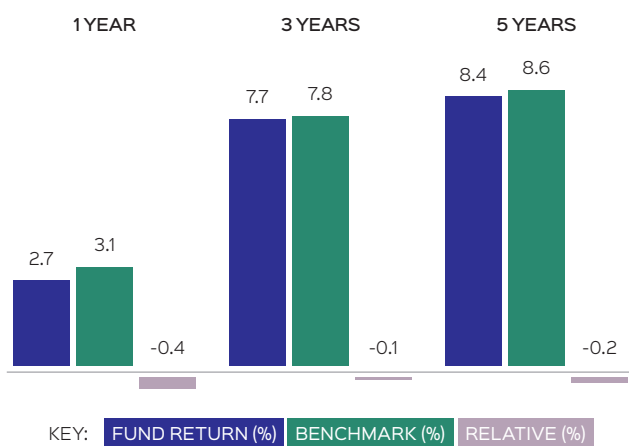
The investment strategy includes investing in assets that protect the Fund's net funding position from changes in interest rates and inflation – liability driven investments (gilts and derivatives) – and buy-in insurance policies that fully insure the Fund's pensioner liabilities.

During the year the Fund was protected from interest rate risk by the liability driven investments to the extent of 80% of uninsured liabilities and from inflation risk to the extent of 90% of uninsured liabilities (measured on a technical provisions basis).

In April 2018, as a result of the investment strategy review, the interest rate and inflation hedge ratios were increased to broadly 100% of the uninsured liabilities (measured on a low risk basis).

Investment Performance

The total performance of the Open Fund (excluding the buy-in policies) for the year ended 31 March 2018, after investment manager fees, was 2.7% compared with the overall benchmark of 3.1%. Performance of the Open Fund over one, three and five years to 31 March 2018 is shown below:



CLOSED FUND

Investment Strategy

The Trustees' objectives are to match the cost of benefits and generate additional income and capital growth to meet further benefit enhancements, limit the risk of failing to meet the liabilities over the long term and minimise the long-term costs by maximising return.

Most of the Closed Fund's liabilities were bought-in through an insurance policy with Pension Insurance Corporation in April 2011. The remaining assets of the Closed Fund form the "Reserve Assets". Of the Reserve Assets, an amount equivalent to 20% of the value of liabilities is held in index-linked gilts as an allocation against default by the insurer. The remainder of the Reserve Assets (the "Free Reserve Assets") is invested as below.

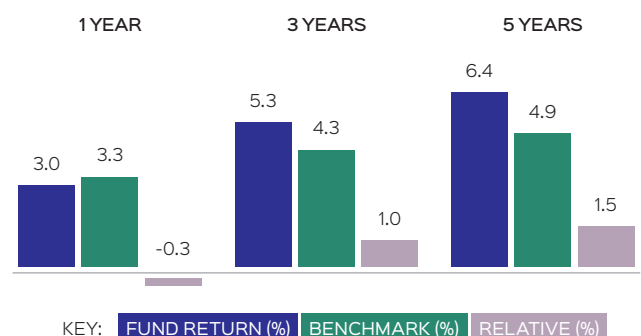
Asset Allocation – Free Reserve Assets

The target asset allocation as at 31 March 2018 was as follows. The allocation is broadly based on the long-term strategy for the Open Fund and includes cash to provide for short-term expenses.

Investment Performance

The performance of the Closed Fund Free Reserve Assets for the year ended 31 March 2018, after investment manager fees and excluding holdings of index-linked gilts which are not taken into account in the performance benchmark, was 3.0% compared with the overall benchmark of 3.3%.

Performance of the assets over one, three and five years to 31 March 2018 is shown below:



RESPONSIBLE INVESTMENT

The Trustees' responsible investment policy is that the Funds' investment managers have discretion about the extent to which environmental, social and governance considerations are taken into account in investment decisions. However, the Trustees expect that, to the extent to which environmental, social and governance issues may have a financial impact on the portfolio, they will be taken into account by the investment managers in the exercise of their delegated duties.

INVESTMENT MARKETS YEAR ENDED 31 MARCH 2018

UK Equity

UK equity markets were slightly positive over the year, returning 1.2% as measured by FTSE All Share Index. Performance was much stronger during the calendar year 2017, driven by oil and energy companies benefiting from a recovery in crude oil prices. However, in the quarter to March 2018, UK equities fell as companies with overseas earnings were negatively impacted by Sterling strength amid expectations that the Bank of England may raise rates earlier than the market had previously anticipated.

Overseas Equity

US equities also had a relatively flat year in Sterling terms, up by 1.8%. Although US domestic markets performed strongly, especially in the technology sector and due to President Trump's landmark tax cuts, Sterling returns were muted due to the strengthening of Sterling against the US Dollar. US markets were also unnerved during the first quarter of 2018 due to the possibility of a pickup in inflation leading to interest rates rising faster than previously expected and a potential trade war breaking out between the US and China.

European stocks rose 4.1% over the year to 31 March 2018 in Sterling terms, mainly driven by strong performance in the 2017 calendar year due to strong economic data, the victory of business and EU-friendly Emmanuel Macron in the French presidential election, and a broad economic upturn across the continent. However, in Q1 2018 European equities had their worst quarterly performance for two years due to the strength of the Euro, fears over the impact of US interest rates and the rising tide of protectionism which may weigh heavily on German firms.

UK Property

UK property was up 11.3% during the year to 31 March 2018. Overseas interest continued throughout the year.

Offices and industrials led the growth, particularly in London and the South East, while the retail sector was generally poor with shopping centre valuations being written down.

Government Bonds

Long dated government fixed interest bonds (over 15 years) were up by 2.2% during the year to 31 March 2018. At the beginning of the financial year, there were indications that the Bank of England would raise interest rates which sparked a gilt selling spree in late June that saw yields rise and prices fall. Prices continued to fall in Q3 2017 in light of continued expectations that interest rates would need to rise later in the year. In November 2017, the Bank of England base rate was increased by 0.25%, although markets had largely already priced this move in and were not convinced of the Bank's commitment to future increases. In fact, prices actually rose by 3.6% in Q4 and were broadly flat in Q1 2018.

CUSTODIAN ARRANGEMENTS

Segregated assets

JP Morgan Chase Bank is the appointed independent custodian for all segregated assets, excluding property.

Pooled assets

The Bank of New York Mellon is appointed as the custodian for the pooled funds managed by BlackRock. The investment managers of other pooled funds are responsible for appointing custodians for the underlying assets of other pooled funds the Funds invest in.

Property

Mayer Brown International holds the title deeds of the Open Fund's properties.

OPEN FUND – DC SECTION

Contributions made for members of the Open Fund DC Section are invested with Legal & General Assurance Society Ltd. Total contributions of £7,267,000 were made in the year (2017: £3,714,000). Contributions are allocated to a range of funds according to members' choices. If a member does not nominate specific separate investment funds, contributions are invested in the default fund.

The default fund during the year was set up in March 2015. It is made up of a mixture of a passive multi-asset fund (33%), a diversified growth fund (17%) and a global equity fund (50%). 15 years from retirement, this fund changes the allocation to reduce risk, with a target allocation at retirement of 50% multi-asset fund, 25% diversified growth fund and 25% cash fund.

Shown below is the range of funds available to members during the year, together with the performance benchmarks, fee charges and the value of units held in each fund. All index-tracking funds performed in line with benchmarks during the year. The Standard Life Global Absolute Return Strategies Fund outperformed its benchmark by 0.1% in the year and the Newton Real Return Fund underperformed its benchmark by 2.9% in the year.

| Fund | Fund Value £000's | % of Total DC Funds | Performance Benchmark | Performance Target | TER* |
|---|----------------------|------------------------|---|--------------------------------------|-------|
| FIXED INTEREST FUNDS (INCLUDING INDEX-LINKED GILTS): | | | | | |
| Over 5 years index-linked gilts index fund | 67 | 0.4% | FT A index-linked gilts (over 5 year) index | To track the index | 0.38% |
| Over 15 year gilts index fund | 37 | 0.2% | FT A gilts (over 15 year) index | To track the index | 0.38% |
| AAA-AA-A Corporate Bond over 15 year index fund | 44 | 0.3% | iBoxx £ non gilts (ex BBB) over 15 year index | To track the index | 0.42% |
| GLOBAL EQUITY FUNDS: | | | | | |
| Global equity fixed weight 50:50 index fund | 6,381 | 42.1% | Composite of 50/50 distribution between UK and overseas | To track the index | 0.40% |
| Ethical global equity index fund | 63 | 0.4% | FTSE4 Good Global Index | To track the index | 0.60% |
| OTHER FUNDS: | | | | | |
| Passive Multi Asset fund | 5,535 | 36.4% | Composite Index | To track the index | 0.53% |
| Standard Life Global Absolute Return Strategies fund | 2,800 | 18.5% | 6 month £ LIBOR | To outperform the benchmark by 5% pa | 1.26% |
| Newton Real Return fund | 6 | - | 1 month £ LIBOR | To outperform the benchmark by 4% pa | 1.21% |
| HSBC Islamic Global Equity Index Fund | 5 | - | Dow Jones Islamic Titans 100 index | To track the index | 1.15% |
| Cash fund | 234 | 1.6% | 7 day LIBID | CAPS pooled pension fund median | 0.40% |
| Total Fund | 15,172 | 100.0% | | | |

*TER (Total Expense Ratio) includes annual management charge, custody fees and other legal expenses, e.g. audit fees. TERs exclude transaction costs which are additional expenses borne by the fund.

During the year the Investment Committee reviewed the DC investment funds and options and changes were implemented after the financial year end on 9 April 2018. The changes are summarised as follows:

- The Passive Multi-Asset Fund was removed from all the lifestyle options, including the default option, and replaced with the L&G Multi Asset Fund.
- In the growth phase of all lifestyle options, the allocation was changed to 70% equities and 30%

L&G Multi Asset Fund. Further, introduction of the GARS allocation was delayed until 15 years before retirement

- The L&G Global Equity Fixed Weights 50:50 Index Fund was replaced with the L&G Global Equity Market Weights 30:70 Index Fund (75% GBP Hedged)
- The Newton Real Return Fund was removed from the range and funds were transferred to the L&G Multi Asset Fund.

STATEMENT 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' websites.

ACTUARY'S CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

NAME OF SCHEME:

The ITB Pension Funds – The Closed Fund

Effective date of actuarial valuation: **31 March 2015**

Period covered by this schedule: **1 January 2016 to 31 March 2021**

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

For each month after 1 January 2016, 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.

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 2015 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 agreed on 2 October 2015.

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.

Signature:

Name: Ken Kneller

Address: Finlaison House
15-17 Furnival Street
London EC4A 1AB

Date:

15 October 2015

Qualification:

Fellow of the Institute
and Faculty of Actuaries

Employer:

Government Actuary's Department

OPEN FUND

ACTUARY'S CERTIFICATION OF 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 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 31 October 2016.

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.

Martin Clarke FIA

Government Actuary's Department

Finlaison House

15-17 Furnival Street

London EC4A 1AB

7 December 2016

The Schedule of Contributions referred to in this certificate is that dated 31 October 2016.

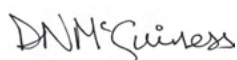
SUMMARY OF CONTRIBUTIONS

payable in the year

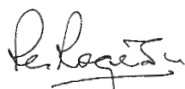
During the year, the contributions payable to the Open Fund by the Employers under the Schedule of Contributions were as follows:

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| CONTRIBUTIONS PAYABLE UNDER THE SCHEDULE OF CONTRIBUTIONS | | |
| Employers' normal contributions | 7,064 | 7,338 |
| Employers' deficit contributions | 1,174 | 1,839 |
| Employers' life assurance contributions | 281 | 57 |
| Members' normal contributions | 356 | 539 |
| Total contributions payable under the Schedule | 8,875 | 9,773 |
| OTHER CONTRIBUTIONS | | |
| Employers' augmentation costs | 35 | 2,276 |
| Members' additional voluntary contributions | 5 | 33 |
| TOTAL PAYABLE TO THE SCHEME | £8,915 | £12,082 |

The Trustees Report was approved by the Trustees on 29 June 2018.



D N McGuinness
Trustee



P Rogerson
Trustee

FINANCIAL STATEMENTS

for the year ended 31 March 2018

INDEPENDENT AUDITOR'S REPORT

to the Trustees of the ITB Pension Funds

OPINION ON FINANCIAL STATEMENTS

We have audited the financial statements of the ITB Pension Funds for the year ended 31 March 2018 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).

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 2018, 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 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK)(ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The Trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE TRUSTEES

As explained more fully in the Statement of Trustees' Responsibilities set out on page 32, the Trustees are responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Trustees are responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the scheme or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs(UK) will always detect a material misstatement when it exists.

INDEPENDENT AUDITOR'S REPORT

to the Trustees of the ITB Pension Funds

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Councils website at:

www.frc.org.uk/auditorsresponsibilities.

This description forms part of our auditor's report.

USE OF OUR REPORT

This report is made solely to the Trustees, as a body, in accordance with Regulation 3 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 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.



MOORE STEPHENS LLP

Statutory Auditor

150 Aldersgate Street, London EC1A 4AB

13 August 2018

INDEPENDENT AUDITOR'S STATEMENT

about Contributions 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 2018 which is set out on page 35.

In our opinion contributions for the scheme year ended 31 March 2018 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 31 October 2016.

USE OF OUR REPORT

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.

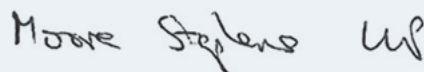
SCOPE OF WORK ON STATEMENT ABOUT CONTRIBUTIONS

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.

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 to 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.



MOORE STEPHENS LLP

Statutory Auditor

150 Aldersgate Street, London EC1A 4AB

13 August 2018

FUND ACCOUNTS

for the year ended 31 March 2018

| | Notes | Closed Fund 2018 £'000 | Open Fund DB Section 2018 £'000 | DC Section 2018 £'000 | Combined Fund 2018 £'000 | Combined Fund 2017 £'000 |
|---|-------|---------------------------|---------------------------------------|--------------------------|-----------------------------|-----------------------------|
| CONTRIBUTIONS AND BENEFITS | | | | | | |
| Employer contributions | 4 | - | 1,583 | 6,971 | 8,554 | 11,510 |
| Employee contributions | 4 | - | 65 | 296 | 361 | 572 |
| Total contributions | | - | 1,648 | 7,267 | 8,915 | 12,082 |
| Transfers in | 5 | - | - | 283 | 283 | 83 |
| Other income | | - | - | 261 | 261 | 110 |
| | | - | 1,648 | 7,811 | 9,459 | 12,275 |
| EXPENDITURE | | | | | | |
| Benefits paid or payable | 6 | 10,334 | 31,352 | 350 | 42,036 | 45,969 |
| Payments to and on account of leavers | 7 | - | 8,962 | 492 | 9,454 | 3,148 |
| Other payments: | | | | | | |
| Life assurance premiums | | - | - | 275 | 275 | 57 |
| Administrative expenses: | | | | | | |
| General administration | 8 | 471 | 725 | 88 | 1,284 | 1,294 |
| Professional services | 8 | 87 | 479 | 47 | 613 | 819 |
| Pension fund levy | | 7 | 22 | 1 | 30 | 28 |
| Property revaluation | | - | 210 | - | 210 | - |
| | | 10,899 | 41,750 | 1,253 | 53,602 | 51,315 |
| NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS | | (10,899) | (40,102) | 6,558 | (44,443) | (39,040) |
| RETURNS ON INVESTMENTS | | | | | | |
| Investment income | 9 | 11,284 | 23,445 | - | 34,729 | 27,442 |
| Change in market value of investments | 12 | (10,329) | (7,729) | (26) | (18,084) | 165,262 |
| Investment management expenses | 10 | (82) | (1,407) | (63) | (1,552) | (1,669) |
| Taxation | 11 | - | - | - | - | 19 |
| NET RETURNS ON INVESTMENTS | | 873 | 14,309 | (89) | 15,093 | 191,054 |
| NET (DECREASE)/INCREASE IN THE FUNDS DURING THE YEAR | | (10,026) | (25,793) | 6,469 | (29,350) | 152,014 |
| Net assets as at 31 March 2017 | | 202,059 | 1,073,392 | 9,062 | 1,284,513 | 1,132,499 |
| NET ASSETS AS AT 31 MARCH 2018 | | £192,033 | £1,047,599 | £15,531 | £1,255,163 | £1,284,513 |

The notes on pages 42 to 57 form part of these financial statements.

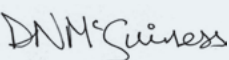
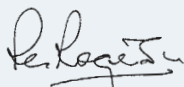
NET ASSET STATEMENTS

for the year ended 31 March 2018

| | Notes | Closed | Open Fund | | Combined | Restated |
|---------------------------------------|-------|-----------------|-------------------|----------------|-------------------|-------------|
| | | Fund | DB Section | DC Section | Fund | Combined |
| | | 2018 | 2018 | 2018 | 2018 | 2017 |
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| INVESTMENT ASSETS | | | | | | |
| Bonds | | 18,112 | 545,816 | - | 563,928 | 603,511 |
| Property | | - | 29,700 | - | 29,700 | 55,080 |
| Pooled investment vehicles | 13 | 57,236 | 85,783 | 15,172 | 158,191 | 439,254 |
| Derivative assets | 14 | - | 566,177 | - | 566,177 | 938,605 |
| Insurance policies | 15 | 116,520 | 361,910 | - | 478,430 | 302,681 |
| AVC investments | 16 | - | 706 | - | 706 | 926 |
| Cash | | 53 | 36,777 | - | 36,830 | 42,997 |
| Other investment balances | 17 | 90 | 3,571 | - | 3,661 | 4,462 |
| | | 192,011 | 1,630,440 | 15,172 | 1,837,623 | 2,387,516 |
| INVESTMENT LIABILITIES | | | | | | |
| Derivative liabilities | 14 | - | (568,619) | - | (568,619) | (940,373) |
| Other investment balances | 17 | - | (17,359) | - | (17,359) | (164,786) |
| | | - | (585,978) | - | (585,978) | (1,105,159) |
| TOTAL NET INVESTMENTS | 12 | 192,011 | 1,044,462 | 15,172 | 1,251,645 | 1,282,357 |
| TANGIBLE FIXED ASSETS | 20 | - | 1,048 | - | 1,048 | 1,269 |
| CURRENT ASSETS | 21 | 224 | 3,222 | 512 | 3,958 | 2,104 |
| CURRENT LIABILITIES | 22 | (202) | (1,133) | (153) | (1,488) | (1,217) |
| NET ASSETS AS AT 31 MARCH 2018 | | £192,033 | £1,047,599 | £15,531 | £1,255,163 | £1,284,513 |

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 29 June 2018.

D N McGuinness
Trustee

P Rogerson
Trustee

The notes on pages 42 to 57 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

1 BASIS OF PREPARATION

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 Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014).

2 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.

On 1 April 2012 the Open Fund introduced a defined contribution section.

3 ACCOUNTING POLICIES

a) Contributions

- i) Employer normal contributions relating to wages and salaries earned up to the year end have been included in these financial statements.
- ii) Employer augmentation contributions represent amounts recoverable from employers to improve the benefits of certain members and these are due to the Open Fund from the relevant Participating Employers. These are recognised when agreed with the Participating Employer concerned.
- iii) Employer deficit funding contributions have been paid to the scheme in accordance with an agreed Schedule of Contributions. These are recognised when received.
- iv) Employer 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, taking into account the likelihood of recovery.

- v) Employee contributions, including AVCs, relating to wages and salaries earned up to the year end have been included in these financial statements.

b) Transfers receivable

Transfers from other pension funds into the Defined Benefit section of the scheme are not currently accepted. Transfers into the Defined Contribution section of the scheme are allowed and are recognised on settlement date.

c) Benefits payable

- i) Pension payments are recognised in the period to which they relate.
- ii) Benefits payable include all valid benefit claims notified to the Trustees during the financial year.

d) Payments to and on account of leavers

- i) Refunds of contributions relate to members who leave the Funds and are entitled to a refund of these, including interest, are recognised in the year of leaving.
- ii) Opt-outs are accounted for when the Trustees are notified of the opt-out.
- iii) Transfers payable relate to those early leavers whose transfers have been agreed by the Trustees during the year.

e) Administrative expenses

- i) Administrative expenses are accounted for on an accruals basis.
- ii) The Funds bear all the costs of administration. Direct costs are charged to the section to which they relate. Indirect expenses are allocated between the Closed Fund and Open Fund's DB and DC sections in accordance with a basis determined by the Trustees.

f) Investment income

- i) Dividends from equities are recognised on the ex-dividend date.
- ii) Interest on bonds is recognised on an accruals basis and includes interest bought and sold on investment purchases and sales.
- iii) Rental income is recognised when due.
- iv) Income from cash and short term deposits is accounted for on an accruals basis.

- v) Annuity income is recognised on an accruals basis.
- vi) Interest payable under repurchase agreements is recognised on an accruals basis.
- vii) 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 the year end. All differences are taken to the Fund Accounts.

g) Change in market value of investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

h) Valuation of investment assets and liabilities

Investments are valued at fair value determined as follows:

- i) Listed investments are valued at last traded price or bid-market price ruling at the year end date.
- ii) Pooled investment vehicles are stated at the bid-point of the latest prices quoted by the managers prior to the year end.
- iii) Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling at the year end date.
- iv) Properties are included at open market value as at 31 March 2018 determined in accordance with Practice Statement 4 of the Royal Institute of Chartered Surveyors' Appraisal and Valuation Standards. The properties have been valued by BNP Paribas, Chartered Surveyors, who have recent experience in the locations and class of the investment properties held by the Open Fund.
- v) Forward contracts are valued at amounts that assume settlement at the spot rates ruling at the year end.
- vi) Exchange traded derivatives are stated at fair values determined using market quoted prices.

- vii) Over the counter derivatives are stated at fair value using pricing models and relevant market data as at the year end date.
- viii) Repurchase agreements and reverse repurchase agreements are included at the amount payable or receivable under the agreement. The scheme continues to value, and recognise in investments, the securities that are delivered out as collateral under repurchase arrangements. Cash received is recognised as an asset and the obligation to pay it back is recognised as a liability. Similarly, under reverse repurchase arrangements, cash delivered to the counterparty is recognised as a receivable in other investment assets and the scheme does not recognise the collateral securities received as an asset.
- ix) The insurance policies have been valued as provided by the insurance companies.

i) Tangible fixed assets

Tangible assets are initially recorded at cost. Freehold properties are revalued annually to fair value. Depreciation is provided on other tangible fixed assets based 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 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

4 CONTRIBUTIONS

| 2018 | Closed Fund | Open Fund | | Combined Fund |
|--------------------------------|-------------|---------------------|---------------------|---------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| EMPLOYER CONTRIBUTIONS: | | | | |
| Normal | - | 374 | 6,690 | 7,064 |
| Deficit funding | - | 1,174 | - | 1,174 |
| Augmentation | - | 35 | - | 35 |
| Other | - | - | 281 | 281 |
| Total employer contributions | - | 1,583 | 6,971 | 8,554 |
| EMPLOYEE CONTRIBUTIONS: | | | | |
| Normal | - | 60 | 296 | 356 |
| Members' AVC contributions | - | 5 | - | 5 |
| Total employee contributions | - | 65 | 296 | 361 |
| | £- | £1,648 | £7,267 | £8,915 |

| 2017 | Closed Fund | Open Fund | | Combined Fund |
|--------------------------------|-------------|---------------------|---------------------|----------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| EMPLOYER CONTRIBUTIONS: | | | | |
| Normal | - | 4,029 | 3,309 | 7,338 |
| Deficit funding | - | 1,839 | - | 1,839 |
| Augmentation | - | 2,276 | - | 2,276 |
| Other | - | - | 57 | 57 |
| Total employer contributions | - | 8,144 | 3,366 | 11,510 |
| EMPLOYEE CONTRIBUTIONS: | | | | |
| Normal | - | 191 | 348 | 539 |
| Members' AVC contributions | - | 33 | - | 33 |
| Total employee contributions | - | 224 | 348 | 572 |
| | £- | £8,368 | £3,714 | £12,082 |

Employer normal contributions include contributions in respect of salary sacrifice arrangements made available to members by certain Employers.

Normal contributions receivable by the Scheme during the year, including amounts outstanding at the year end (see note 21), were paid in accordance with the Scheme Rules (and the recommendation of the Actuary).

Following the formal agreement of a revised Schedule of Contributions to deal with the deficit arising in the Open Fund valuation as at 31 March 2013, appropriate Employers continued to pay deficit recovery contributions and these have been included in the financial statements on the basis of amounts due under the Schedule of Contributions.

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

- People 1st membership of the Open Fund was terminated on 26 March 2018. At that time a section 75 debt of £6.4m plus expenses became due. No monies have yet been received.
- Skills For Logistics' membership of the Open Fund was terminated on 6 January 2015 when the company went into administration. At that time a section 75 debt of £2,053,000 became due. £69,000 was received during the year to 31 March 2016.

The final amounts that will be recovered are currently unknown, therefore no further amounts have been recognised in these financial statements.

5 TRANSFERS IN

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| OPEN FUND – DC SECTION | | |
| Individual transfers from other schemes | £283 | £83 |

6 BENEFITS PAID OR PAYABLE

| | Closed Fund £'000 | Open Fund DB Section £'000 | DC Section £'000 | Combined Fund £'000 |
|--|-------------------------|----------------------------------|---------------------|---------------------------|
| 2018 | | | | |
| Pensions | 10,334 | 29,048 | - | 39,382 |
| Commutation of pensions and lump sum retirement benefits | - | 2,211 | 78 | 2,289 |
| Lump sum death benefits | - | 93 | 272 | 365 |
| | £10,334 | £31,352 | £350 | £42,036 |

| | Closed Fund £'000 | Open Fund DB Section £'000 | DC Section £'000 | Combined Fund £'000 |
|--|-------------------------|----------------------------------|---------------------|---------------------------|
| 2017 | | | | |
| Pensions | 10,884 | 28,453 | - | 39,337 |
| Commutation of pensions and lump sum retirement benefits | 42 | 6,220 | 19 | 6,281 |
| Lump sum death benefits | - | 240 | 111 | 351 |
| | £10,926 | £34,913 | £130 | £45,969 |

7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | Closed Fund £'000 | Open Fund DB Section £'000 | DC Section £'000 | Combined Fund £'000 |
|---------------------------------------|-------------------------|----------------------------------|---------------------|---------------------------|
| 2018 | | | | |
| Individual transfers to other schemes | - | 8,962 | 481 | 9,443 |
| Refund of contributions | - | - | 11 | 11 |
| | £- | £8,962 | £492 | £9,454 |

| | Closed Fund £'000 | Open Fund DB Section £'000 | DC Section £'000 | Combined Fund £'000 |
|---------------------------------------|-------------------------|----------------------------------|---------------------|---------------------------|
| 2017 | | | | |
| Individual transfers to other schemes | - | 2,956 | 135 | 3,091 |
| Refund of contributions | - | - | 57 | 57 |
| | £- | £2,956 | £192 | £3,148 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

8 ADMINISTRATION EXPENSES

| 2018 | Closed Fund | Open Fund | | Combined Fund |
|---------------------------------|-------------|---------------------|---------------------|---------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| GENERAL ADMINISTRATION: | | | | |
| Employment costs | 300 | 434 | 55 | 789 |
| Office accommodation | 39 | 57 | 7 | 103 |
| General expenses | 98 | 184 | 20 | 302 |
| Trustees' honoraria | 34 | 50 | 6 | 90 |
| | £471 | £725 | £88 | £1,284 |
| PROFESSIONAL SERVICES: | | | | |
| Auditor's fees | 19 | 26 | 6 | 51 |
| Legal and professional services | 24 | 136 | 39 | 199 |
| Actuarial services | 39 | 239 | - | 278 |
| Other | 5 | 78 | 2 | 85 |
| | £87 | £479 | £47 | £613 |

Trustees' honoraria is considered key management remuneration.

| 2017 | Closed Fund | Open Fund | | Combined Fund |
|---------------------------------|-------------|---------------------|---------------------|---------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| GENERAL ADMINISTRATION: | | | | |
| Employment costs | 306 | 483 | 16 | 805 |
| Office accommodation | 40 | 63 | 2 | 105 |
| General expenses | 109 | 182 | 5 | 296 |
| Trustees' honoraria | 33 | 53 | 2 | 88 |
| | £488 | £781 | £25 | £1,294 |
| PROFESSIONAL SERVICES: | | | | |
| Auditor's fees | 19 | 31 | 1 | 51 |
| Legal and professional services | 35 | 198 | 10 | 243 |
| Actuarial services | 25 | 388 | - | 413 |
| Other | 8 | 103 | 1 | 112 |
| | £87 | £720 | £12 | £819 |

Trustees' honoraria is considered key management remuneration.

9 INVESTMENT INCOME

| 2018 | Closed Fund | Open Fund | | Combined Fund |
|---|----------------|---------------------|---------------------|----------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| Income from bonds | 323 | 11,988 | - | 12,311 |
| Net rents from properties | - | 1,299 | - | 1,299 |
| Income from pooled investment vehicles | 409 | 1,003 | - | 1,412 |
| Annuity income | 10,552 | 11,880 | - | 22,432 |
| Derivative cost | - | (2,630) | - | (2,630) |
| Interest on cash deposits | - | 144 | - | 144 |
| Interest paid under repurchase agreements | - | (238) | - | (238) |
| Underwriting commission | - | (1) | - | (1) |
| | £11,284 | £23,445 | £- | £34,729 |

| 2017 | Closed Fund | Open Fund | | Combined Fund |
|---|----------------|---------------------|---------------------|----------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| Income from bonds | 348 | 15,639 | - | 15,987 |
| Net rents from properties | - | 2,630 | - | 2,630 |
| Income from pooled investment vehicles | 349 | 1,244 | - | 1,593 |
| Annuity income | 11,051 | 3,810 | - | 14,861 |
| Derivative cost | - | (6,237) | - | (6,237) |
| Interest on cash deposits | 1 | 268 | - | 269 |
| Interest paid under repurchase agreements | - | (1,659) | - | (1,659) |
| Underwriting commission | - | (2) | - | (2) |
| | £11,749 | £15,693 | £- | £27,442 |

Net rents from properties is stated after deducting £923,000 (2017 – £474,000) of property related expenses. Income related to derivative costs and interest paid under repurchase agreements is included in the related income categories.

10 INVESTMENT MANAGEMENT EXPENSES

| 2018 | Closed Fund | Open Fund | | Combined Fund |
|--|-------------|---------------------|---------------------|---------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| Administration, management and custody | 42 | 1,007 | - | 1,049 |
| Advisory | 21 | 358 | 56 | 435 |
| Performance measurement service | 19 | 42 | 7 | 68 |
| | £82 | £1,407 | £63 | £1,552 |

| 2017 | Closed Fund | Open Fund | | Combined Fund |
|--|-------------|---------------------|---------------------|---------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| Administration, management and custody | 40 | 1,205 | - | 1,245 |
| Advisory | 22 | 328 | 2 | 352 |
| Performance measurement service | 20 | 43 | 9 | 72 |
| | £82 | £1,576 | £11 | £1,669 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

11 TAXATION

The ITB Pension Funds is a Registered Pension Scheme under Chapter 2 of Part IV of the Finance Act 2004. The Scheme is therefore exempt from income tax and capital gains tax. The tax credit in the Revenue Account in 2017 represents recoverable withholding taxes arising on investment income.

12 RECONCILIATION OF INVESTMENTS

The movements in investments during the year were:

| | Value at 31 Mar 2017 £'000 | Purchases at cost £'000 | Sales proceeds £'000 | Change in market value £'000 | Value at 31 Mar 2018 £'000 |
|-------------------------------------|-------------------------------------|-------------------------------|----------------------------|---------------------------------------|-------------------------------------|
| Closed fund | | | | | |
| Bonds | 19,299 | - | (788) | (399) | 18,112 |
| Pooled investment vehicles (note13) | 55,127 | 11,725 | (10,530) | 914 | 57,236 |
| Insurance policy (note15) | 127,363 | - | 1 | (10,844) | 116,520 |
| | 201,789 | £11,725 | £(11,317) | £(10,329) | 191,868 |
| Cash | 152 | | | | 53 |
| Other investment balances (note17) | 90 | | | | 90 |
| | £202,031 | | | | £192,011 |

| | Value at 31 Mar 2017 £'000 | Purchases at cost and derivative payments £'000 | Sales proceeds and derivative receipts £'000 | Change in market value £'000 | Value at 31 Mar 2018 £'000 |
|-------------------------------------|-------------------------------------|---|--|---------------------------------------|-------------------------------------|
| Open fund – DB Section | | | | | |
| Bonds | 584,212 | 3,402 | (38,787) | (3,011) | 545,816 |
| Property | 55,080 | - | (29,399) | 4,019 | 29,700 |
| Pooled investment vehicles (note13) | 375,483 | 58,217 | (357,526) | 9,610 | 85,783 |
| Derivatives (note14) | (1,768) | 1,026 | (1,333) | (367) | (2,442) |
| Insurance policies (note15) | 175,318 | 205,634 | (1,061) | (17,981) | 361,910 |
| AVC investments (note16) | 926 | 16 | (237) | 1 | 706 |
| | 1,189,251 | £268,295 | £(428,344) | £(7,729) | 1,021,473 |
| Cash | 42,845 | | | | 36,777 |
| Other investment balances (note17) | (160,414) | | | | (13,788) |
| | £1,071,682 | | | | £1,044,462 |

| | Value at 31 Mar 2017 £'000 | Purchases at cost £'000 | Sales proceeds £'000 | Change in market value £'000 | Value at 31 Mar 2018 £'000 |
|-------------------------------------|-------------------------------------|-------------------------------|----------------------------|---------------------------------------|-------------------------------------|
| Open fund – DC Section | | | | | |
| Pooled investment vehicles (note13) | 8,644 | £7,150 | £(596) | £(26) | £15,172 |

12 RECONCILIATION OF INVESTMENTS (CONT'D)

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

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 Funds do not invest in any of the Participating Employers' businesses.

Apart from the insurance policies, there are no other individual investments in which more than 5% of the total value of the net assets of the Funds is invested.

13 POOLED INVESTMENT VEHICLES

| 2018 | Closed Fund | Open Fund | | Combined Fund |
|-------------|----------------|------------------|------------------|-----------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| Equities | 25,881 | 27,357 | 9,180 | 62,418 |
| Bonds | 10,249 | - | 216 | 10,465 |
| Property | - | 2,706 | - | 2,706 |
| Diversified | 21,106 | 55,720 | 5,542 | 82,368 |
| Cash | - | - | 234 | 234 |
| | £57,236 | £85,783 | £15,172 | £158,191 |

| 2017 | Closed Fund | Open Fund | | Combined Fund |
|-------------|----------------|------------------|------------------|-----------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| Equities | 24,306 | 111,856 | 5,374 | 141,536 |
| Bonds | 10,238 | - | 123 | 10,361 |
| Property | - | 4,846 | - | 4,846 |
| Diversified | 20,583 | 163,745 | 3,067 | 187,395 |
| Cash | - | 95,036 | 80 | 95,116 |
| | £55,127 | £375,483 | £8,644 | £439,254 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

14 DERIVATIVES – OPEN FUND

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 2018 the open arrangements may be summarised as follows:

| | 2018 | | 2017 | |
|---------|-----------------|----------------------|-----------------|----------------------|
| | Asset £'000 | Liabilities £'000 | Asset £'000 | Liabilities £'000 |
| Swaps | 566,177 | (568,173) | 938,605 | (939,892) |
| Futures | - | (446) | - | (481) |
| | £566,177 | £(568,619) | £938,605 | £(940,373) |

SWAPS

| Type | Base | Settlement | Asset value £'000 | Liability value £'000 |
|--------------------------|--------|-------------|----------------------|--------------------------|
| Asset swap | ASSW | 2018 – 2050 | 10,110 | (88,700) |
| Interest rate swap | IRSW | 2018 – 2067 | 466,273 | (397,234) |
| Retail prices index swap | UK RPI | 2018 – 2067 | 82,223 | (79,464) |
| Limited price index swap | UK LPI | 2018 – 2058 | 7,571 | (2,775) |
| Total 2018 | | | £566,177 | £(568,173) |
| Total 2017 | | | £938,605 | £(939,892) |

The contracts are traded over the counter. The counterparties for all the swaps are banks. At 31 March 2018 the Funds had received collateral of £91,440,000 and pledged collateral of £86,698,000 in a mixture of cash and bonds. This collateral is not reported within the Scheme's net assets.

Swaption – 2017

During 2016 the Fund sold an option for £2.75m to enter into a 30 year par interest rate swap which would begin on 17 September 2020. The option was bought back during 2017 for £0.78m realising a gain of £1.97m before transaction costs.

Future

The balance at 31 March 2018 represents the unrealised loss on a gilt future due for settlement in June 2018 (2017 – June 2017).

15 INSURANCE POLICIES

| 2018 | Liability Provision Basis | Closed Fund £'000 | Open Fund | | Combined Fund £'000 |
|---------------------------------|---------------------------------|-------------------------|---------------------|---------------------|---------------------------|
| | | | DB Section £'000 | DC Section £'000 | |
| PIC | RPI | 116,520 | 71,035 | - | 187,555 |
| JRL | RPI | - | 89,100 | - | 89,100 |
| PIC | CPI | - | 201,775 | - | 201,775 |
| Total | | 116,520 | 361,910 | - | 478,430 |
| Percentage of net assets | | 60.68% | 34.53% | 0.00% | 38.10% |

| 2017 | Liability Provision Basis | Closed Fund £'000 | Open Fund | | Combined Fund £'000 |
|---------------------------------|---------------------------------|-------------------------|---------------------|---------------------|---------------------------|
| | | | DB Section £'000 | DC Section £'000 | |
| PIC | RPI | 127,363 | 75,918 | - | 203,281 |
| JRL | RPI | - | 99,400 | - | 99,400 |
| Total | | 127,363 | 175,318 | - | 302,681 |
| Percentage of net assets | | 63.03% | 16.33% | 0.00% | 23.56% |

The insurance policies are bulk annuity policies (also known as a “buy-in”) with Pension Insurance Corporation PLC (“PIC”) and Just Retirement Limited (“JRL”). The Closed Fund policy secures the benefits of Closed Fund members. The Open Fund policies secure the higher pensions in payment and certain of the “orphan” pensions in payment to pensioners from former participating employers. The policies are written in the name of the Trustees and do not discharge their liabilities to those members. The policies have been included in the Net Assets Statement at values provided by PIC and JRL, valued on an actuarial basis.

16 ADDITIONAL VOLUNTARY CONTRIBUTION (AVC) INVESTMENTS

Member credited service

AVCs made during the financial year to purchase added years under the principal scheme are shown in the income of the Open Fund and the assets acquired with the AVCs are included in the Net Assets Statement.

Money purchase schemes

The Trustees hold assets invested separately from the Funds to secure additional benefits on a money purchase basis for those members electing to pay AVCs. Members participating in this arrangement each receive an annual statement confirming the amounts held in their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

| | 2018 £'000 | 2017 £'000 |
|-------------------------------|---------------|---------------|
| OPEN FUND – DB SECTION | | |
| Legal & General | 464 | 625 |
| Royal London | 184 | 225 |
| Prudential Assurance Company | 58 | 76 |
| | £706 | £926 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

17 OTHER INVESTMENT BALANCES

| 2018 | Closed Fund | Open Fund | | Combined Fund |
|--------------------------------|-------------|---------------------|---------------------|------------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| ASSETS: | | | | |
| Investment revenue receivable | 90 | 3,183 | - | 3,273 |
| VAT | - | 9 | - | 9 |
| Margin debtor | - | 379 | - | 379 |
| | £90 | £3,571 | £- | £3,661 |
| LIABILITIES: | | | | |
| Repurchase agreements | - | 17,359 | - | 17,359 |
| | £- | £17,359 | £- | £17,359 |
| Net investment balances | £90 | £(13,788) | £- | £(13,698) |

| 2017 | Closed Fund | Open Fund | | Combined Fund |
|--------------------------------|-------------|---------------------|---------------------|-------------------|
| | £'000 | DB Section £'000 | DC Section £'000 | £'000 |
| ASSETS: | | | | |
| Investment revenue receivable | 90 | 3,891 | - | 3,981 |
| Margin debtor | - | 481 | - | 481 |
| | £90 | £4,372 | £- | £4,462 |
| LIABILITIES: | | | | |
| Amounts due to brokers | - | 780 | - | 780 |
| VAT | - | 119 | - | 119 |
| Repurchase agreements | - | 163,887 | - | 163,887 |
| | £- | £164,786 | £- | £164,786 |
| Net investment balances | £90 | £(160,414) | £- | £(160,324) |

Repurchase agreements

At the year-end amounts payable under repurchase agreements were due in April 2018 (2017 – over the period April to May 2017). During this period further repurchase agreements were entered into. The counterparties for all the repurchase agreements are banks. At the year-end they held as collateral gilts to a value of £17,724,000 (2017 – £169,341,000) which are reported in Funds assets.

18 INVESTMENT FAIR VALUE HIERARCHY

| At 31 March 2018 | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|----------------|----------------|-----------------|-----------------|
| Closed fund | £'000 | £'000 | £'000 | £'000 |
| Bonds | - | 18,112 | - | 18,112 |
| Pooled investment vehicles | - | 57,236 | - | 57,236 |
| Insurance policies | - | - | 116,520 | 116,520 |
| Cash | 53 | - | - | 53 |
| Other investment balances | 90 | - | - | 90 |
| | £143 | £75,348 | £116,520 | £192,011 |

| Open fund – DB Section | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------------|-----------------|-----------------|-------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Bonds | - | 545,816 | - | 545,816 |
| Property | - | - | 29,700 | 29,700 |
| Pooled investment vehicles | - | 83,077 | 2,706 | 85,783 |
| Derivatives | (446) | - | (1,996) | (2,442) |
| Insurance policies | - | - | 361,910 | 361,910 |
| AVC investments | 184 | 464 | 58 | 706 |
| Cash | 36,777 | - | - | 36,777 |
| Other investment balances | 3,192 | (16,980) | - | (13,788) |
| | £39,707 | £612,377 | £392,378 | £1,044,462 |

| Open fund – DC Section | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------------|----------------|----------------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Pooled investment vehicles | - | 15,172 | - | 15,172 |
| | £- | £15,172 | £- | £15,172 |

| At 31 March 2017 | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|----------------|----------------|-----------------|-----------------|
| Closed fund | £'000 | £'000 | £'000 | £'000 |
| Bonds | - | 19,299 | - | 19,299 |
| Pooled investment vehicles | - | 55,127 | - | 55,127 |
| Insurance policies | - | - | 127,363 | 127,363 |
| Cash | 152 | - | - | 152 |
| Other investment balances | 90 | - | - | 90 |
| | £242 | £74,426 | £127,363 | £202,031 |

| Open fund – DB Section | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------------|-----------------|-----------------|-------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Bonds | - | 584,212 | - | 584,212 |
| Property | - | - | 55,080 | 55,080 |
| Pooled investment vehicles | - | 370,637 | 4,846 | 375,483 |
| Derivatives | (481) | - | (1,287) | (1,768) |
| Insurance policies | - | - | 175,318 | 175,318 |
| AVC investments | 225 | 625 | 76 | 926 |
| Cash | 42,845 | - | - | 42,845 |
| Other investment balances | 2,992 | (163,406) | - | (160,414) |
| | £45,581 | £792,068 | £234,033 | £1,071,682 |

| Open fund – DC Section | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------------|----------------|----------------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| Pooled investment vehicles | - | 8,644 | - | 8,644 |
| | - | £8,644 | £- | £8,644 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

19 INVESTMENT RISKS

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk comprises currency risk, interest rate risk and other price risk, defined as follows:

- Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustees determine the Funds' investment strategy after taking advice from a professional investment adviser. The Funds have exposure to these risks because of the investments held to implement the investment strategy.

Within each investment portfolio, investment objectives and restrictions to manage risk are implemented through the agreements in place with the Funds' investment managers. The Trustees monitor the performance of the strategy and associated risks, and each investment manager against its objectives and restrictions, regularly.

Further information on these risks and the Trustees approach to risk management is set out below. This does not include AVC investments, as these are not considered significant in relation to the overall investments of the Funds.

OPEN FUND DEFINED BENEFIT SECTION AND CLOSED FUND

Credit risk

The Funds are subject to credit risk because the Funds invest directly in bonds and have cash balances. The Open Fund has further exposure to credit risk because it invests in OTC derivatives. The Funds are also directly exposed to credit risk in relation to the "buy-in" insurance policies with Pension Insurance Corporation and Just Retirement Limited. Both Funds also invest in pooled investment vehicles and are, therefore, directly exposed

to credit risk in relation to the investments held in pooled investment vehicles. The Funds are indirectly exposed to credit risks arising on the financial instruments held within the pooled investment vehicles.

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade.

Cash is held within financial institutions which are at least investment grade credit rated.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Open Fund is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 14).

In the case of the buy-in insurance policies, the credit risk is mitigated as a result of the protections in place under the UK insurance regime. The regime is intended to protect policyholders by ensuring insurance companies are adequately capitalised, to minimise the risk of not being able to meet their obligations.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled investment manager, the regulatory environments in which the pooled investment managers operate and diversification of investments amongst a number of pooled arrangements. The Trustees carry out due diligence on the appointment of the new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled investment manager. Pooled investment arrangements used by the Funds comprise unit linked insurance contracts and authorised unit trusts.

The Funds are indirectly exposed to credit risks arising from the underlying investments held by the pooled investment vehicles, where they invest in bonds, derivatives or cash. The amount invested in each of these mandates is shown in note 12. The managers of these pooled investment vehicles manage credit risk by having a diversified exposure to bond issuers, conducting thorough research on the probability of default of those issuers, and having only a limited exposure to bonds rated below investment grade. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets, asset classes and specific bonds.

Currency risk

The Funds are subject to currency risk because some of the Funds' investments are held in overseas markets within pooled investment vehicles, however the only pooled investment vehicle denominated in an overseas currency is the European property fund (£2.9m, 2017: £4.8m). The exposure to foreign currencies within the pooled investment vehicles will vary over time as the manager changes the underlying investments, but is not expected to be a material influence on returns over the long-term. For the multi-asset pooled investment vehicles, decisions about the exposure to foreign currencies are at the discretion of the fund managers.

The Trustees consider the overseas currency exposure in the context of the overall investment strategy, and believe that the currency exposure that exists is appropriate. Furthermore, the Trustees manage the amount of currency risk by investing in pooled funds that hedge some or all of their currency exposure, and have implemented a separate currency hedging arrangement to mitigate currency risk in equity funds that do not hedge currency risk. Even where currency hedging arrangements are in place, there will still be residual currency risks, as these hedging arrangements may not be perfectly aligned to the risks.

Interest rate risk

The Funds are subject to interest rate risk because some of the Funds' investments are held in bonds, interest rate swaps and cash (the liability driven investment "LDI" assets). In the Open Fund the Trustees have set a benchmark for hedging interest rate risk of 80% of liabilities. Under this strategy, if interest rates fall, the value of bonds and swaps will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI assets will fall in value, as will the actuarial liabilities because of an increase in the discount rate. Therefore, the interest rate exposure of these assets is structured to hedge the corresponding risks associated with the Funds' liabilities. The net effect is to reduce the volatility of the funding level of the Open Fund, and so the Trustees believe that it is appropriate to take exposures to these risks in this manner. At the year-end the LDI assets represented 54% (2017: 61%) of the Open Fund investment portfolio, excluding the buy-in policies. In the Closed Fund the buy-in insurance policy mitigates all interest rate risk arising from the Closed Fund's liabilities. Some of the underlying assets within the multi-asset pooled investment vehicles are exposed to interest rate risk. However, this is at the discretion of the respective fund managers.

Other price risk

Other price risk arises principally in relation to the Funds' return seeking assets, which includes equities and alternative growth assets held in pooled investment vehicles and investment properties. The Open Fund has a target asset allocation of 6% (2017: 36%) of investments being held in return seeking investments, excluding the buy-in policies, and a plan to reduce this allocation if certain funding level targets are met. The Fund manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

OPEN FUND DEFINED CONTRIBUTION SECTION

Credit Risk

The Open Fund Defined Contribution Section (DC Section) is subject to direct credit risk in relation to Legal & General Assurance Society Limited through its holding in unit linked insurance funds provided by Legal & General Assurance Society Limited.

Legal & General Assurance Society Limited is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustees monitor the creditworthiness of Legal & General Assurance Society Limited by reviewing published credit ratings. Legal & General Assurance Society Limited invests most of the Fund's investments in its own investment unit linked funds. In the event of default by Legal & General Assurance Society Limited the Fund is protected by the Financial Services Compensation Scheme.

The DC Section is also subject to indirect credit and market risk (including interest rate risk) arising from the underlying investments held in the funds. Member level risk exposures will be dependent on the funds invested in by members.

At the Fund year-end the Bond, Cash and Diversified Growth funds were exposed to underlying credit risk.

Market Risk

The DC Section is subject to indirect foreign exchange, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by Legal & General Assurance Society Limited. The Equity funds are exposed to foreign exchange and other price risks. The Bond funds are exposed to interest rate risk. The Cash fund is exposed to foreign exchange and interest rate risk. The Diversified Growth funds are exposed to foreign exchange risk, interest rate risk and other price risk.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

20 TANGIBLE FIXED ASSETS

| Open fund – DB Section | 2018 | | Total £'000 |
|--|-------------------|--------------------|----------------|
| | Property £'000 | Equipment £'000 | |
| COST OR VALUATION | | | |
| Balance at 1 April 2017 (Restated) | 1,135 | 426 | 1,561 |
| Additions | - | 31 | 31 |
| Revaluation | (210) | - | (210) |
| Balance at 31 March 2018 | 925 | 457 | 1,382 |
| DEPRECIATION | | | |
| Balance at 1 April 2017 | - | 292 | 292 |
| Charge | - | 42 | 42 |
| Balance at 31 March 2018 | - | 334 | 334 |
| Net book value at 31 March 2018 | £925 | £123 | £1,048 |
| Net book value at 31 March 2017 (Restated) | £1,135 | £134 | £1,269 |

Freehold property is included at valuation. The property was valued by BNP Paribas, Chartered Surveyors on 31 March 2018 the methods and significant assumptions applied in estimating the items' fair values. The historical cost of the property was £998,000 (2017 – £998,000).

The 2017 property balance is restated as during the year a property, the Fund's office in Watford, was re-classified as a fixed asset of the Funds whereas previously it had been included in investment properties.

At the year-end there were capital commitments of £80,349 (2017 – £133,631).

21 CURRENT ASSETS

| 2018 | Closed Fund £'000 | Open Fund | | Combined Fund £'000 |
|---|-------------------------|---------------------|---------------------|---------------------------|
| | | DB Section £'000 | DC Section £'000 | |
| Bank balances | 223 | 3,104 | 462 | 3,789 |
| DEBTORS: | | | | |
| Amounts due from employers | | | | |
| Employer contributions | - | 33 | 48 | 81 |
| Employee contributions | - | 2 | 2 | 4 |
| Other debtors | 1 | 54 | - | 55 |
| External current assets | 224 | 3,193 | 512 | 3,929 |
| Interfund balance | - | 29 | - | 29 |
| Individual Funds' current assets | £224 | £3,222 | £512 | £3,958 |

| 2017 | Closed Fund £'000 | Open Fund | | Combined Fund £'000 |
|---|-------------------------|---------------------|---------------------|---------------------------|
| | | DB Section £'000 | DC Section £'000 | |
| Cash in hand | - | 1 | - | 1 |
| Bank balances | 270 | 1,148 | 432 | 1,850 |
| | 270 | 1,149 | 432 | 1,851 |
| DEBTORS: | | | | |
| Amounts due from employers | | | | |
| Employer contributions | - | 124 | 13 | 137 |
| Employee contributions | - | 12 | 1 | 13 |
| Other debtors | 8 | 47 | - | 55 |
| External current assets | 278 | 1,332 | 446 | 2,056 |
| Interfund balance | - | 48 | - | 48 |
| Individual Funds' current assets | £278 | £1,380 | £446 | £2,104 |

21 CURRENT ASSETS (CONT'D)

Amounts due from employers in respect of contributions were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

22 CURRENT LIABILITIES

| | Closed Fund £'000 | Open Fund | | Combined Fund £'000 |
|--|----------------------|---------------------|---------------------|------------------------|
| | | DB Section £'000 | DC Section £'000 | |
| 2018 | | | | |
| Unpaid benefits | - | 18 | 120 | 138 |
| Other | 177 | 1,115 | 29 | 1,321 |
| External current liabilities | 177 | 1,133 | 149 | 1,459 |
| Interfund balance | 25 | - | 4 | 29 |
| Individual Funds' current liabilities | £202 | £1,133 | £153 | £1,488 |

| | Closed Fund £'000 | Open Fund | | Combined Fund £'000 |
|--|----------------------|---------------------|---------------------|------------------------|
| | | DB Section £'000 | DC Section £'000 | |
| 2017 | | | | |
| Other | 208 | 939 | 22 | 1,169 |
| External current liabilities | 208 | 939 | 22 | 1,169 |
| Interfund balance | 42 | - | 6 | 48 |
| Individual Funds' current liabilities | £250 | £939 | £28 | £1,217 |

23 RELATED PARTY TRANSACTIONS

Certain of the Trustees are members of the pension scheme either as active or pensioner members. Their contributions and benefits, as appropriate, are paid in accordance with the Scheme Rules.

Trustees honoraria are disclosed in note 8.

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 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 OMBUDSMAN

You can at any stage seek free and impartial help from the Pensions Ombudsman's "early resolution" service. This independent service is available to assist members and beneficiaries in connection with any difficulty with the Funds. The contact details for this purpose are:

Telephone: 0800 917 4487 and select the option to discuss a potential complaint

Email: helpline@pensions-ombudsman.org.uk

The Pensions Ombudsman
10 South Colonnade
Canary Wharf
E14 4PU

www.pensions-ombudsman.org.uk

The Pensions Ombudsman also has power to investigate and determine complaints about injustice caused by maladministration, and disputes of fact or law, which are referred to the Ombudsman in accordance with the Pension Schemes Act 1993. Normally the Ombudsman will expect the complainant first to go through the Funds' internal dispute resolution procedure. The Ombudsman's contact details for this purpose are:

Telephone: 0800 917 4487 and select the option to make a formal application

Email: enquiries@pensions-ombudsman.org.uk

Address and website as above.

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 and to maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008. 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

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, Renaissance,
12 Dingwall Road, Croydon, Surrey CR0 2NA

Website: www.pensionprotectionfund.org.uk

Email: information@ppf.gsi.gov.uk

Telephone: 0345 600 2541

'PENSION WISE'

Pension Wise only provides guidance on defined contribution (DC) pensions. It cannot answer specific questions about your pension. For independent help you can contact the Pensions Advisory Service or the Money Advice Service.

Pension Wise is a free government service delivering free, impartial, broad guidance to defined contribution (DC) pension holders to help them make sense of their options at retirement. The service is operated through the Citizens Advice Bureau and the Pensions Advisory Service and is available on-line, over the phone or by appointment. See www.pensionwise.gov.uk for further details. However, none of this guidance is regulated by the Financial Conduct Authority and is not intended to replace independent financial advice.

INDEPENDENT FINANCIAL ADVICE

An Independent Financial Adviser (IFA) can for a fee provide more detailed advice taking account of individual financial circumstances. The IFA directory can be accessed at www.unbiased.co.uk/pensions

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: The Pension Tracing Service, Unit 6-7 Glebe House, Boothem Old Road, Staffordshire, ST4 4EZ.

Website: www.pensiontracingservice.com

Telephone: 0800 027 1300

ITB PENSION FUNDS TAX OFFICE

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

Address: HM Revenue & Customs, Pay As You Earn
Self-Assessment, PO Box 1970, Liverpool, L75 1WX
Telephone: 0300 2003300
Open Fund Reference: 073/11012A
Closed Fund Reference: 073/11012

AGE UK

Age UK is the country's largest charity dedicated to helping everyone make the most of later life.

Website: www.ageuk.org.uk
Telephone: 0800 678 1174

THE MONEY ADVICE SERVICE

Provides free and impartial money advice, set up by government.

Website: www.moneyadviceservice.org.uk
Telephone: 0800 138 7777

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.itb-online.co.uk**.

CONTACT

The ITB Pension Funds, 23 King Street, Watford, Herts, WD18 0BJ
Telephone: 01923 226 264
E-mail: pensions@itbpen.com
Website: **www.itb-online.co.uk**
Pension Scheme Registry No. 10169800



The ITB Pension Funds

23 King Street, Watford, Herts, WD18 0BJ

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