

Pensionnews

Chairman's Statement

YEAR UNDER REVIEW

The year was shaped by a backdrop of a vulnerable global economy with widespread market uncertainty and historically low UK government gilt yields. This presents significant challenges for scheme trustees and sponsoring employers because of the negative affect it has on the cost of funding UK defined benefit schemes.

As gilt yields are used as the basis for the discount rate for calculating the value of pension funds' liabilities, low gilt yields have meant high liability valuations. This impact has been felt right across the pension industry, lowering pension scheme funding levels. The ITB Pension Funds have a high degree of protection against this risk, due to a liability matching investment strategy in the Open Fund whereby, if gilt yields fall, a large proportion of the assets increases in value to match the increases in liabilities, and an investment in an insurance buy-in policy in the Closed Fund. However, unfortunately the Open Fund, along with the vast majority of UK pension funds, has not been immune to the impact of low gilt yields.

In addition to these issues, increasing life expectancy is a further challenge for DB schemes.

Open Fund

Defined Benefit (DB) Scheme

We have done much over recent years to reduce risk in the investment approach of the Open Fund DB Scheme through a well-diversified investment strategy designed to correspond more closely to the liabilities. That strategy has provided a degree of insulation from the increasing pension liabilities which predominantly have resulted from a low interest environment. Against a volatile market background, the Open Fund's investment portfolio delivered an investment return of 0.9% for the year to 31 March 2016 against a benchmark of 1.8%.

Actuarial Reviews

The DB Scheme is subject to a 3-yearly valuation, but in line with the requirements of the Pensions Act the Scheme Actuary performs an interim annual review between triennial valuations; the purpose of which is to assess how the Scheme's funding position had changed over the period. As at the date of the last interim review of 31 March 2015 the Open Fund DB Scheme was marginally in surplus at a 101% funding level.

However, since then the yield on bonds has reduced, with the continuation of historically low long-term interest rates and CPI inflation dipping in and out of negative territory during the year. Given that the Scheme's pension liabilities are valued using long term interest rates in an actuarial valuation, the effect of lower rates is to increase those liabilities. We, therefore, await with interest the 2016 formal actuarial valuation results due later this year, which will reflect that our Participating Employers have been paying additional contributions to fund the deficit under the 2013 deficit recovery plan. Inevitably, new deficit recovery arrangements will need to be agreed and formally adopted with our Participating Employers.

This valuation will also take place against the background of the loss of the employers' and employees' National Insurance rebate following the introduction of the new State Pension in April 2016. This ended the ability for DB scheme members to contract-out of the earnings related tier of the State Pension. As the loss of the rebate will increase the costs of operating DB for Participating Employers they are considering how they wish to address the matter.

Further details about this subject and others matters I mention here can be found under the Principal Activities section of the full Trustees' Report and Accounts for the year ended 31 March 2016 which is available at www.itb-online.co.uk.

Employer Covenant

The Participating Employers' Covenant

The strength of the employer covenant is an important factor when formulating decisions about the appropriate actuarial assumptions and investment strategy for the DB Section. As it is such a fundamental element of our risk assessment process we employ independent specialists to advise on covenant strength and to report to us on each Employer's financial position and business prospects. Together we work hard to understand the challenges faced by our Participating Employers as they shape their ability to meet their funding obligations to the Scheme.

Being mindful that pension benefits are long-term commitments and that shifting economic cycles can sometimes put strain on the Employers, we adopt a pragmatic approach to scheme funding. We work collaboratively with our advisers and Employers to agree individually tailored funding plans. In so doing we try to take into account each Employer's financial capacity, seeking to minimise any adverse impact on the sustainable growth of an Employer from recovery plans. We recognise that a sound employer covenant, with an appropriate funding plan, provides a good base for meeting the long-term pension obligations of the Scheme.

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Chairman's Statement (cont.)

We focus more urgent attention on an Employer's performance where its prospects appear to become constrained and together with our advisers consider how best we can support the Employer, while still protecting the interests of the beneficiaries.

Government proposals on Apprenticeships Levy

The implications of the recent Government proposals on an apprenticeship levy have been under scrutiny by the Construction Industry Training Board (CITB) and the Engineering Construction Industry Training Board (ECITB). They are currently in discussions with Government about how changes to the levy will affect their operations. CITB's covenant is key to supporting the DB Section's ongoing operation as it is by far the largest Employer participating in the ITB Funds. The organisation is currently undergoing a review of its operations which is expected to result in a reduction in headcount.

We are working collectively with our advisers and the Employers concerned, closely monitoring how they are likely to progress.

Skills for Logistics

I reported to you last year that Skills for Logistics (SfL) had ceased trading and gone into liquidation. This action triggered a Section 75 debt; essentially the amount required from the company to meet its share of the Scheme's unfunded benefit obligations. We are working with the liquidators to attempt to recover as much as possible of the company's indebtedness to the Scheme. This event has financial issues for the remaining Employers which, as a result of SfL's failure, are required to absorb the unfunded pension liabilities attributable to SfL.

Merger of Chantrey Vellacott DFK LLP with Moore Stephens LLP

Early in the financial year we learned that the Funds' Auditor and covenant adviser Chantrey Vellacott DFK were merging with Moore Stephens, a major accounting and business advisory organisation providing audit, tax, consultancy and financial services across the globe. The combined operations now trade as Moore Stephens. However, the Chantrey Vellacott DFK covenant review business became an independent organisation, CVR Global LLP, which will continue operating with its existing team.

We considered the implications for the Funds of the merger from two positions; the provision of audit services and the provision of covenant review services. Following an evaluation of the circumstances of the merger, including industry analysis, conflict of interest issues and service and pricing levels, we decided to continue with Moore Stephens as the Funds' Auditor. Moreover, we also decided to appoint CVR Global LLP, owing to the high value we placed on the team's many years' experience and knowledge of the business circumstances of the Participating Employers.

Governance

The ITB Pension Funds' Trustee Board is committed to high standards of governance, which we view as central to delivering secure pension related benefits to members over the long-term. The Board considers all aspects of the Funds' business necessary to provide good governance, which is set out in the Governance Statement on pages 11 and 12 of this newsletter. I am pleased to be able to confirm that the ITB Funds essentially comply with all aspects of The Pension Regulator's current Governance Codes and Practice relating to DB and DC pension benefits.

Further work is being undertaken to ensure we meet the standards of conduct and practice set out in the Pension Regulator's draft revised DC Code of Practice issued in November 2015.

Procedures to deal with Trustees' conflicts of interest

We have an established policy making clear that all Trustees are expected to be aware of and declare immediately any perceived or potential conflicts of interest, and that this is not just restricted to Trustees' meetings.

The Trustees' Management Panel now consider and identify possible matters of conflict and notify all Trustees, including those identified as having a potential or perceived conflict, of their findings and how it is proposed that any conflicts are managed.

As a Board we are clear that an effective conflicts of interest policy is an essential part of good governance.

Defined Contribution Section (DC)

Over recent years there has been a clear shift towards DC pensions in the UK to the extent that DC is now the most common type of pension arrangement offered to new employees. The main driver for this shift is that employers prefer DC pensions, as the contributions to these schemes can be fixed as a predictable share of payroll.

In common with this trend the number of DC members actively participating in the ITB Open Fund now represents around 40% of the total active membership. Most of the Participating Employers now only offer the DC Section to their new employees.

Against this background one of our Employers, Engineering Construction ITB (ECITB), decided they wished to consult with relevant members about amendments to their employment terms to facilitate migration to the DC Section of the Open Fund for future service. This change was introduced with effect from 6 April 2016.

Closed Fund

The results of the latest formal triennial valuation of the Closed Fund carried out as at 31 March 2015 showed the Fund to be in a healthy position, declaring a distributable surplus of £36 million. Following the buy-in with Pensions Insurance Corporation in 2011, the Trustees have adopted a policy of retaining assets to provide for the continuity of benefit payments in the event of any unexpected solvency issues with the insurer. Therefore, in line with our normal practice a prudent approach was adopted when carrying out the 2015 valuation.

Under the Scheme Rules, the Trustees are able to distribute up to one-third of the surplus without reference to the Participating Employers who participate in the ITB Funds. The Trustees decided to exercise their discretion to provide a special increase to the pensions of all Closed Fund members, who have now all been individually advised on how the distribution affects them.

In addition, following changes to legislation and consistent with the changes made to the Open Fund DB Section last year, the surviving civil partners and spouses from same-sex marriages in the Closed Fund will be eligible for the same benefits upon the death of a member as the spouses of opposite sex marriages.

Regulation and Legislation

Budget 2016

Although the 2016 Budget contained relatively little on pensions, with the benefit flexibilities of the Pensions Act 2015 now embedded in the Scheme's practice, the ongoing impact of regulatory reform in the pensions industry continues to engage our attention. A significant amount of regulatory change emanates from the work of The Pensions Regulator, via codes of practice and related guidance. Essentially, the regulatory theme is intended to help improve scheme security and protect the benefits of pension scheme members.

A more recent laudable aim of The Regulator is in warning of the dangers of pension scams in its revamped "Scorpion" campaign. The campaign has been refreshed to be clearer for savers as thousands of people continue to be scammed out of their retirement savings.

Finance Act 2015

The Finance Act included legislation relating changes to pension input periods to bring them in line with the fiscal year and more complex changes to rules tapering annual allowances for high earners from 2016/17. The ITB Funds' Office wrote to a number of members during the year, where our records indicated that they may be affected by these changes.

SORP

Those more detailed observers of the Trustees' Report and Accounts may notice a slightly different format this year which is necessitated by a revised Statement of Recommended Practice (SORP) for Financial Reports of Pension Schemes that requires additional risk management disclosures and analysis. The modifications were made as a result of changes in the Financial Reporting Standard (FRS102), the new financial reporting standard for the UK and Republic of Ireland.

Communication

Trustees' Communications with Employers

Over the years we have engaged frequently and openly with the Open Funds' Participating Employers over various matters including the funding of the DB Section of the Scheme. This was again the case during the last Scheme year with extensive communication with the Employers on such matters as the end of contracting-out and preparations for the 2016 actuarial valuation.

We continue to strive to gain a full understanding of the difficult challenges the Employers face, given the multi-employer nature of the Scheme and the significant impact pensions developments could have on their operations. We are clear that the delivery of sustainable pension benefits is currently very dependent on our Participating Employers ability to continue to support the Scheme.

Scheme Actuary

Ken Kneller stepped down from an interim role as Scheme Actuary in March 2016 after the required formalities for Martin Clarke to become Scheme Actuary were completed. We are pleased to report that Ken Kneller will continue to play an active role in providing actuarial services to the ITB Funds.

Mr Clarke was appointed as the Government Actuary in September 2014 and became ITB Scheme Actuary on 1 March 2016. He is a Fellow of the Institute and Faculty of Actuaries and was formerly Executive Director of Financial Risk at the Pension Protection Fund (PPF).

Trustees

The breadth of business experience, skills and diversity of thought on the Trustee Board makes a real and positive difference to our deliberations on the varied and complex issues the Trustees have to contend with.

Our emphasis on the security of members promised benefits and putting in place the governance structure to support that focus, is a key priority.

I would like to once again, thank my fellow Trustees for their invaluable counsel and commitment during the last Scheme year.

Funds' Staff

Earlier this year we bade farewell to Dave Faulkner, the Funds' Accountant, who had previously signalled his intention to retire from his role having served the Funds for fourteen years. We will miss his counsel and rigour as Funds' Accountant. He was also Secretary to the Investment Committee, and we thank him for his dedicated and successful service to Funds. We wish him all the very best for a long and fulfilling retirement.

Mike Thorpe joined the Funds' Office as Funds' Accountant-designate in April 2016, before taking over from Dave as Funds' Accountant on 1 June 2016. I am extremely pleased to have Mike on the team and have already observed the benefits of his depth and breadth of experience, following 9 years in pension fund financial control and investment with the Co-operative Pension Scheme, and 18 years in the financial services industry.

The management and staff at the Funds' Office, headed by Chief Executive & Director Vincent Gordon, consistently strive to provide a high level of service to all the Funds' key stakeholders.

I would like to acknowledge their hard work and, on behalf of the Board, thank them for their outstanding commitment and support.

Outlook

As economic and political uncertainties continue to shape markets we shall maintain our focus on operating a flexible yet diversified investment strategy. The Open Fund's strategy has a long term objective of achieving self-sufficiency; that is where the assets of the DB Section are sufficient to fund the promised benefits.

There are however other near term challenges. Perhaps the most prominent is the outcome of the actuarial valuation as at 31 March 2016 which, when available, we shall need to address with our Participating Employers. We are mindful that the objective of restoring the Fund to full financial health is determined by being able to reduce any deficit at a sustainable pace for the Employers, as it is they who are required to pay additional contributions towards the funding of any shortfall.



Jonathan Swift
Chairman of Trustees – 1 July 2016



Board of Trustees

The Trustees are individuals who administer the ITB Pension Funds in accordance with the Trust Deed and Rules for the benefit of the members. The Trust has been set up independently from the Participating Employers' businesses. The ITB Pension Funds are controlled by 18 Trustees consisting of nine Employer Trustees, seven Member Trustees and two Pensioner Trustees. The current Trustees are as follows:

Employers' Trustees

David Birtwistle



Nominated by:
Science, Engineering
and Manufacturing
Technologies Alliance
(Remuneration Committee
Member for SEMTA)

John Dearden



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

Terry Lazenby, MBE



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

Members' Trustees

Roisin Boyer



Nominated by:
People 1st
(Head of HR for People 1st)

Phillip Jefferies



Nominated by:
Engineering Construction
ITB
(Regional Account Manager –
EDP and SE&E)

Martin McManus



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

John McDonald



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

Newell McGuiness



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

Tony Pringle



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

Sarah Parkin



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

Jas Sall



Nominated by
the Trade Union
'Unite' for:
Science, Engineering
and Manufacturing
Technologies Alliance
(External Quality Assurer for
SEMATA)

Rob Sweeney



Nominated by
the Trade Union 'Unite'
for:
Construction ITB
(Product Developer for
Construction ITB)

Peter Rogerson, OBE



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

Jonathan Swift



(Chairman)
Nominated by:
Lantra
(Retired Deputy Chairman of
Lantra)

Simon Tarr



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

Robert Tabor



Nominated by:
Lantra
(Chief Operating Officer and
Deputy Chief Executive of Lantra
Awards)

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)

David Barnett



**(Deputy Chairman-
Members)**

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

Changes to the Trustees

Members' Trustees

Rob Sweeney, the Member Trustee for Construction ITB retired by rotation on 5 July 2015 and, after being re-nominated by the Trade Union 'Unite', was appointed to serve a further term from 6 July 2015.

Reg D'Souza, the Member Trustee for SEMTA retired by rotation on 8 October 2015 and, after being re-nominated by the Trade Union 'Unite', was appointed to serve a further term from 9 October 2015. Subsequently, Mr D'Souza left the service of SEMTA on 31 March 2016 and Jas Sall was appointed by Unite to succeed him as Members' Trustee on 1 April 2016.

As a Large Employer determined by the active member head-count as at 31 December 2015, the active membership of Cogent SSC Ltd was eligible to nominate a Members' Trustee. Following a nomination process of Scheme members at Cogent SSC Ltd, Martin McManus was appointed as Members' Trustee on 1 July 2016.

Joint Members' Trustees

CAPITB Ltd, OPITO Ltd and SECTT were classified as Small Employers under the Rules as a result of the active membership head-count as at 31 December 2015, and the active members of those companies were able to nominate one of their number for the position of Joint Members' Trustee. The nominated candidate, Ms Sarah Parkin of SECTT, was subsequently appointed as Joint Members' Trustee with effect from 1 April 2016.

Employers' Trustees

Terry Lazenby, the Employer Trustee for Engineering Construction ITB, retired by rotation on 2 July 2015 and was reappointed to serve a further term of office from 3 July 2015.

Newell McGuiness, the Joint Employers' Trustee for SECTT, CAPITB Ltd and Skills for Logistics, retired from office after SECTT became one of the Large Employers for Trustee nomination purposes following Skills for Logistics termination of participation in the Scheme earlier in the year. Mr McGuiness was subsequently appointed as Employer Trustee for SECTT on 2 October 2015 following an OTP.

John Dearden was appointed as Employer Trustee for CAPITB Ltd on 2 October 2015 following an OTP. This became possible after Skills for Logistics participation in the Scheme was terminated with the consequence that SECTT became a Large Employer for the purposes of nominating an Employer Trustee. CAPITB then became the sole remaining Employer and therefore eligible to nominate a Joint Employers' Trustee.

David Birtwistle, the Employer Trustee for SEMTA, retired by rotation on 8 April 2016 and following an OTP was reappointed to serve a further term of office from 9 April 2016.

Gordon McNeil, the Employer Trustee for OPITO Ltd, tendered his resignation as Trustee on 19 February 2016. After OPITO had undertaken an OTP John McDonald was appointed to succeed Gordon McNeil on 1 April 2016.

Deputy Chairman

The period of office of David Barnett as Deputy Chairman (Members) ended on 29 February 2016 and, as he stood unopposed in the nomination process conducted by the Members' Trustees, the need for a ballot did not arise. He was therefore reappointed to serve a further term of office from 1 March 2016.

Trustee Training, Induction and Governance

All new Trustees undertake an induction programme shortly after becoming a Trustee. The aim of this programme is to introduce new Trustees to the Funds' business, its operations and its governance arrangements. The induction programme includes meetings with the Director, Senior Managers and staff at the Funds' Office in Watford. Upon appointment, new Trustees have personal access to copies of all of the Funds' key documentation. Also, special arrangements are made for new Trustees to attend training courses arranged by outside providers. In addition, all Trustees regularly undergo a process to identify their training needs. Based on these assessments relevant training courses are then organised throughout the year and at least one annual training seminar for all Trustees is organised.

To identify and manage any potential problems related to Trustees conflict of interests, the Funds' Office also maintains a Trustees' 'Register of Interests'. The content of this Register has been updated during the past year and takes account of guidance issued by The Pensions Regulator. Conflicts of interest are regarded as a priority area for the Trustees in their governance of the ITB Pension Funds.

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

Meetings

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

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

There was overall 87% attendance at the Trustees' Board meetings during the review year.

Committees

The Investment Committee, the Management Panel and the Salaries Committee are formally set up by resolution in accordance with the Rules and have carefully defined remits. Where members of the various committees are unable to attend any meeting then agenda matters are addressed with them either in writing or by telephone, both prior to and after the meeting. Where possible any Committee member who is not able to attend a meeting in person will take part in the meeting by way of a conference telephone call.

Investment Committee

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

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

During the Scheme year to 31 March 2016 the Investment Committee included four Trustees.

The formal members of the Committee were:

Mr JF Swift - Chairman

Mr PG Rogerson OBE - Deputy Chairman (Employers)

Mr DC Barnett - Deputy Chairman (Members)

Mr T Pringle - Employer Trustee (Cogent SSC)

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

There was overall 90% attendance at the Investment Committee meetings.

Independent Governance Committee

New regulations came into force on 6 April 2015 introducing more extensive quality standards to apply to operators of money-purchase schemes. As the ITB DC Section comes under this category of schemes it is required to establish and maintain an Independent Governance Committee. Fundamentally the role of the Committee is to monitor and, where necessary, raise concerns about the quality of the Scheme and its value for money on behalf of DC members.

The Committee also assesses whether the DC Section's default investment strategies are designed and carried out in members' interests and regularly review the investment strategies for performance and suitability for members, making changes as

Trusteeship (cont.)

necessary. Moreover, to check that DC contributions and other financial payments are processed promptly and accurately.

Essentially the Trustees' Investment Committee already had these checks and balances in place and the business of the Independent Governance Committee forms part of the Investment Committee's agenda.

The formal members of the Independent Governance Committee are the same members as those of the Investment Committee.

Management Panel

The Management Panel is a committee established by the Trustees to carry out research and investigation into pension matters not dealt with by the Investment Committee and to make appropriate recommendations to the Trustee Board where necessary. It can also be authorised to manage activities and implement policies and decisions on behalf of the Trustees. It is assisted as required in these roles by the Trustees' professional advisers. The Management Panel meets as and when necessary.

During the year to 31 March 2016 the Management Panel comprised four Trustees after Mr McGuinness was invited to join the Committee in July 2015.

The formal members of the Committee were:

Mr JF Swift - Chairman

Mr PG Rogerson OBE - Deputy Chairman (Employers)

Mr DC Barnett - Deputy Chairman (Members)

Mr N McGuinness – Employer Trustee (SECTT)

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

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

Salaries Committee

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

During the year to 31 March 2016 the members of the Committee were:

Mr JF Swift - Chairman

Mr PG Rogerson OBE - Deputy Chairman (Employers)

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

Officers

Director

Vincent Gordon FPMI

Funds' Accountant

Dave Faulkner FCA (retired May 2016)

Mike Thorpe ACA (appointed June 2016)

Pensioners Administration Manager

Chris Bettles DipPMI

Advisers

Actuary

Martin Clarke FIA Government Actuary's Department (appointed March 2016)

Ken Kneller, Government Actuary's Department (stepped down March 2016)

Solicitors

Mayer Brown International LLP

Investment Managers

Allianz Global Investors GmbH (appointed February 2016)

BlackRock Investment Management (UK) Ltd

Capital International Portfolios

Fidelity International

GMO Funds PLC

Insight Investment Management (Global) Ltd

Investec Asset Management Ltd

Legal & General Assurance Society Ltd

(DC Section and AVCs)

Longview Partners Investments

Pension Insurance Corporation PLC

Prudential Retirement Income Ltd (AVCs)

Royal London Mutual Insurance Society Ltd (AVCs)

Ruffer LLP

Schroder Investment Management (Luxembourg) S.A.

Property Investment Manager

Fletcher King

Investment Adviser and Performance Monitor

Lane Clark & Peacock LLP

Custodians

JP Morgan Chase Bank NA

The Bank of New York Mellon (International) Ltd

Auditor

Moore Stephens LLP

Covenant Adviser

CVR Global LLP



Vincent Gordon
FPMI

Dave Faulkner
FCA

Chris Bettles
DipPMI

Mike Thorpe
ACA

Participating Employers

The Participating Employers comprise two Statutory Training Boards and seven 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.

On 30 September 2015 People 1st completed an agreed restructuring by winding-up its subsidiary, Hospitality Guild, and transferring the company's assets and liabilities to People 1st as the parent company. The transfer also included the contingent debt for Hospitality Guild's share of pension liabilities in the Fund.

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 below:

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

People 1st

Participating Subsidiaries:

National Skills Academy for Retail

Skillsmart Retail UK Ltd

Science, Engineering and Manufacturing Technologies Alliance

Participating Subsidiaries:

Excellence, Achievement and Learning Limited

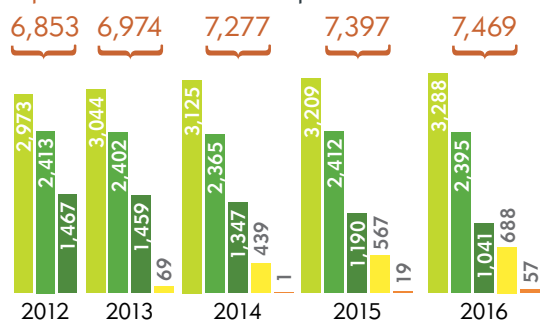
Metals Industry Skills and Performance Limited

Training Publications Limited

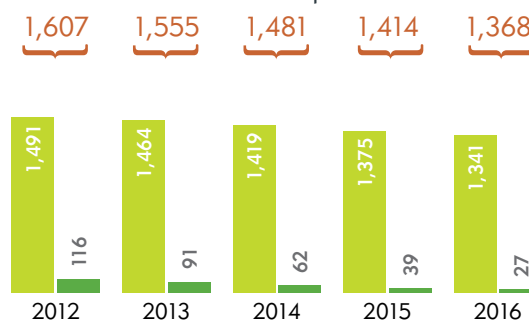
National Skills Academy for Manufacturing

Scottish Electrical Charitable Training Trust

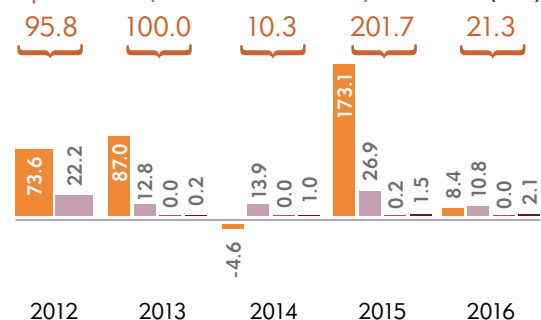
Open Fund - Membership



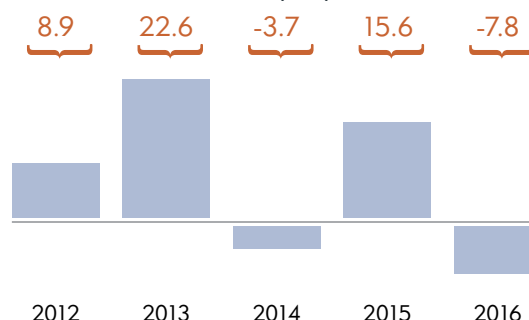
Closed Fund - Membership



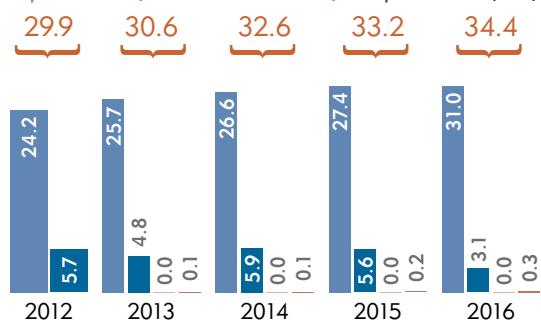
Open Fund (DB & DC Sections) - Income (£m)



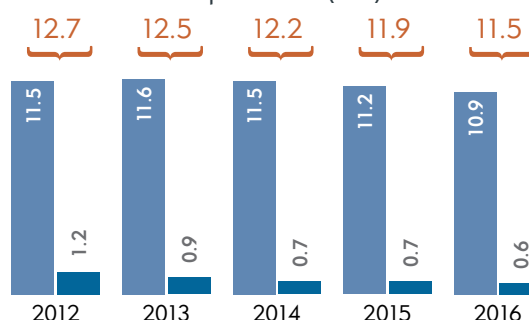
Closed Fund - Income (£m)



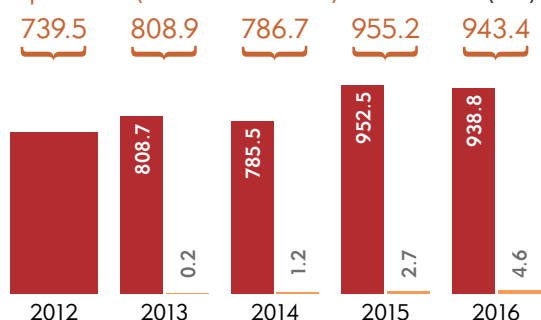
Open Fund (DB & DC Sections) - Expenditure (£m)



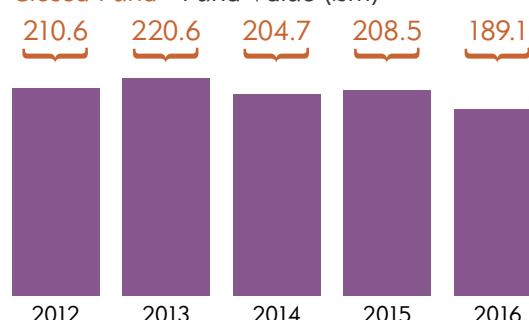
Closed Fund - Expenditure (£m)



Open Fund (DB & DC Sections) - Fund Value (£m)



Closed Fund - Fund Value (£m)



KEY:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1 Pensioners & Dependants	2 Preserved Pensions	3 Active (DB)	4 Active (DC)	5 Deferred (DC)	6 Investment (DB)	7 Contributions (DB)	8 Investment (DC)	9 Contributions (DC)	10 Investment Closed Fund	11 Pensions (DB)	12 Other (DB)	13 Pensions (DC)	14 Other (DC)	15 Open Fund (DB Section)	16 Open Fund (DC Section)	17 Closed Fund

Summary Funding Statements

The ITB Pension Funds (Open Fund DB Section): Summary Funding Statement for period ending 31 March 2015.

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

The last ongoing funding valuation:

The most recent funding valuation of the Open Fund showed that on 31 March 2013 the funding position was as follows:

Assets	£808.7 million
Liabilities	£832.5 million
Funding level	97%

The estimated amount as at 31 March 2013 needed to ensure that all members' benefits could have been paid in full if the Scheme had started winding up (full solvency) was £1,165.4 million. Therefore, the Scheme was 69% funded on a full solvency basis as at 31 March 2013. Inclusion of this information is a standard requirement and is not related to any consideration of the Trustees to wind up the scheme.

Change in funding position:

The Scheme Actuary carried out an interim review of the Open Fund as at 31 March 2015. The purpose of that review was to assess how the Scheme's funding position had changed over the previous year.

The interim review showed that the funding level increased from 99% to 101% between 31 March 2014 and 31 March 2015. This increase in funding level was principally due to a higher than expected return on scheme assets (net of the effect of changes in market conditions on the liabilities) and deficit contributions paid by Employers.

Actions to return the Scheme to full funding:

The Participating Employers have agreed to pay additional contributions to the Scheme to restore the Scheme to full funding on an ongoing basis. Generally Employers will pay additional contributions for between 1 and 8 years from January 2014. Where such contributions extend beyond 5 years, Employers have agreed to provide additional security to the Scheme.

Payment to the Participating Employers:

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

How the Scheme operates:

How is my pension paid for?

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

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

How is the amount the Scheme needs worked out?

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

The importance of the Participating Employers' support:

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

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

What is the Scheme invested in?

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

Global equities	18%
Bonds/LDI mandate	47%
Alternative Investments	24%
Property	9%
Cash	2%

Where can I get more information?

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

- Additional documents available on request or in some cases on the Funds' website www.itb-online.co.uk
- The Statement of Investment Principles: This explains how the Trustees invest the money paid into the Scheme.
- The Schedule of Contributions: This shows how much money is being paid into the Scheme.
- The Recovery Plan: This shows the agreed actions to restore the Scheme to full funding.
- The Annual Report and Accounts of the ITB Pension Fund, which shows the Scheme's income and expenditure in the year up to 31 March 2016.
- The full Actuarial Valuation report follows the Actuary's check of the Scheme's situation as at 31 March 2013.
- The report on the interim Actuarial Review of the Scheme as at 31 March 2015.

- The ITB Open Fund '2007 Section', 'New Section' and 'Old Section' Member Booklets (members should have been provided with a copy of the booklet relevant to their Scheme Section when they joined the Scheme, but a further copy can be requested).
- An Annual Benefit Statement: If you are not getting a pension from the Scheme (and have not received a benefit statement in the previous 12 months) you can ask for a statement that provides an illustration of your likely pension.

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

The ITB Pension Funds (Closed Fund): Summary Funding Statement for period ending 31 March 2015.

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

The last ongoing funding valuation:

The most recent funding valuation of the Closed Fund showed that on 31 March 2015 the funding position was as follows:

Assets	£74.3 million
Liabilities	£38.3 million
Surplus	£36.0 million

In April 2011, the Trustees insured the Scheme's benefits through an insurance policy. This policy provides payments to the Scheme intended to cover benefit payments to members. The actuarial valuation of the Scheme excluded the insurance policy and the liabilities covered by it to the extent that they offset each other.

As a result of the valuation surplus, no further contributions were required. The Trustees decided to use some of the surplus to increase all members' benefits in early 2016.

Had the Scheme started to wind up on 31 March 2015, the Scheme Actuary assessed that the assets would have been sufficient to meet the liabilities of the Scheme in full on a solvency basis at that date. This assessment is based on the understanding that the terms of the Trustees' insurance policy would remain appropriate in a wind up. Inclusion of this information is a standard requirement and is not related to any consideration of the Trustees to wind up the scheme.

Change in funding position

The surplus increased from £29 million to £36 million between 31 March 2014 and 31 March 2015. This increase in surplus was principally due to favourable investment returns.

Payment to the Employers

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

How the Scheme operates

How is my pension paid for?

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

The majority of the Scheme's benefits are now covered by an insurance policy. This means the Scheme receives payments to cover most of the members' benefits and the Scheme only needs to ensure it has enough assets to cover the differences between the policy payments and members' benefits.

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

How is the amount the Scheme needs worked out?

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

What is the Scheme invested in?

The majority of the Scheme's assets are held in the insurance policy. The remaining funds are invested in a broad range of assets, including index-linked gilts, equities and cash.

Where can I get more information?

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

- Additional documents available on request or in some cases on the Funds' website www.itb-online.co.uk
- The Statement of Investment Principles: This explains how the Trustees invest the money paid into the Scheme.
- The Annual Report and Accounts of the ITB Pension Fund, which shows the Scheme's income and expenditure in the year up to 31 March 2016.
- The full report on the Actuarial Valuation following the Actuary's check of the Scheme's situation as at 31 March 2015.
- If you are not getting a pension from the Scheme you can ask for a statement that provides an illustration of your likely pension.

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

Financial Summary 2016

	Closed Fund £'000	Open Fund DB £'000	Open Fund DC £'000
Value of the funds as at 31 March 2015	208,477	952,511	2,697
FRS102 Transition - inclusion of AVCs	0	1,281	0
Income: contributions	0	10,775	1,999
Transfers from other schemes	0	0	107
Income from Investments	11,878	12,591	0
Total Income	11,878	24,647	2,106
Pensions and other benefits	(10,932)	(31,031)	(136)
Transfer values paid	0	(1,916)	(100)
Administration expenses	(632)	(1,326)	(41)
Pension Levy	(3)	(24)	0
Total expenditure	(11,567)	(34,297)	(277)
Income less expenditure for the year	311	(9,650)	1,829
Net change in market value of investments	(19,637)	(4,079)	40
Value of Funds at 31 March 2016	189,151	938,782	4,566

Statement of Investment Principles (SIP)

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

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

Investment managers are employed by the Trustees to manage the investments. The appointments are reviewed by the Trustees annually in the light of quarterly monitoring of the performance and investment process.

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

In April 2012 a Defined Contribution (DC) Section of the Open Fund was introduced. The Trustees are mindful of the Principles included within The Pensions Regulator's (TPR) Code of Practice No.13 - Governance and administration

of occupational defined contribution trust based pension schemes. This concerns the governance matters The Pensions Regulator recommends be considered when setting up and operating a DC pension scheme, and a revision to the code is due for publication in July 2016. These principles are designed to encourage better investment governance and decision making by Trustees. They provide a framework which can be used as a practical checklist to benchmark a scheme's investment governance processes against 'best practice'.

The Trustees consider that the Funds are currently compliant with the guidance recommended by the The Pensions Regulator and have taken steps, where appropriate, to integrate the guidance into working practices and procedures.

Governance Statement

Overview

Your Trustee Board is committed to high standards of governance and sees this as central to our role as Trustees and consistent with the Pension Regulator's guidance relating to Scheme Governance and Controls. In doing so we try to consider all aspects of the governance of the business of the Funds, including the operation of internal controls to enable the identification, evaluation and management of the risks that relate to the Scheme consistent with those set out in the Pension Regulator's Code of Practice 9: Internal Controls, and underpin this by endeavouring to ensure that your Trustees and the Funds' Office staff are properly trained to carry out our respective duties. To further assist our effectiveness as a board we seek to have timely access to accurate and relevant information, which is supported by access to a secure website of ITB Funds' specific information. Agendas and supporting papers for board and committee meetings are circulated by the Funds' Office in good time prior to the meeting date to allow sufficient time for review to enable informed debate and challenge at meetings. A record is made of all decisions taken at meetings of the board and its committees.

Our ultimate goal as your Trustee Board is to manage the Funds effectively thereby protecting the security of members' benefits, while delivering long-term sustainable success for the benefit of all of our stakeholders.

A critical element of the success of the Trustee Board is that we have the right mix of individuals with experience and expertise who are provided with the necessary information and support. This enables us to arrive at key decisions through free debate and constructive challenge so that we act in accordance with the Trust Deed and Rules and with a good understanding of the long-term interests of the various stakeholders in the ITB Pension Funds.

Internal Control

The Trustees have an established risk and control framework and, wherever practical, give a high priority to mitigating risks to the Funds that we and our advisers are able to identify. The risk evaluation process adopted by the Trustees provides a framework to identify, evaluate and manage risks on an ongoing basis. Once risks are identified, practical steps are developed to mitigate them and update operational procedures. Specifically, the significant risks have been determined by assessing the possible effects on, but not limited to, Scheme investment strategy, safe custody and security of scheme assets, strength of Employer covenant, conflicts of interest, finance and liquidity issues, legislative and regulatory change, operational procedures, processing core financial transactions, fraud, Scheme management and administration, delegated responsibilities and cost control.

The Trustees' focus on risk management is actively pursued by the Funds' Office, who are encouraged to be risk aware and to develop and implement risk control initiatives. Controls found not to be effective are remedied. These measures seek to ensure that all staff act in accordance with the Trust Deed and Rules and relevant laws and regulations. A regular programme of internal procedure reviews is carried out by the Funds' Office which includes assessment of compliance with operating policies and procedures. This is also evaluated by the Funds' Auditor whose findings are addressed by the Funds' Office and reported to the Trustees. The Funds' Office risk management framework is continually being refreshed to better support the Trustees' objectives and to recognise regulatory and legislative change.

Professional Advisers Service Levels

In compliance with established best practice principles produced by the Pensions and Lifetime Savings Association the Trustees have a policy of regularly reviewing the performance of their professional advisers.

Monitoring Pension Contributions

The Funds' Office practice of monitoring contributions from members and their Employers is based on the Regulator's requirements on the matter, as regular detailed examinations of pay data and

contributions are undertaken. Where an over or underpayment, missed or late payment, or materially significant payment failure is identified, action is initiated with the relevant Employer.

Approach to Scheme Funding (Defined Benefits)

The Trustees work closely with the Participating Employers in the funding of the Open Fund Defined Benefits Sections and are mindful of the key funding principles as set out in The Pension Regulator's Code of Practice 3 (updated 2014): Funding Defined Benefits.

The Trustees recognise that a strong, ongoing Employer alongside an appropriate funding plan is the best support for the Scheme. An appreciation and understanding of the changes and challenges taking place within our Participating Employers is crucial in ensuring the Scheme can deliver the benefit expectations of members, without overburdening and possibly restricting Employers' future business development plans.

Defined Contribution Section

As a result of the regulatory amendments brought in under The Occupational Pension Schemes (Charges and Governance) Regulations 2015, chairs of pension schemes offering money purchase benefits must produce an annual chair's governance statement, which demonstrates how the new standards for DC governance have been met. In compliance with the revised 2015 Regulations the Chair makes the following statements on behalf of the Trustees:

As Trustees of the ITB Pension Funds we have reviewed and assessed that our systems, processes and controls across key governance functions are consistent with those set out in Code of Practice 13 and the Investment Committee monitors compliance with the Code. Core financial transactions have been processed accurately and promptly during the financial year. The Trustees' risk and control framework sets out how this requirement is met.

The Statement of Investment Principles for the default arrangement sets out three lifestyle investment strategies. The default investment strategy is a lifestyle strategy that targets income drawdown at retirement. The other lifestyle strategies are an annuity strategy and a cash strategy. The default strategy provides an automated investment switching facility, following a pre-selected investment strategy, which will move the funds into lower risk investments as retirement approaches. Further information on the default strategy is set out on page 46 of the Trustees' Report and Accounts for the year ending 31 March 2016 which can be found at www.itb-online.co.uk. The DC Section statement of investment principles is within the Statement of Investment Principles for the Open Fund of the ITB Pension Funds and is available on application from the Funds' Office and is on the Funds' website.

The DC section was introduced in April 2012 and a comprehensive review of the arrangements was concluded in December 2014, following the budget statement that year. The current default arrangement was introduced in April 2015 as a result of the 2014 review. While there have been no changes in investment policy or any significant changes in the demographic profile of the members, the Trustees monitor the default strategy and its performance regularly at each Investment Committee meeting. The next full review of the default strategy is scheduled for 2017.

The level of charges and transaction costs for the default arrangement (as measured by the total expense ratio - TER) is 0.68%, while the equivalent cost of the annuity strategy is 0.58% and the cash strategy is 0.68%. The TER for all the funds in which assets relating to members are invested during the Funds' year are stated on page 46 of the full Trustees' Report and Accounts.

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.

continues on page 12

Governance Statement (cont.)

The requirements for knowledge and understanding are met by a combination of an established induction programme for new Trustees, attendance at training courses driven by a training needs assessment, an annual formal training seminar and established governance structures and practices (as described further on page 5). The combined knowledge and understanding of the Trustees, together with the advice which is available to them and the experience of Funds' Office support staff, enables them to properly exercise their functions as Trustees of the Funds.

As explained on page 5, the Funds are required to ensure that a majority of Trustees, including the Chairman, are 'non-affiliated', which, among other things, means they must be appointed via an open and transparent process (OTP). The Trustees are satisfied, having regard to guidance issued by the Pensions Regulator, that the Funds comply with this requirement. Steps were taken as described on page 5 to ensure that the appointments of all new Trustees during the year were via OTPs.

The Funds are also required to encourage members to make their views known to the Trustees. The Trustees do this using an annual newsletter and the Funds' website, and more informally through Members' Trustees.

Contact

In the event that members have a query or wish to make their views known to the Trustees on any aspect of their investment in the ITB Funds they should in the first instance write to the ITB Pension Funds, 23 King Street, Watford, Herts, WD18 0BJ.



Jonathan Swift
Chairman of Trustees – 1 July 2016

Further information

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

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 169 6565

The Money Advice Service

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

Website: www.moneyadviceservice.org.uk
Telephone: 0300 500 5000

Construction Industry Training Board (CITB)



The Trustees have recently been given to understand that CITB are consulting with their staff regarding migration from the DB Section to the DC Section for future service. As CITB members make up the majority of the active membership of the Scheme the move will have implications for the actuarial valuation of the DB Section of the Open Fund, which is currently being undertaken.

Keeping our records up to date

Members are reminded that to ensure the ITB Pension Funds' Office keep their records up to date, they should be advised in writing of any change in:

- Address
- Marital Status, ensuring that the date of marriage and date of birth of the spouse are advised
- Name Changes
- Bank or Building Society Account (Pensioners only)
- Nomination forms advising the Trustees who to consider for any lump sum payable upon death (applicable only to Open Fund Active and Deferred Members and Open Fund DB Section Pensioners). Nomination forms can be accessed via www.itb-online.co.uk



The content incorporated within *Pensionnews* is based on the content contained in the ITB Trustees' Report & Financial Statements 2015/16.

Contact

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

E-mail: pensions@itbpen.com Telephone: 01923 226 264 Website: www.itb-online.co.uk

Scheme Reference No. 10169800