CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 MARCH 2020

INTRODUCTION

This statement has been prepared by the Trustees to demonstrate how the Funds have complied with the governance standards introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015. It covers the scheme year to 31 March 2020 and six key areas relating to the Open Fund Defined Contribution Section (DC Section):

- The investment strategy relating to the DC default investment arrangement
- The financial transactions made within the DC Section
- The charges and transaction 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 ARRANGEMENT

The DC Section is currently invested in various funds offered by Legal & General Assurance Society Ltd. (L&G). The default arrangement is called ITB Drawdown. It is a lifestyle fund that targets income drawdown at retirement and automatically switches investments gradually to a lower risk investment strategy from 15 years before retirement. The Trustees' objective in relation to the default arrangement is to grow members pots materially above inflation whilst they are far from retirement, and then to gradually reduce investment risk as members become close to retirement, targeting an "at retirement" allocation which the Trustees consider appropriate for a member intending to drawdown in retirement.

The last full review of the DC Section investment strategy and performance, including the default arrangement, was conducted in November 2017. The next full review is scheduled for November 2020. Whilst a full review was not carried out during the scheme year, the Investment Committee monitored the performance of the DC Section and AVC funds each quarter. The funds' short-term and longer-term performance figures were considered alongside the Trustees' relevant targets and other objectives. Except as mentioned below, the figures were considered satisfactory and no changes to investments were made.

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

The Trustees have adopted a Statement of Investment Principles (SIP) which covers both the DB and DC sections of the Open Fund. The DC Section SIP as at 31 March 2020, dated 4 April 2019, is reproduced in the schedule to this statement. It sets out the investment principles for the DC funds, including a detailed description of the default arrangement and the Trustees' objectives and policies in relation to it.

2. FINANCIAL TRANSACTIONS

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

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

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

The Trustees also reviewed the 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 reconciled L&G's quarterly reports to monthly contribution summaries supplied by the participating employers to monitor whether contributions had been processed accurately. Any identified errors were rectified quickly and, where necessary, processes at L&G and the employers were reviewed to prevent further similar errors. Contributions to the AVC arrangements were monitored in the same way.

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

The Trustees' review of SLA performance identified no substantive issues during the scheme year. The quarterly SLA review identified that service levels were adhered to for most transactions. All contribution allocations, retirement payments, short service refunds, surrender payments, individual transfers in and investment switches were processed within service level. Further, that while 46% of transfers out were processed within the service level of 5 working days, 26 transfers out were paid outside the service level by an average of 4 days and also, that while 66% of lump sum retirement payments were paid within the service level, 13 retirement lump sum payments were paid outside the service level by 3 days on average.

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

The Trustees reviewed the DC Section's governance processes and internal controls each quarter and were satisfied that the processes and controls were consistent with the Pensions Regulator's DC Code of Practice No. 13.

Based on the above, the Trustees are satisfied that the core financial transactions relating to the DC Section and AVCs have substantially been processed promptly and accurately during the scheme year and that where transactions were processed outside service levels, the timing remained acceptable.

3. MEMBER BORNE CHARGES AND TRANSACTION COSTS

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

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 MARCH 2020

Table 1: *Annual charges for lifestyle options*

PERIOD TO RETIREMENT:	MORE THAN 15 YRS %PA	15 YRS %PA	10 YRS %PA	5 YRS %PA	0 YRS %PA
Drawdown Lifestyle *(Default Option)*	0.44	0.44	0.53	0.62	0.61
Annuity Lifestyle	0.44	0.44	0.47	0.49	0.39
Cash Lifestyle	0.44	0.44	0.53	0.61	0.40

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

Table 2: *Annual charges for self-select funds*

FUND	%PA
Over 5 Years Index-Linked Gilt Fund	0.38
Over 15 Years Gilts Index Fund	0.38
AAA-AA-A Corp Bond Over 15 Years Index	0.42
Global Equity Market Weights 30:70 Index Fund	0.44
Ethical Global Equity Index Fund	0.60
HSBC Islamic Global Equity Index Fund	0.65
Multi Asset Fund	0.43
Aberdeen Standard Global Absolute Return Strategies Fund	1.07
Cash Fund	0.40

The Investment Manager, L&G, has provided the transaction costs for the years ended 5 April 2020 for the funds managed by L&G available within the DC Section. An annual average transaction cost has been calculated using the available data. Table 3 below sets out annual average transaction costs for the lifestyle options (including the default arrangement) and Table 4 sets out annual average transaction costs for the self-select funds. Transaction costs were borne by members. Explicit costs are those directly charged to or paid by the fund, e.g. taxes, levies and broker commissions, whereas implicit costs are costs such as differences between selling and buying prices (spreads) which may vary depending on market liquidity and the size of transaction. Implicit costs are calculated on the 'slippage' basis, as recommended by the Financial Conduct Authority. Under this basis negative implicit costs can arise when the actual price paid ends up being lower than the mid-market price at the time of placing an order.

Table 3: *Transaction costs for lifestyle options*

	ANNUAL AVERAGE TO 5 APRIL 2020*				
PERIOD TO RETIREMENT:	MORE THAN 15 YRS %PA	15 YRS %PA	10 YRS %PA	5 YRS %PA	0 YRS %PA
Drawdown Lifestyle *(Default Option)*	0.02	0.02	0.02	0.02	0.01
Annuity Lifestyle	0.02	0.02	0.02	0.02	-0.02
Cash Lifestyle	0.02	0.02	0.02	0.02	0.00

* As this period is close to the years ended 31 March 2020 the Trustees consider this data to be appropriate. The total may not add up due to rounding.

Table 4: *Transaction costs for self-select funds*

FUND	ANNUAL AVERAGE TO 5 APRIL 2020* IMPLICIT %PA	EXPLICIT %PA	TOTAL %PA
Over 5 Years Index-Linked Gilt Fund	0.02	0.00	0.02
Over 15 Years Gilts Index Fund	-0.09	0.00	-0.07
AAA-AA-A Corp Bond Over 15 Years Index	-0.01	0.00	-0.01
Global Equity Market Weights 30:70 Index Fund	0.02	0.01	0.02
Ethical Global Equity Index Fund	-0.01	0.02	0.01
HSBC Islamic Global Equity Fund	0.00	0.07	0.07
Multi Asset Fund	-0.01	0.01	0.02
Aberdeen Standard Global Absolute Return Strategies Fund	0.00	0.26	0.26
Cash Fund	-0.03	0.00	-0.02

* As this period is close to the years ended 31 March 2020 the Trustees consider this data to be appropriate. The total may not add up due to rounding.

The Trustees have prepared the following illustrative example of the cumulative effect of costs and charges incurred by members, which has been prepared in accordance with statutory guidance. The charges and costs deducted are the charges and transaction costs set out in *tables 1 to 4* above, except that future charges for the default fund for the projected pot at age 50 retiring at 65 have changed due to the change in make up of the default fund referred to in Section 1 – DC Default Investment Arrangement. The annual charges for the default fund from April 2020 will be: More than 15 years 0.44% pa; 15 years 0.44% pa; 10 years 0.43% pa; 5 years 0.43% pa; 0 years 0.42% pa. The funds illustrated include the most popular, the funds with the highest and lowest expected return and highest and lowest total charges.

Table 5: *Projected pension pot in today's money*

FUND CHOICE	"Most Popular"		"Most Popular, age 50, retiring at 65"		"Popular"		"Highest Expected Return"		"Lowest Expected Return"		"Highest Cost"		"Lowest Cost"	
	Default Fund Growth Phase		Default Fund at Age 50 Retiring at 65		Multi Asset		Global Equity		Cash Fund		Islamic Global Equity		Over 15 Years Gilts	
Yrs	Before charges £	After all charges + costs deducted £	Before charges £	After all charges + costs deducted £	Before charges £	After all charges + costs deducted £	Before charges £	After all charges + costs deducted £	Before charges £	After all charges + costs deducted £	Before charges £	After all charges + costs deducted £	Before charges £	After all charges + costs deducted £
1	15,547	15,499	15,547	15,499	15,380	15,334	15,618	15,570	14,866	14,828	15,618	15,543	14,916	14,885
3	27,268	27,038	27,211	26,982	26,530	26,313	27,589	27,355	24,350	24,187	27,589	27,227	24,556	24,419
5	39,880	39,340	39,617	39,081	38,221	37,723	40,612	40,057	33,515	33,161	40,612	39,754	33,948	33,650
10	75,764	73,768	73,634	71,736	69,995	68,241	78,396	76,307	55,098	54,018	78,396	75,180	56,379	55,455
15	118,859	114,169	109,116	104,986	105,770	101,835	125,033	120,023	74,908	72,801	125,033	117,357	77,390	75,560
20	170,613	161,578	N/A	N/A	146,049	138,816	182,597	172,745	93,090	89,716	182,597	167,572	97,070	94,098
25	232,767	217,210	N/A	N/A	191,398	179,524	253,649	236,328	109,778	104,948	253,649	227,358	115,504	111,190
30	307,410	282,491	N/A	N/A	242,457	224,337	341,348	313,009	125,095	118,666	341,348	298,538	132,770	126,950
35	397,052	359,097	N/A	N/A	299,945	273,666	449,596	405,487	139,154	131,019	449,596	383,285	148,943	141,481
40	504,707	448,991	N/A	N/A	364,670	327,969	583,206	517,014	152,058	142,144	583,206	484,184	164,092	154,878

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £10,000 – the median pot size as at 31 March 2020.
3. Inflation is assumed to be 2.5% each year.
4. It is assumed the current average level of contributions of £5,079 pa is made each year.
5. There are no charges levied on contributions.
6. Values shown are estimates and are not guaranteed.
7. The projected growth rates for each fund or arrangement are as follows:

   Default Fund Growth Phase: 3.7% above inflation

   Default arrangement at Age 50 and retiring at 65: between 3.7% and 1.4% above inflation

   Multi Asset: 2.4% above inflation

   Global Equity: 4.3% above inflation

   Cash: 1.7% below inflation

   Islamic Global Equity: 4.3% above inflation

   Over 15 Years Gilts: 1.3% below inflation

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 members assessment of the DC arrangements is carried out by the Trustees each year. The Trustees' latest annual assessment, conducted in November 2019, concluded that given the size of the DC Section, the fees members pay are good value. The Trustees considered the extent to which the cost of membership compares against the services and benefits provided by the DC Section, which include scheme governance and management, investment, administration and communications services. The assessment recognised that the only charges borne by members are the charges deducted from the funds (i.e. the TERs shown above, plus transaction costs), while the charges for all other services are borne by the participating employers. The assessment had particular regard to the services funded by member-borne charges, in particular the investment, platform, administration and communication services provided by L&G, which were felt to be good relative to the charges. These assessments were made after considering the advice of the 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 for the investment funds (which includes the L&G platform charge of 0.30% pa) and all other services are paid for directly by employers. In addition, the other costs and charges borne by employers are kept as low as possible by rigorous budgetary control and the charges borne by members are well below the government 'charge cap' of 0.75% pa in respect of default funds.

4. TRUSTEE KNOWLEDGE AND UNDERSTANDING

The Trustees are expected to meet the requirements for knowledge and understanding, as set out in s247 of the Pensions Act 2004 pertaining to individual Trustees, i.e. that they are conversant with key documents relating to the Funds, and have knowledge and understanding of pensions and trust law and the principles of funding and investment. This section describes the policies and programmes in place (including during the scheme year) to ensure these "TKU" requirements are met, and specific steps taken during the year.

The Trust Deed & Rules provide for the Funds to be governed by a board of 18 Trustees, consisting of nine Employer Nominated, seven Member Nominated and two Pensioner Nominated Trustees. However, as at 31 March 2020 there were five Employers' Trustees, as there are now only seven main employers and two vacancies existed. Following the year-end one of these vacancies was filled. As at 31 March 2020 there were six Members' Trustees with one vacancy. This vacancy was also filled after the year-end. Each Trustee serves for a fixed three-year term and can be re-appointed following each term. As at 31 March 2020, the average period of service as a Trustee is 8 years – 6 Trustees have been in office for six years or less, whilst 5 Trustees, including the Chair and the Deputy Chairs, have been in office for 9 years or more. There is a wide spectrum of trustee experience and, therefore, the training programme both keeps the experienced Trustees up to date with pension developments and gives newer Trustees a basis, in line with the minimum requirements, on which to develop their knowledge and experience.

The training programme comprises the following elements:

- All new Trustees attend an induction programme that introduces the Trust Deed and Rules, statement of investment principles, statement of funding principles and other Funds policy documents, for example the Funds' management of conflicts of interest policy. This programme was completed by all new Trustees appointed during the scheme year.
- Every year, each Trustee completes a training needs self-assessment 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 have identified a need for a comprehensive introduction to trusteeship. To address this, new Trustees attend 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 and encourage Trustees to maintain a good working knowledge of those

documents. The documents include the Trust Deed and Rules, statement of investment principles and statement of funding principles. The website also includes links to training course providers and the Pensions Regulator's e-learning course, the Trustee Toolkit, which all Trustees have completed.

- The papers for quarterly Trustee meetings included legal updates specifically prepared for the Funds, with the legal advisers present to discuss any questions raised by the Trustees.
- A formal training session is provided following each quarterly Trustee meeting, that is attended by all Trustees. Sessions during the scheme year included "Liability Driven Investment" by Insight Investment, "Active and Passive Equity Investment" by Allianz Global Investors, "Cyber security and disaster recovery" by Rio IT and "Retirement Living Standards and the Pensions Dashboard" by the PLSA. Significant training is also provided in the form of formal briefings and training provided at Trustee and Investment Committee meetings. This year all Trustees have received briefings on actuarial valuations, setting of late retirement factors, GMP equalisation, master trust contingency planning and supervision and protection of trustees.
- Each year all the Trustees attend a dedicated training seminar. In April 2019 training was provided by the Funds' advisers and investment managers on the latest investment strategy changes, the management of the property portfolio, an update on the latest pension legal and regulator developments including a refresher session on trust and pension law and the powers of the Pensions Regulator, pension transfers, defined benefit consolidation, collective defined contribution schemes, developments in mortality, the 2019 Open Fund valuation and recent developments in the buy-out and buy-in market.

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

The combined training, knowledge and understanding of the Trustee board, together with the available advice, enables the Trustees to properly exercise their functions. The combined knowledge of the board includes many years of trustee experience and training as described above. Several of the Trustees are current or former senior executives with substantial experience of financial, managerial and governance matters; for example, one Trustee was an HR Director with substantial pensions knowledge; another was Chief Engineer and Technology Director at a major oil company. Trustees are nominated by participating employers, or employees and pensioners of participating employers, 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 outgoing Chief Executive is a qualified PMI professional of more than 33 years' experience in the pension industry, the outgoing Funds Accountant and new Chief Executive is a Chartered Accountant with 9 years' experience in life insurance and 13 years' experience in the pension industry, and the Pension Administration Manager has a PMI Diploma and 43 years' experience in the pension industry. The incoming Funds Accountant is also a Chartered Accountant with 22 years' experience in the pension industry.

The Trustees also have ready access to actuarial advice from the Government Actuary's Department, investment advice from LCP and legal advice from Mayer Brown International. The actuarial and legal 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 Chair, must be "non-affiliated".

For a Trustee to be "non-affiliated", he or she must be appointed through an open and transparent process (OTP); must be independent of the Funds' service providers; and must not have been in office for longer than prescribed periods.

All Trustees, including the Chairman, met the above requirements during the scheme year as explained below, and so were (and still are) non-affiliated. All Trustees were appointed through an OTP. None of the Trustees is (or has in the last five years been) a director, manager, partner or employee of any undertaking which provides advisory, administration, investment or other services for the ITB Pension Funds, or any undertaking which is connected to a service provider. Furthermore, none of the Trustees receive any payment or benefit from any undertaking which provides advisory, administration, investment or other services for the ITB Pension Funds, or any undertaking which is connected to a service provider. Neither do any of the Trustees have any obligations to any such service provider that conflict with their obligations as a Trustee.

None of the Trustees has (since the 2015 Regulations came into force), served for more than 10 years, with no single period in office being more than 5 years. 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 through the process described below, which the Trustees consider to be an OTP. As described below, in relation to Members' Trustees, the process meets the member-nominated trustee requirements under s241(2) Pensions Act 2004 and, in relation to Employers' Trustees appointments are made through reasoned decisions, based on relevant and appropriate criteria, and made through due process, with both the process and the ultimate decision being clearly communicated to interested parties. During the scheme year and over the longer-term, the Trustees have monitored compliance with the conditions as to independence and term of office.

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

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

As regards non-affiliated Trustees appointed or reappointed during the scheme year, the OTP requirement was met as follows. David Birtwistle, Employer's Trustee for SEMTA: SEMTA followed the ground rules in making its selection; Martin McManus, Members' Trustee for Cogent SSC: nomination and selection process was by Cogent members, consistent with the member-nominated trustee legislation; Andrew McLachrie, Members' Trustee for SEMTA: nomination and selection was by SEMTA members, consistent with the member-nominated trustee legislation; Peter Rogerson, Employer's Trustee for CITB: CITB followed the ground rules in making its selection.

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 574 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, who frequently discuss pensions matters with workplace colleagues and provide feedback to the Trustee board. DC Section 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 investments in the GARS Fund were sent a communication in March 2020 to explain the disinvestment of the GARS Fund and were invited to send comments and questions to the Funds Office about the changes.

The Trustees believe that the above arrangements are appropriate for the DC Section, having regard to the size, nature and demographic of the membership. In particular, the Trustees are conscious that the DC Section is a relatively small and immature arrangement, with a relatively high proportion of active members and a relatively low proportion of deferred pensioners.

The contact details of the Funds are as follows:

The ITB Pension Funds, 23 King Street, Watford, Herts, WD18 OBJ

Telephone: **01923 226264**

E-mail: **pensions@itbpen.com**

Website: **www.itb-online.co.uk**

Signed by the Chairman on behalf of the Trustees

Signed: DNMcGuiness

Dated: 18 September 2020

David Newell McGuiness (Chairman of Trustees)

WHAT IS THE TRUSTEES' OVERALL INVESTMENT OBJECTIVE?

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

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

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

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

RISK OF INADEQUATE LONG-TERM RETURNS

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

RISK OF DETERIORATION IN INVESTMENT CONDITIONS NEAR RETIREMENT

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

RISK OF LACK OF DIVERSIFICATION AND UNSUITABLE INVESTMENTS

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

RISK FROM EXCESSIVE CHARGES

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

INVESTMENT MANAGER RISK

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

OTHER RISKS

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

WHAT ARE THE INVESTMENT STRATEGY ARRANGEMENTS?

The Trustees have provided to members a range of investment options, having regard to the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns. Following a review of the strategy in 2017, the Trustees have elected to restructure some of the member options in order to allow them to transfer a number of deferred members into a "Section 32 Buy-out Policy". The Trustees have also made further changes to the options to reflect the latest product developments in the investment market. The range of funds that is available is set out below.

Current Fund Range

Manager	Fund name	Benchmark	Target
L&G	Global Equity Market Weights (30:70) Index Fund – 75% GBP Currency Hedged	Composite of 30/70 distribution between UK and overseas, 75% GBP Hedged	To track the benchmark
L&G	Ethical Global Equity Index Fund	FTSE4Good Global Equity Index	To track the benchmark to within +/– 0.50% pa for two years in three
HSBC	Islamic Global Equity Index Fund	Dow Jones Islamic Titans 100 Index	To track the benchmark
Aberdeen Standard	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 provide long-term investment growth through exposure to a diversified range of asset classes
L&G	AAA-AA-A Corporate Bond (Over 15 Years) Fund	iBoxx £ Non-Gilts (ex BBB) Over 15-year Index	To track the benchmark to within +/– 0.50% pa for two years in three
L&G	Over 5 Year Index-Linked Gilts Index Fund	FT 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	FT 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 15 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;
- 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; and
- 25% in Aberdeen Standard's Global Absolute Return Strategies Fund; and
- 25% in the L&G Cash fund.

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

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. As a result of the strategy review and corresponding changes mentioned above, the structure of the lifestyle strategies has also been modified slightly.

The lifestyle strategy is designed to offer some protection against the risks described above.

Years to Retirement	Global Equities (30/70) (%)	Multi-Asset (%)	Diversified Growth (%)	Cash (%)
15 or more	70.00	30.00	0.00	0.00
14	65.50	32.00	2.50	0.00
13	61.00	34.00	5.00	0.00
12	56.50	36.00	7.50	0.00
11	52.00	38.00	10.00	0.00
10	47.50	40.00	12.50	0.00
9	43.00	42.00	15.00	0.00
8	38.50	44.00	17.50	0.00
7	34.00	46.00	20.00	0.00
6	29.50	48.00	22.50	0.00
5	25.00	50.00	25.00	0.00
4	20.00	50.00	25.00	5.00
3	15.00	50.00	25.00	10.00
2	10.00	50.00	25.00	15.00
1	5.00	50.00	25.00	20.00
0	0.00	50.00	25.00	25.00

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

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

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifestyle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken. The main risks considered were inflation risk (the risk that a member's investments fail to keep pace with inflation over the longer term), conversion risk (the risk of a deterioration in the terms available for converting funds into pension at retirement – applicable to the annuity lifestyle) 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;
- the Trustees' investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

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

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

APPOINTMENT OF INVESTMENT PROVIDER

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

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