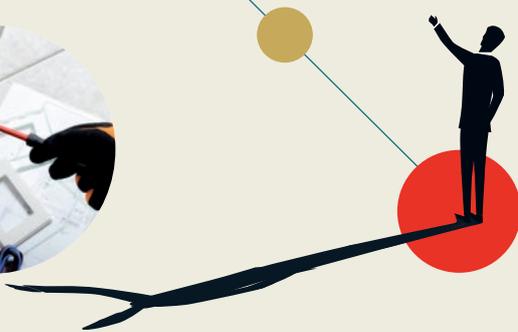


The ITB Pension Funds
Chair's Annual
Governance Statement
2022/2023



Chair's Annual Governance Statement

FOR THE YEAR ENDED 31 MARCH 2023

INTRODUCTION

This statement has been prepared by the Trustee Directors 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 2023 and seven key areas relating to the Open Fund Defined Contribution Section (DC Section):

1. Investment strategy relating to the DC default investment arrangement
2. Performance of the DC Section investments
3. Financial transactions made within the DC Section
4. Charges and transaction costs within the DC Section
5. The Trustee Directors' compliance with knowledge and understanding requirements
6. Appointment of Trustee Directors
7. Membership engagement

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

1. DC DEFAULT INVESTMENT ARRANGEMENT

The DC Section is invested in funds offered by Legal & General Assurance Society Limited (L&G).

Members who join the DC Section and who do not choose an investment option are placed into a default arrangement called ITB Drawdown. This is a lifestyle fund that targets income drawdown at retirement and automatically switches investments to a progressively lower risk investment strategy from 15 years before retirement. The Trustee Directors' objective in relation to the default arrangement is to grow members pots materially above inflation whilst they are far from retirement, and then to gradually reduce investment risk as members become close to retirement, targeting

an allocation which the Trustee Directors consider appropriate for a member intending to drawdown in retirement.

The Trustee Directors are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement.

The Trustee Directors have adopted a Statement of Investment Principles (SIP) which covers both the DB and DC sections of the Open Fund. The DC Section of the latest Open Fund SIP, dated 19 April 2023, 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 Trustee Directors' objectives and policies in relation to it.

The latest full DC Section investment strategy and performance review was conducted in November 2020 and concluded that the lifestyle strategy targeting drawdown at retirement remained appropriate for achieving the default arrangement's objective and that the self-select range of funds offered a sufficiently broad range of options to members. The next review, including the default arrangement, is due to take place during the 2023/24 financial year.

No changes were made to the default fund strategy or investments during the year to 31 March 2023. The Investment Committee has reviewed the performance of funds in the default arrangement at each quarter end during the year and concluded that they have been performing broadly as expected, consistent with the Trustee Directors' targets and other objectives.

2. INVESTMENT PERFORMANCE

The return on investments (net of charges and transaction costs) for periods ended 31 March 2023 of the self-select investment funds in which member assets were invested during the year was as follows:

FUND	1 year %	5 Years Annualised %
Over 5 Years Index-Linked Gilts Index Fund	-29.5	-4.0
Over 15 Years Gilts Index Fund	-29.9	-6.5
AAA-AA-A Corporate Bond Over 15 Years Index Fund	-24.4	-4.4
Low Carbon Transition Global Equity Index Fund	-4.7	N/A
Global Equity Market Weights 30:70 Index Fund (75% GBP Currency Hedged)	-4.5	7.3
Ethical Global Equity Index Fund	-2.0	11.7
HSBC Islamic Global Equity Index Fund	-5.9	14.9
Multi Asset Fund	-5.5	3.9
Cash Fund	2.1	0.7

The net investment returns for the three lifestyle funds for periods ended 31 March 2023 are shown in the following table. These have been calculated based on an assumed target retirement age of 65, for members who were aged 25, 45 and 55 at the start of the period that the performance figures cover.

Age of member at start of period	Drawdown (default strategy)		Cash Lifestyle		Annuity Lifestyle	
	1 year net return %	5 year net return %pa	1 year net return %	5 year net return %pa	1 year net return %	5 year net return %pa
25	-6.5	5.9	-6.5	5.9	-6.5	5.9
45	-6.5	5.9	-6.5	5.9	-6.5	5.9
55	-6.1	4.9	-6.1	4.9	-11.5	2.1

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

3. FINANCIAL TRANSACTIONS

This section explains how, during the scheme year, the Trustee Directors 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 Trustee Directors' behalf by the Funds' DC platform provider, L&G, under a policy to administer the Funds' DC Section.

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

The Trustee Directors 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, timescales for processing benefit payments and issuing quotes for events like retirement, ill health and transfers, and customer enquiries.

The Trustee Directors also reviewed the AAF

01/20 Assurance Reports on Internal Controls issued during the year by L&G Investment Management and by L&G Assurance Society Ltd. These reports provide independent assurance on the strength of the systems and controls operating within the investment manager and the administrator of the DC funds.

Staff at the ITB Pension Funds reconciled L&G's quarterly reports to monthly contribution summaries supplied by the participating employers to monitor whether contributions had been processed accurately. Any identified errors were rectified quickly and processes at L&G and the employers were reviewed to help prevent further similar errors. There were no contributions paid into the DB Section AVC arrangements during the year.

The staff at the ITB Pension Funds liaised with the administrator each month about the service levels to identify any systemic administration issues that might affect members' interests. Transfers out, fund switches and payments out, both to and in respect of members, were processed by L&G, on behalf of the Trustee. The promptness of processing these transactions was monitored by the Trustee Directors 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 Trustee Directors' review of L&G's quarterly SLA performance identified no substantive issues during the scheme year. Joiner and contribution files processing and the allocation of contributions to investments were all completed within the SLA throughout the year. SLA performance for payments processing and the servicing of member enquiries is shown in the table below. Improvements in SLA performance were achieved during the year and in the 6 months to March 2023 all payments and over 99.5% of enquiries were processed within SLA.

	Payments processing		Servicing of requests / enquiries	
	Percentage processed within SLA	Average delay for payments that missed the SLA (days)	Percentage processed within SLA	Average delay for cases that missed the SLA (days)
June 2022 quarter	88%	1.0	95%	3.0
September 2022 quarter	86%	1.0	99%	4.5
December 2022 quarter	100%	0.0	100%	0.0
March 2023 quarter	100%	0.0	100%	2.0

L&G has processes in place to help meet the SLAs, for example the dedicated L&G contributions team performs a daily contribution data reconciliation for all contribution payments received. L&G also performs 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 Trustee Directors reviewed the DC Section's governance processes and internal controls each quarter and were satisfied that they were consistent with The Pensions Regulator's DC Code of Practice No. 13.

Based on the above, the Trustee Directors are satisfied that core financial transactions relating to the DC Section and AVCs have overall been processed accurately and promptly during the

scheme year and for those transactions processed outside service levels, the volume and delays have not been excessive.

4. CHARGES AND TRANSACTION COSTS

Annual Charges

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

Table 1: Annual charges for lifestyle options

PERIOD TO RETIREMENT:	MORE THAN 15YRS %PA	15 YRS %PA	10 YRS %PA	5 YRS %PA	0 YRS %PA
Drawdown Lifestyle (Default Option)	0.29	0.29	0.31	0.32	0.32
Annuity Lifestyle	0.29	0.29	0.30	0.30	0.29
Cash Lifestyle	0.29	0.29	0.31	0.32	0.29

The annual charges for the self-select funds were as shown below in Table 2.

Table 2: Annual charges for self-select funds

FUND	%PA
Over 5 Years Index-Linked Gilt Fund	0.28
Over 15 Years Gilts Index Fund	0.28
AAA-AA-A Corp Bond Over 15 Years Index Fund	0.32
Global Equity Market Weights 30:70 Index Fund	0.34
Low Carbon Transition Global Equity Index Fund	0.27
Ethical Global Equity Index Fund	0.50
HSBC Islamic Global Equity Index Fund	0.55
Multi Asset Fund	0.33
Cash Fund	0.29

Transaction costs

The following types of transaction costs are borne by members:

1. Explicit costs: These are directly charged to or paid by the fund, e.g. taxes, levies and broker commissions.
2. Implicit costs: These reflect the theoretical value that is lost to the market during the process of buying and selling, for example differences between selling and buying prices (spreads). Implicit costs may vary depending on market liquidity and the size of transaction.

They are calculated on the 'slippage' basis, as recommended by the Financial Conduct Authority, under which a negative implicit cost can arise when the actual price paid ends up being lower than the mid-market price at the time of placing an order.

Information provided by the Investment Manager, L&G, on the annual average transaction costs for the lifestyle options (including the default arrangement) is set out in Table 3 below, and for the self-select funds it is set out in Table 4 below. Where aggregated transaction costs resulted in a negative value, a nil percentage has been reported.

Table 3: Transaction costs for lifestyle options

PERIOD TO RETIREMENT:	YEAR TO 31 MARCH 2023				
	MORE THAN 15YRS %PA	15 YRS %PA	10 YRS %PA	5 YRS %PA	0 YRS %PA
Drawdown Lifestyle (Default Option)	0.05	0.05	0.05	0.04	0.03
Annuity Lifestyle	0.05	0.05	0.07	0.08	0.11
Cash Lifestyle	0.05	0.05	0.05	0.04	0.00

PERIOD TO RETIREMENT:	ANNUAL AVERAGE* TO 31 MARCH 2023				
	MORE THAN 15YRS %PA	15 YRS %PA	10 YRS %PA	5 YRS %PA	0 YRS %PA
Drawdown Lifestyle (Default Option)	0.03	0.03	0.03	0.03	0.02
Annuity Lifestyle	0.03	0.03	0.03	0.04	0.04
Cash Lifestyle	0.03	0.03	0.03	0.03	0.00

Table 4: Transaction costs for self-select funds

FUND	YEAR TO 31 MARCH 2023 %PA	ANNUAL AVERAGE* TOTAL %PA
Over 5 Years Index-Linked Gilt Fund	0.21	0.08
Over 15 Years Gilts Index Fund	0.19	0.06
AAA-AA-A Corp Bond Over 15 Years Index Fund	0.00	0.00
Global Equity Market Weights 30:70 Index Fund	0.08	0.04
Low Carbon Transition Global Equity Index Fund	0.04	0.03
Ethical Global Equity Index Fund	0.00	0.00
HSBC Islamic Global Equity Index Fund	0.00	0.06
Multi Asset Fund	0.04	0.03
Cash Fund	0.00	0.00

* The Annual Averages Total transaction costs have been provided by the investment manager, L&G. They are based on the average costs over the 5 years to 31 March 2023 or, where data was available for fewer than 5 years, the average costs over the maximum number of years up to 31 March 2023 for which data was available.

Impact of all costs and charges

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

Table 5: Projected pension pot in today's money

FUND CHOICE														
	"Most Popular"		"Most Popular, age 50, retiring at 65"		"Popular"		"Popular" and "Lowest Cost"		"Highest Expected Return"		"Lowest Expected Return"		"Highest Cost"	
	Default Fund Growth Phase		Default Fund at Age 50 Retiring at 65		Multi Asset		Cash		Low Carbon Transition Global Equity		Over 5 Year Index-Linked Gilts		Islamic Global Equity	
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	22,390	22,337	22,382	22,328	22,259	22,201	21,679	21,632	22,447	22,397	21,679	21,621	22,409	22,309
3	36,219	35,987	36,143	35,908	35,671	35,418	33,318	33,128	36,456	36,240	33,318	33,082	36,298	35,862
5	51,321	50,798	51,060	50,528	50,121	49,558	45,121	44,718	51,843	51,354	45,121	44,621	51,494	50,513
10	95,437	93,576	93,716	91,811	91,335	89,381	75,360	74,111	97,256	95,498	75,360	73,813	96,039	92,554
15	150,414	146,043	141,492	137,194	140,997	136,526	106,672	104,109	154,667	150,489	106,672	103,502	151,817	143,643
20	218,926	210,393	N/A	N/A	200,840	192,339	139,095	134,726	227,243	218,995	139,095	133,698	221,659	205,730
25	304,304	289,319	N/A	N/A	272,951	258,413	172,669	165,975	318,993	304,337	172,669	164,408	309,113	281,180
30	410,700	386,121	N/A	N/A	359,845	336,635	207,434	197,867	434,980	410,651	207,434	195,642	418,618	372,871
35	543,289	504,847	N/A	N/A	464,551	429,240	243,434	230,417	581,608	543,092	243,434	227,409	555,736	484,298
40	708,520	650,464	N/A	N/A	590,722	538,870	280,711	263,639	766,971	708,082	280,711	259,718	727,429	619,710

Notes

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- The starting pot size is assumed to be £15,919 – the median pot size as at 31 March 2023.
- Inflation is assumed to be 2.5% each year, which is the assumption used by Legal & General in members' 31 March 2023 benefit statements.
- It is assumed the current average level of contributions of £5,628pa is made each year.
- There are no charges levied on contributions.

- Values shown are estimates and are not guaranteed.
- The projected growth rates for each fund or arrangement are as follows:
 Default Fund Growth Phase: 4.5% above inflation
 Default arrangement at Age 50 and retiring at 65: between 3.03% and 4.5% above inflation
 Multi Asset: 3.8% above inflation
 Global Equity Low Carbon Transition: 4.8% above inflation
 Over 5 Year Index-Linked Gilts: 0.7% above inflation
 Islamic Global Equity: 4.6% above inflation
 Over 15 Years Gilts: 0.7% above inflation
 Cash: 0.7% above inflation

Value for money

It is an objective of the Trustee Directors 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.

To meet this objective, the Trustee Directors carry out a value for members assessment of the DC arrangements each year on the basis of information and advice from the investment consultant. The assessment compares the fees borne by DC Section members with other pension schemes that have similar investment arrangements and are of a similar size. It also considers whether fee levels are being justified by the services and benefits received in exchange, which include scheme governance and management, investment, administration and communications services. The assessment

recognises that the only charges borne by members are the charges deducted from the funds (i.e. the TERs shown above, plus transaction costs), while the charges for all other services are borne by the participating employers.

The Trustee Directors' assessment during 2022/23 covered the year ending 31 March 2022. It concluded that overall, members were receiving very good value for money. Fee levels were competitive and justified the service levels being received, the standard of which had improved. Additionally, L&G was assessed as being a stable, well governed DC provider with a good investment range and asset transition capabilities but with scope to improve the consistency of its administration and communication services. The fund range and lifestyle strategies were concluded to be providing members with adequate options.

The latest value for members assessment, covering the year ending 31 March 2023, was completed after the year-end and concluded that members had continued to receive very good value for money.

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

5. TRUSTEE DIRECTORS' KNOWLEDGE AND UNDERSTANDING

The Trustee Directors are expected to meet the requirements for knowledge and understanding set out in s247 of the Pensions Act 2004, which are to be conversant with key documents relating to the Funds, and to 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 to ensure the knowledge and understanding requirements are met, and specific steps taken during the year.

The Trust Deed & Rules provide for the Funds to be governed by a board of 14 Trustee Directors, consisting of seven Employer, five Member and two Pensioner Trustee Directors. All Trustee Director positions were filled at the year-end.

Each Trustee Director serves for a fixed three-year term and can be re-appointed following each term. As at 31 March 2023, the average period of service of each Trustee Director was 8 years with 4 Trustee Directors having been in office for 5 years or less, whilst 4 Trustee Directors, including the Chair and the Employers' Deputy Chair, had been in office for 10 years or more. There is a wide spectrum of experience and, therefore, the training programme both keeps the experienced Trustee Directors up to date with pension developments and gives newer Trustee Directors a basis, in line with the minimum requirements, on which to develop their knowledge and experience.

The training programme comprises the following elements:

- New Trustee Directors 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' Conflicts of Interest policy. This programme was completed by all new Trustee Directors appointed during the scheme year. New Trustee Directors also attended training

arranged by the legal adviser covering the key legal principles relating to defined benefit and defined contribution schemes.

- Every year, each Trustee Director completes a training needs self-assessment. The Funds Office uses this, and any other feedback provided by the Trustee Directors on their knowledge and skills, to identify areas where training is required. No significant knowledge or skills gaps were identified by this process.
- Trustee Directors can access a secure website which has a Resource Library containing all the key governance documentation for the Funds including the Trust Deed and Rules, Annual Report & Financial Statements, Statements of Investment Principles and Statements of Funding Principles. Trustee Directors are encouraged to maintain a good working knowledge of these documents. The website also includes copies of Trustee training presentations and links to training events and relevant information published by The Pensions Regulator, including its online learning programme called the Trustee Toolkit, which all Trustee Directors have completed.
- Trustee Directors who are not members of the Investment Committee or Management Panel are invited, by rotation, to attend meetings of each to improve their knowledge and understanding of the matters that they deal with. During the year, an invited Trustee Director was present at 3 of the Investment Committee's meetings and at 1 Management Panel meeting. Additionally, the number of Trustee Directors serving on the Management Panel has been increased from 4 to 6 during the year.
- The papers for quarterly Trustee meetings include legal updates specifically prepared for the Funds, with the legal advisers present to discuss any questions raised by the Trustee Directors.
- From time to time, formal training sessions for the Trustee Directors are held at the conclusion of quarterly Trustee meetings. Sessions held during the year addressed the operation of the conflicts of interest policy and stewardship of investments.
- Trustee Directors individually attend other training events which are relevant to their personal training needs, and which may address topics in which they have a specific interest. Events attended during the year included an investment conference which addressed global economic developments, pension risk management and fixed income opportunities; and training provided by the

Pensions Management Institute covering topics including GMP equalisation, pension dashboards and buy-outs.

- The Scam Module of the Trustee Toolkit is completed by Trustee Directors to increase their awareness of pension scams and understand the processes that the Regulator expects to be in place to protect Fund members from being scammed.
- An annual Trustee training seminar took place in April 2022. Topics covered included investment performance, climate related investment risks, member communication, member engagement and education, new legal requirements for transfers out and a training session on the triennial actuarial valuation process.

All training needs and training received are logged on a central training register that is used by the Funds Office to identify relevant subjects for training, which are then delivered within the framework described above. Each new Trustee Director 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 Directors, together with the available advice, enables the Trustee Directors to properly exercise their functions. The Trustee Board benefits from its directors having many years of experience and training as described above. Several of the Trustee Directors are current or former senior executives with substantial experience of financial, managerial and governance matters. This includes a former HR Director with substantial pensions knowledge and a former Chief Engineer and Technology Director of a major oil company. Several Trustee Directors have also had substantial involvement with other pension schemes or pensions industry bodies.

Trustee Directors are nominated by participating employers, or employee members, deferred members, and pensioners of participating employers. This ensures detailed knowledge of the participating employers is available to the Trustee Directors, which is useful for interpreting and understanding advice on employer covenant strength, subject to managing conflicts of interest.

The Trustee Directors believe that a culture which is inclusive and supports diversity is essential to the long-term success of the Funds and will better enable it to respond to stakeholder needs. As and when there are Trustee Director nominations, and re-nominations, the Trustee Directors encourage employers, members and trade unions to identify

diverse candidates who will help the Trustee Board to fulfil its diversity and inclusion aspirations, while guided to nominate solely on the basis of the candidate's assessed capability for the role.

The Trustee Directors' combined knowledge and understanding is enhanced by the support of the Funds Office whose employees include a Chief Executive who is a Chartered Accountant with 9 years' experience in life insurance and 16 years' experience in the pension industry, a Funds Accountant who is also a Chartered Accountant and has 25 years' experience in the pension industry, and a Pension Administration Manager who has a CII Diploma and 34 years' experience in the pension industry.

The Trustee Directors also have access to actuarial advice from the Government Actuary's Department, investment advice from LCP and legal advice from Mayer Brown International. The actuarial and legal advisers normally attend each Trustee meeting, and the investment adviser attends each Investment Committee meeting. This independent professional support further enhances the combined knowledge that enables the Trustee Directors to properly exercise their functions.

6. APPOINTMENT OF TRUSTEE DIRECTORS

On 31 October 2022 all the Trustees were removed from office and ITB Pension Trustee Limited was appointed in their place as the sole corporate trustee. Concurrently, each of the removed Trustees was appointed as a director of the corporate trustee with an equivalent status to that which they had previously held as a Trustee.

The Funds are a relevant multi-employer scheme under the 2015 Regulations and are therefore subject to a requirement, under Regulation 22, for a majority of the Trustee Directors, including the Chair, to be "non-affiliated". For a Trustee Director to be "non-affiliated", he or she must be appointed through an open and transparent process (OTP); must be independent of the Funds' service providers; and must not have been in office for longer than prescribed periods. The Funds' Trust Deed & Rules reflect the requirement of Regulation 22, such that a person cannot normally be appointed as a Trustee Director unless he or she is non-affiliated.

In relation to the Funds' compliance with the non-affiliation requirements:

- All Trustee Directors have been appointed through an OTP.

- None of the Trustee Directors 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.
- None of the Trustee Directors 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 Trustee Directors have any obligations to any such service provider that conflict with their obligations as a Trustee Director.
- None of the Trustee Directors 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.

All Trustee Directors, including the Chair, therefore met the requirements of Regulation 22 during the year and so were (and still are) non-affiliated.

To support compliance with Regulation 22, new Trustee Directors are appointed through the following processes:

- Members' Trustee Directors are nominated and selected by members or by trade unions which represent them, much as would apply under the Member Nominated Trustee legislation (s241 of the Pensions Act 2004). The Trustee Board is satisfied that this meets the OTP requirement.
- Employers' Trustee Director 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. Employers' Trustee Directors are selected by employers and, to ensure that the OTP requirement is met, the Trustee stipulates that employers should follow certain ground rules when selecting candidates:

- Employers must determine the constituency from which Trustee Directors 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 Trustee Directors.
- The Chair of the Trustee must be consulted as to the proposed appointment.
- Notice as to the final decision must be given to the interested parties.
- The employer must confirm to the Trustee that the ground rules have been followed.

During the scheme year and over the longer-term, the Trustee Directors have monitored compliance with the conditions as to independence and term of office.

As regards non-affiliated Trustee appointments and reappointments during the scheme year, the OTP requirement was met as follows.

Name	Position	Process	OTP requirement compliance
Peter Austin	Open Fund Pensioner Trustee	Appointed following a ballot of Open Fund pensioner and deferred members.	Nomination and selection was by Open Fund pensioner and deferred members.
David Birtwistle	Enginuity, Employers' Trustee	Renominated by Enginuity.	The ground rules were followed in making the selection.
Martin McManus	Cogent Skills, SECTT and RTITB, Joint Members' Trustee	Re-appointed following a nomination process in which he was the sole nominee.	Nomination and selection was by members of Cogent Skills, SECTT and RTITB.
Marie Rowlands	Enginuity, Members' Trustee	Appointed following a nomination process in which she was the sole nominee.	Nomination and selection was by Enginuity members.

7. MEMBERSHIP ENGAGEMENT

The Funds' website (www.itb-online.co.uk) includes a "feedback" button and contact details to enable members of the Funds to make their views known to the Trustee Directors. This website is a useful resource for members looking for further information about their pension arrangement including guidance about contributions and how salary sacrifice arrangements operate, benefits available at retirement, investment choices and how to make changes to them.

Members can also find the following documents on the Funds' website:

- The DC Scheme Member Booklet which provides practical information about all aspects of DC Scheme membership.
- The Annual Report and Financial Statements, including this Chair's Annual Governance Statement and the Statement of Investment Principles Implementation Statement.
- Members' newsletters, hard copies of which are posted to all members.
- The Funds' Climate Change Report which describes the activities and approach taken by the Trustee Directors to understand and reduce risks related to climate change.

DC Section members are also provided with access to L&G's secure website where they can obtain an up-to-date valuation of their funds, annual pension statements and other comprehensive documentation and guidance on the Funds' DC Section. Through this website members can communicate directly with the L&G administration team.

Engagement with members also takes place through communications with the Pensioners' Association and informally through the Members' Trustee Directors, who frequently discuss pensions matters with workplace colleagues and provide feedback to the Trustee.

During the year, two of the Trustee Directors ran pensions information events which informed members about the benefits offered by the ITB Pension Funds and stimulated feedback on how members believe communication can be enhanced.

Also, a Communications Working Party has been set-up with a remit including review of member communications and implementing improvements where necessary. The Party has revised the Members' Newsletter to have a greater focus on key messages relevant to

the needs of members, information about new developments, and the promotion of the ITB and L&G websites. The first new format Newsletter was published in December 2022 and included a form for members to communicate to the Trustee Directors about how they wished to be contacted in the future. The Newsletter will be published more frequently in the short-term going forward, during which time usage of the websites will be monitored for improvements.

The Trustee Directors believe that the above arrangements are appropriate for the DC Section, having regard to the size, nature and demographic of the membership.

The contact details of the Funds are as follows:

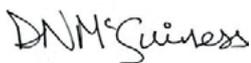
The ITB Pension Funds, 23 King Street, Watford, Herts, WD18 0BJ

Telephone: **01923 226264**

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

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

Signed by the Chair on behalf of the Trustee

Signed: 

Dated: 20 September 2023

David Newell McGuinness (Chair of the Trustee)

Chair's Annual Governance Statement Schedule

DC SECTION STATEMENT OF INVESTMENT PRINCIPLES – 19 APRIL 2023

WHAT IS THE TRUSTEE'S OVERALL INVESTMENT OBJECTIVE?

The Trustee recognises 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 Trustee believes that members should make their own investment decisions based on their individual circumstances.

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

WHAT ARE THE AIMS AND OBJECTIVES OF THE DEFAULT ARRANGEMENT?

For members who join the Scheme and who do not choose an investment option, the Trustee makes available a default arrangement called ITB Drawdown. This is a lifestyle strategy that targets income drawdown at retirement and automatically switches investments to a progressively lower risk investment strategy from 15 years before retirement.

The Trustee's 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 Trustee considers appropriate for a member intending to drawdown in retirement.

WHAT RISKS DOES THE TRUSTEE CONSIDER AND HOW ARE THESE MEASURED AND MANAGED?

The Trustee has considered risk for the Defined Contribution Section from a number of perspectives, including, but not limited to, those set out below:

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 on the benefits provided. To protect against this, the Trustee has 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 Trustee has selected funds which invest in a suitable diversified range of holdings. The Trustee's 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 Trustee has, 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 Trustee monitors the investment manager on a regular basis.

Climate Risk

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition

to a low carbon economy, and the physical risks associated with climate change (e.g. extreme weather). The Trustee seeks to appoint investment managers who will manage this risk appropriately, and from time-to-time review how this risk is being managed in practice.

Other Environmental, Social and Governance (ESG) Risks

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

Other Risks

The Trustee recognises 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).

Some of the risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk. In particular consideration is given to focus on ESG / climate change focussed investments; the next Section describes the changes that were made to address climate change risk following a review of the strategy in 2020.

WHAT ARE THE INVESTMENT STRATEGY ARRANGEMENTS?

The Trustee has provided to members a range of investment options, having regard to the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns. Following a review of the strategy in 2020, the Trustee decided to address the potential impact of climate change on members' Defined Contribution investments by changing the equity component of the Open Fund's Defined Contribution lifestyle investment strategies to equity funds which seek to reduce their exposure to carbon emissions over time. The full range of funds that is available is set out below.

Current Fund Range

Manager	Fund name	Benchmark	Target
L&G	Global Equity Market Weights (30:70) Index Fund - 75% GBP Currency Hedged	Composite of 30/70 distribution between UK and overseas, 75% GBP Hedged	To track the benchmark
L&G	Ethical Global Equity Index Fund	FTSE4Good Global Equity Index	To track the benchmark to within +/- 0.50% pa for two years in three
L&G	Low Carbon Transition Global Equity Index Fund Unhedged	Solactive L&G Low Carbon Transition Global Index	To track the benchmark
HSBC	Islamic Global Equity Index Fund	Dow Jones Islamic Titans 100 Index	To track the benchmark
L&G	Multi Asset Fund	ABI UK - Mixed Investment 40%-85% Shares Pension Sector	To provide long-term investment growth through exposure to a diversified range of asset classes
L&G	AAA-AA-A Corporate Bond (Over 15 Years) Fund	iBoxx £ Non Gilts (ex BBB) Over 15 year Index	To track the benchmark to within +/- 0.50% pa for two years in three
L&G	Over 5 Year Index-Linked Gilts Index Fund	FTSE Actuaries UK Index-Linked Gilts (Over 5 Years) Index	To track the benchmark to within +/- 0.25% pa for two years in three
L&G	Over 15 Year Gilts Index Fund	FTSE Actuaries UK Conventional Gilts (Over 15 Years) Index	To track the benchmark to within +/- 0.25% pa for two years in three
L&G	Cash Fund	7 Day LIBID	To match the CAPS Pooled Pension Fund median.

It is for each member to decide on their required strategic allocation to each of the available investment funds. The fund range offered also includes three “lifestyle” strategies that automatically combine the investments in proportions that vary according to the proximity to retirement age. Each of the three lifestyle strategies targets a different investment option for members at retirement; income drawdown, a cash lump-sum or the purchase of an annuity. If a member does not choose an investment option, their account will be invested into the default lifestyle option, which targets income drawdown at retirement.

The lifestyle strategies are designed to offer some protection against the risks described above.

DEFAULT OPTION

The Open Fund also has three lifestyle strategies, and the default investment option is a lifestyle strategy which targets income drawdown at retirement. The default option provides an automated investment switching facility, following

a pre-selected investment strategy, which will move the funds into lower risk investments as retirement approaches.

Until 15 years prior to each member’s selected retirement age, the lifestyle strategy invests:

- 35% in the L&G Low Carbon Transition Global Equity Index Fund GBP Hedged,
- 35% in the L&G Low Carbon Transition Global Equity Index Fund Unhedged; and
- 30% in the L&G Multi Asset Fund.

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

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

- 75% in the L&G Multi Asset Fund; and
- 25% in the L&G Cash fund.

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

Years to Retirement	Global Equities (GBP Hedged) (%)	Global Equities (Unhedged) (%)	Multi-Asset (%)	Cash (%)
15 or more	35.00	35.00	30.00	0.00
14	32.75	32.75	34.50	0.00
13	30.50	30.50	39.00	0.00
12	28.25	28.25	43.50	0.00
11	26.00	26.00	48.00	0.00
10	23.75	23.75	52.50	0.00
9	21.50	21.50	57.00	0.00
8	19.25	19.25	61.50	0.00
7	17.00	17.00	66.00	0.00
6	14.75	14.75	70.50	0.00
5	12.50	12.50	75.00	0.00
4	10.00	10.00	75.00	5.00
3	7.50	7.50	75.00	10.00
2	5.00	5.00	75.00	15.00
1	2.50	2.50	75.00	20.00
0	0.00	0.00	75.00	25.00

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

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

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifestyle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken. The main risks considered were inflation risk (the risk that a member's investments fail to keep pace with inflation over the longer term), conversion risk (the risk of a deterioration in the terms available for converting funds into pension at retirement - applicable to the annuity lifestyle), capital risk (the risk of a fall in the amount of cash available to take at retirement), and climate risk (the risk of a fall in the value of investments caused either by direct impacts of changes to the global climate or policy changes to mitigate the effects of climate change);
- the need for appropriate diversification within the default strategy and other lifestyle options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within other investment options offered to members;
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

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

- In deciding upon the funds to offer to members (including the structure of the default), the Trustee's primary asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity and credit are the primary rewarded risks;
- risks that are typically not rewarded should generally be avoided, hedged or diversified;

- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- climate change risk is likely to have a material impact on financial markets and therefore is a risk that should be explicitly managed where appropriate;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management (which includes a range of rules-based portfolio construction strategies), where available, is usually better value;
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

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

APPOINTMENT OF INVESTMENT FUND PROVIDER

The Trustee has 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.