# The ITB Pension Funds
# Chair's Annual Governance Statement
# 2023/2024


# Chair’s Annual Governance Statement

## FOR THE YEAR ENDED 31 MARCH 2024

## 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 2024 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, which 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 Directors are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement. A detailed description of the investment principles applicable to the default arrangement, and the Trustee Directors’ objectives and policies in relation to it, is set out in 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 18 January 2024, is reproduced in the schedule to this statement.

The objective of the ITB Drawdown default arrangement, as stated in the SIP, 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.

A full review of the DC Section default arrangement’s investment strategy is undertaken at least once every three years. The most recent review, carried out in November 2023, concluded that the ITB Drawdown lifestyle strategy remained appropriate for achieving the default arrangement’s objective. Based on advice from the DC Section’s investment consultant, an outcome of the review was to better address financially material environmental, social and governance (“ESG”) factors by replacing the Legal & General (“L&G”) Multi-Asset Fund with the L&G Future World Multi-Asset Fund. This change was implemented after the year-end in May and June 2024.

The strategy review took into account that the Trustee Directors were considering moving the Open Fund’s DC members to an alternative master trust, and that this may occur in 2025/26. As a result, it was decided not to make extensive changes to the DC default arrangement’s investment strategy due to the implementation costs and the potentially short timescale over which members would be able to realise any benefit from those changes.

In July 2024 the Trustee Directors agreed to commence a wind-up of the Open Fund’s DC Section. The transfer of DC members to an alternative master trust is expected to take place before the default fund strategy is next scheduled for review, in November 2026.

The Investment Committee has reviewed the performance of funds in the default arrangement at each quarter end during the year through a comparison of their investment returns against benchmark targets and by obtaining explanations for any variances. This enabled the Committee to conclude that the funds have been performing broadly as expected, consistent with the Trustee Directors’ targets and other objectives.

The DC Section default arrangement invests in four funds, and the table below shows the underlying invested asset allocation of each, on a look-through basis, at 31 March 2024:

| | Cash Fund | Multi Asset Fund | Low Carbon Transition Global Equity Index Fund | Low Carbon Transition Global Equity Index Fund (Currency hedged version) |
|---|---|---|---|---|
| Cash | 100.0% | 0.2% | - | - |
| Corporate bonds | - | 24.2% | - | - |
| Government bonds | - | 21.6% | - | - |
| Listed equities | - | 40.4% | 100.0% | 100.0% |
| Private equity* | - | 2.5% | - | - |
| Infrastructure* | - | 4.6% | - | - |
| Property* | - | 6.0% | - | - |
| Forestry* | - | 0.5% | - | - |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

The following table shows the DC Section default arrangement's underlying asset allocation at 31 March 2024, on a look through basis, for members of different ages who have selected a target retirement age of 65:

| | Asset allocation for a member who has selected a target retirement age of 65 and at the 31 March 2024 was aged: | | |
|---|---|---|---|
| Asset class | 50 years old, or less % | 55 years old % | 65 years old % |
| Cash | 0.1 | 0.1 | 25.1 |
| Corporate bonds | 7.3 | 12.7 | 18.1 |
| Government bonds | 6.5 | 11.3 | 16.2 |
| Listed equities | 82.1 | 68.7 | 30.3 |
| Private equity* | 0.7 | 1.3 | 1.9 |
| Infrastructure* | 1.4 | 2.4 | 3.5 |
| Property* | 1.8 | 3.2 | 4.5 |
| Forestry* | 0.1 | 0.3 | 0.4 |

* Exposures are through shares in listed infrastructure / global Real Estate Investment Trusts (REITs) / Private Equity management companies.

Asset allocations for DC Section default arrangement members who have selected a target retirement age other than 65 years old are as follows:

- 15 years or more before selected target retirement age: As shown for '50 years old, or less' in the table above.
- 10 years before selected target retirement age: As shown for '55 years old' in the table above.
- At selected target retirement age: As shown for '65 years old' in the table above.

## 2. INVESTMENT PERFORMANCE

The return on investments (net of charges and transaction costs) for periods ended 31 March 2024 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 | -7.9 | -6.8 |
| Over 15 Years Gilts Index Fund | -4.8 | -8.3 |
| AAA-AA-A Corporate Bond Over 15 Years Index Fund | 3.2 | -4.8 |
| Low Carbon Transition Global Equity Index Fund | 22.9 | N/A |
| Global Equity Market Weights 30:70 Index Fund (75% GBP Currency Hedged) | 19.8 | 9.9 |
| Ethical Global Equity Index Fund | 23.6 | 14.0 |
| HSBC Islamic Global Equity Index Fund | 32.1 | 17.3 |
| Multi Asset Fund | 8.7 | 4.3 |
| Cash Fund | 5.0 | 1.5 |

The net investment returns for the three lifestyle funds for periods ended 31 March 2024 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) Lifestyle | | 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 | 19.6 | 8.3 | 19.6 | 8.3 | 19.6 | 8.3 |
| 45 | 19.6 | 8.3 | 19.6 | 8.3 | 19.6 | 8.3 |
| 55 | 15.3 | 6.2 | 15.3 | 6.2 | 12.9 | 2.8 |

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 which 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 operated by the investment manager and the administrator of the DC funds.

To monitor whether contributions had been processed accurately, staff at the ITB Pension Funds reconciled contributions information reported by L&G's quarterly administration reports to summaries supplied by the participating employers. 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 on the following page.

Overall, the SLA performance for the above activities was broadly consistent to the previous financial year. For the relatively small number of cases where SLAs were missed, the delays did not extend beyond a period which was likely to cause significant adverse implications for the affected members.

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 were recorded against a member's record.

| | 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 2023 quarter | 100% | 0.0 | 97% | 2.0 |
| September 2023 quarter | 94% | 8.0 | 98% | 2.0 |
| December 2023 quarter | 85% | 11.0 | 98% | 4.5 |
| March 2024 quarter | 88% | 8.0 | 99% | 1.0 |

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 for the period it was applicable prior to being consolidated into The Pensions Regulator's General Code. Work is being completed to check if any changes are needed to the DC Section's governance processes and internal controls to comply with the General Code. Based on an initial review, it is expected that there will be no significant changes required.

Overall, the Trustee Directors have concluded that core financial transactions relating to the DC Section and AVCs were processed accurately and promptly during the scheme year.

# 4. CHARGES AND TRANSACTION COSTS

The Trustee Directors are required to report on charges and transaction costs for the investment options available to DC Section and AVC members and to assess the extent to which those charges and transaction costs represent good value for members. The relevant statutory guidance has been taken into account when preparing this section of the Statement.

## 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 | 0.30 | 0.32 | 0.32 |
| Annuity Lifestyle | 0.29 | 0.29 | 0.30 | 0.30 | 0.29 |
| Cash Lifestyle | 0.29 | 0.29 | 0.30 | 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 | 0.26 |
| 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

| | Year to 31 March 2024 | | | | |
|---|---|---|---|---|---|
| Period to Retirement: | 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 | 0.03 | 0.02 |
| Cash Lifestyle | 0.03 | 0.03 | 0.03 | 0.03 | 0.00 |

| | Annual Average* to 31 March 2024 | | | | |
|---|---|---|---|---|---|
| Period to Retirement: | 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 2024 %pa | Annual Average* Total %pa |
|---|---|---|
| Over 5 Years Index-Linked Gilt Fund | 0.04 | 0.08 |
| Over 15 Years Gilts Index Fund | 0.00 | 0.06 |
| AAA-AA-A Corp Bond Over 15 Years Index Fund | 0.00 | 0.00 |
| Global Equity Market Weights 30:70 Index Fund | 0.06 | 0.05 |
| Low Carbon Transition Global Equity Index Fund | 0.01 | 0.02 |
| Ethical Global Equity Index Fund | 0.00 | 0.00 |
| HSBC Islamic Global Equity Index Fund | 0.00 | 0.02 |
| Multi Asset Fund | 0.02 | 0.03 |
| Cash Fund | 0.00 | 0.00 |

* The Annual Averages have been provided by the investment manager, L&G. They are based on the average costs over the 5 years to 31 March 2024 or, where data was available for fewer than 5 years, the average costs over the maximum number of years up to 31 March 2024 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 Expected Return” | | “Lowest Cost” | | "Highest 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 | 24,104 | 24,047 | 24,085 | 24,028 | 23,816 | 23,753 | 23,404 | 23,354 | 24,227 | 24,177 | 24,638 | 24,574 | 24,227 | 24,126 |
| 3 | 37,828 | 37,590 | 37,667 | 37,426 | 36,677 | 36,419 | 35,080 | 34,881 | 38,330 | 38,119 | 40,038 | 39,754 | 38,330 | 37,902 |
| 5 | 52,079 | 51,563 | 51,548 | 51,024 | 49,668 | 49,121 | 46,408 | 46,000 | 53,146 | 52,686 | 56,854 | 56,215 | 53,146 | 52,213 |
| 10 | 90,145 | 88,467 | 86,944 | 85,254 | 82,718 | 81,030 | 73,274 | 72,103 | 93,553 | 92,022 | 105,980 | 103,700 | 93,553 | 90,468 |
| 15 | 131,967 | 128,372 | 120,285 | 116,861 | 116,602 | 113,162 | 98,185 | 95,955 | 139,270 | 135,917 | 167,200 | 161,840 | 139,270 | 132,545 |
| 20 | 177,916 | 171,521 | N/A | N/A | 151,342 | 145,517 | 121,283 | 117,749 | 190,994 | 184,896 | 243,491 | 233,025 | 190,994 | 178,826 |
| 25 | 228,399 | 218,178 | N/A | N/A | 186,959 | 178,099 | 142,699 | 137,664 | 249,515 | 239,549 | 338,564 | 320,184 | 249,515 | 229,731 |
| 30 | 283,864 | 268,627 | N/A | N/A | 223,475 | 210,908 | 162,557 | 155,861 | 315,726 | 300,533 | 457,042 | 426,900 | 315,726 | 285,723 |
| 35 | 344,801 | 323,178 | N/A | N/A | 260,913 | 243,945 | 180,970 | 172,488 | 390,638 | 368,583 | 604,687 | 557,562 | 390,638 | 347,308 |
| 40 | 411,753 | 382,163 | N/A | N/A | 299,297 | 277,213 | 198,042 | 187,682 | 475,394 | 444,516 | 788,679 | 717,543 | 475,394 | 415,047 |

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 £17,433 – the median pot size as at 31 March 2024.
3. Inflation is assumed to be 2.5% each year.
4. It is assumed the current average level of contributions of £6,280pa 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: 1.9% above inflation
   Default arrangement at Age 50 and retiring at 65: between 0% and 1.9% above inflation
   Multi Asset: 0.5% above inflation
   Global Equity Low Carbon Transition: 2.5% above inflation
   Over 5 Year Index-Linked Gilts: 4.5% above inflation
   Islamic Global Equity: 2.5% above inflation
   Over 15 Years Gilts: 2.5% above inflation
   Cash: 1.5% below inflation

Version 5.0 of AS TM1, issued by the Financial Reporting Council, and effective from 1 October 2023, has been used in the calculation of the projected growth rates.

## 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 carried out during 2023/24 covered the year ending 31 March 2023 and concluded that overall, members were receiving very good value for money. The assessment found that member borne fees were competitive and justified the service levels being received, the standard of which had improved. Governance processes were formalised and consistent, and the self-select funds and lifestyle strategies were concluded to be providing members with a clear and appropriate range of investment options.

The latest value for members assessment, covering the year ending 31 March 2024, 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.

There are no performance-based fees being charged for any of the DC Section 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 during the year.

Each Trustee Director serves for a fixed three-year term and can be re-appointed following each term. As at 31 March 2024, the average period of service of each Trustee Director was 9 years with 5 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. All new Trustee Directors complete this programme and attend 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. In the latest self-assessment exercise, some Trustee Directors fed back that they needed to improve their personal skills and knowledge in certain specific areas. However, there was no single subject matter where a significant training gap existed which applied across the entire Trustee Board.
- 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 & 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.
- 5 Trustee Directors are members of the Investment Committee, and 6 Trustee Directors are members of the Management Panel. 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 three of the Investment Committee's meetings, and at one Management Panel meeting.

- 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 equality, diversity and inclusion, the buy-in insurer's role and the buy-out process, and cyber security.
- 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. Trustee Directors attended events provided by the Pensions Management Institute ("PMI") and the Pensions and Lifetime and Savings Association ("PLSA"), including the PLSA Annual Conference, and PMI training events which covered topics including DC governance, pension dashboards, investment management and the gender pensions gap.
- 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 2023. Topics covered included investment performance, climate related investment risks, bond credit spreads, pensions dashboards, The Pension Regulator's guidance on supporting DC members, GMP equalisation and recent mortality trends.

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.

The performance and effectiveness of the Trustee board is assisted by an operational business plan against which progress is monitored each month. Any planned actions which are not achieved on time are highlighted for further action to be taken, if required.

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 17 years' experience in the pension industry, a Funds Accountant who is also a Chartered Accountant and has 26 years' experience in the pension industry, and a Pension Administration Manager who has a CII Diploma and 35 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

As a relevant multi-employer scheme under the 2015 Regulations the Funds are 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 be appointed as a Trustee Director unless he or she is non-affiliated for the entire three-year term of office, without the Trustee exercising a discretion under the Trust Deed & Rules in particular cases.

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 Rogerson | Construction ITB, Employers' Trustee Director | Renominated by Construction ITB. | The ground rules were followed in making the selection. |
| Maurice Alston | Closed Fund Pensioners' Trustee Director | Re-appointed following a nomination process in which he was the sole nominee. | Nomination and selection was by the Closed Fund Pensioner members. |
| Richard Capewell | Lantra, Employers' Trustee Director | Renominated by Lantra. | The ground rules were followed in making the selection. |
| David Lewis | Engineering Construction ITB Members' Trustee Director | Re-appointed following a nomination process in which he was the sole nominee. | Nomination and selection was by members of Engineering Construction ITB. |
| Joanna Woolf | Cogent Skills, Employers' Trustee Director | Renominated by Cogent Skills. | The ground rules were followed in making the selection. |

## 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 every six-months.
- 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.

Comprehensive guidance and support for DC Section members about their pension is also provided by L&G's website for the Funds' DC Section members which can be found at **https://www.legalandgeneral.com/workplace/i/itb/**. The website includes a link to L&G's secure 'Manage Your Account' online portal where members can manage their investments, obtain annual pension statements, and view their contributions payments and current investment valuations. Through this application 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.

The Trustee's Communications Working Party reviews member communications and implements improvements where necessary. The Party had input to the Members' Newsletters that were posted to all DC Section members in July 2023 and January 2024. A further communication about the changes to the default fund, lifestyle and self-select fund range, as described earlier in the 'DC Default Investment Arrangement' section of this Statement, was posted to all DC Section members in March 2024.

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: DNMcGuiness

Dated: 31 October 2024

David Newell McGuiness (Chair of the Trustee)

# Chair's Annual Governance Statement Schedule

## DC SECTION OF INVESTMENT PRINCIPLES – 18 JANUARY 2024

## 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 in 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). We seek 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 Defined Contribution 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.

The Trustee's policy regarding investments in illiquid assets in the DC default arrangement, is set out below. Illiquid assets means assets that can't easily or quickly be sold or exchanged for cash, and where assets are invested in a collective investment scheme this includes any such assets held by the collective investment scheme. The default includes an allocation to diversified growth funds ("DGFs") via pooled funds (a type of collective investment scheme), that may include an allocation to illiquid assets if the DGF manager chooses to do so. As at 30 June 2023 the exposure to the illiquid assets of direct property was around 0.8% of the DGF allocation. Members invested in the default and aged between 50 and 65 assuming a target retirement age of 65, have exposure to illiquid assets via the DGF allocation.

The Trustee's policy is to have exposure to DGFs with discretion to invest in illiquid assets within the default because the Trustee's assessment is that, when compared to many other asset classes, illiquid assets offer members a potentially greater level of diversification and hence better risk management in the overall asset allocation. The Trustee also believes that long-term net risk-adjusted investment returns of the default may be improved by investing in illiquid assets.

The Trustee intends to consider the illiquid assets exposure further with the support of its investment advisers when it next reviews the default strategy.

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; and
- 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.