

**JANUARY 2024**

**STATEMENT OF INVESTMENT PRINCIPLES**  
**for the**  
**OPEN FUND OF THE ITB PENSION FUNDS**

**1. Introduction**

**1.1. What is the purpose of this Statement of Investment Principles?**

This Statement of Investment Principles (“SIP”) sets out the policy of the Trustee of the ITB Pension Funds (“the Trustee”) on various matters governing decisions about the investments of the Open Fund of the ITB Pension Funds (“the Open Fund”).

**1.2. Who has had input to the SIP?**

This SIP has been formulated after obtaining and considering written professional advice from Lane Clark & Peacock LLP, the Open Fund’s investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The SIP also takes into account comments made by GAD, the Open Fund’s actuarial adviser. The advice takes into account the suitability of investments and the need for diversification, given the circumstances of the Open Fund and the principles contained in this SIP.

Each of the Participating Employers with active members in the Open Fund will be consulted on the SIP. The investment managers of the Open Fund will be given the opportunity to comment on a draft of the SIP and their comments will be incorporated into the final version. The managers are required to carry out their investment responsibilities in a manner consistent with this SIP.

**1.3. What is the legal and statutory background to the SIP?**

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 (“the Act”), the Occupational Pension Schemes (Investment) Regulations 2005 (“the Regulations”), the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and the Pension Regulator’s guidance for defined benefit pension schemes (March 2017).

The Open Fund’s assets are held in trust by the Trustee. The investment powers of the Trustee is set out in Clause 8 of the ITB Trust Deed dated 30th March 2012.

## **2. What are the Trustee’s overall investment objectives for the Defined Benefits Section?**

The Trustee’s objectives are:

- the acquisition of suitable assets to match the cost of current and future benefits which the Open Fund provides;
- the acquisition of suitable assets of appropriate diversification for the remaining assets, known as “the Reserve Assets”, as defined in Section 3.2, which will generate modest capital growth;
- achieve low volatility of the Reserve Assets relative to annuity pricing and ongoing expenses; and
- minimise the long-term costs of the Open Fund by implementing a simple and low-cost investment strategy and maximising the return whilst having regard to the previous point.

ITB Pension Funds undertook buy-ins in October 2016, November 2017 and April 2018 and August 2023. As of August 2023, all the Open Fund’s liabilities were broadly covered by a buy-in policy. The buy-ins aim to reduce risks in the Open Fund including longevity risk in respect of the members covered by the policies, and increase the accuracy in matching the liabilities covered.

The Investment Committee undertakes regular reviews of the investment strategy for the Reserve Assets.

### **2.1. What risks does the Trustee consider and how are these measured and managed?**

When deciding how to invest the Open Fund’s assets, the Trustee considers a wide range of risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

## **3. Summary of the Open Fund’s investment strategy (Defined Benefits Section)**

### **3.1. How was the investment strategy determined?**

The Investment Committee, with the help of their advisers, undertakes regular reviews of the investment strategy, taking into account the objectives described in Section 2 above.

### 3.2. What is the investment strategy?

The majority of the Fund's assets are invested in buy-in policies with two insurance companies which broadly cover all of the Open Fund's liabilities. The remaining assets of the Open Fund are known as "the Reserve Assets".

A portion of the Reserve Assets, which totalled around £25m as at 30 September 2023, will be held in liquidity funds to meet the cashflow requirements of the Open Fund. This is anticipated to be around £8m, or approximately 30% of the overall Reserve Assets.

The remainder of the Reserve Assets are invested based on the benchmark allocation below:

<b>Asset class</b>	<b>Proposed Allocation</b>
Corporate bonds	30%
Government bonds	70%
<b>Total</b>	<b><u>100%</u></b>

Please note that the Open Fund's benchmark allocation and investment managers are subject to change over time.

### 3.3. What did the Trustee consider in setting the Open Fund's investment strategy?

The strategy review included modelling the Open Fund's assets and liabilities over a wide range of possible scenarios for future economic conditions. In setting the strategy, the Trustee considered:

- the best interests of members and beneficiaries;
- the term and nature of the projected liability cash flows;
- a wide range of asset classes;
- the risks and rewards of a number of possible asset allocation options; the suitability of each asset class within each strategy, both across asset classes and within asset classes and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken. The Trustee considers a wide range of risks, including 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), and seek to appoint investment managers who will manage climate risk and other risks appropriately, and from time-to-time review how risks are being managed in practice. Following a review of the strategy in 2021, the Trustee decided to address the potential impact of climate change on the Defined Benefit assets to align with their climate beliefs. As a result the equity component was changed to equity funds which seek to reduce their exposure to carbon emissions over time;
- the need for appropriate diversification between different asset classes to ensure that both the Open Fund's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Open Fund;

- the positions of the Participating Employers, including an assessment of the strength of the covenant of the Participating Employers; and
- 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.

- 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, such as interest rate, inflation and currency, 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, 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” Fund which underpins the investment strategy. This statement also documents additional investment beliefs of the Trustee regarding climate change and its impact on the investments of the Fund.

#### **3.4. What assumptions were made about the returns on different asset classes?**

The key financial assumption made by the Trustee in determining the investment arrangements is that corporate bonds will return 1.1% pa above gilts over the long term.

Thus, the model assumes that there is a 50/50 chance that, over the long term, corporate bonds will outperform gilts by at 1.1% pa.

The assumptions used will vary from time to time, to reflect changes in market conditions.

#### **3.5. What is the approach taken with regards to departing employers?**

“Orphan liabilities” represent pensioner and deferred pensioners from employers that no longer participate in the ITB Pension Funds.

The Trustee has decided to invest the Open Fund's assets in bulk annuity contracts to broadly cover the pensioners' orphan liabilities. The contracts will provide more accuracy with regards to matching the liabilities as well as offer protection from longevity risk.

#### **4. Appointment of investment managers**

##### **4.1. How many investment managers are there?**

The Trustee has agreed buy-in policies with insurance companies which broadly cover all of the Open Fund's liabilities.

The Trustee has appointed two investment managers to manage the Open Fund's Reserve Assets within pooled funds. The manager arrangements are discussed in Appendix B.

The pooled funds have underlying custodians, which are appointed by those funds.

##### **4.2. What formal agreements are there with investment managers?**

The Trustee has signed a policy document with the buy-in insurance companies. This sets out the terms of the buy-in policies.

For the Reserve Assets, the Trustee has subscribed to pooled funds, governed by prospectuses which set out the terms for investors. Details of the investment manager and the funds are given in Appendix B.

The Trustee has limited influence over managers' investment practices as the Open Fund's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the bespoke policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. They assess this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Open Fund meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Open Fund's investment mandates.

#### **4.3. What do the investment managers do?**

The investment managers' primary role is the day-to-day investment management of the Open Fund's investments. The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

#### **4.4. What do the custodians do?**

The custodians' primary role is the safekeeping of the assets. The custodians are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

### **5. Defined Contribution Section**

#### **5.1. 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.

#### **5.2. 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.

#### **5.3. 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 in Appendix A. 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.

#### **5.4. 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 in Appendix B.

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 in Section A.2 of Appendix A.

#### **5.5. 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 the 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.

Our policy regarding investments in illiquid assets in the DC default arrangement, is set out below. Illiquid assets means assets that can't be 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 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.

Our policy is to have exposure to DGFs with discretion to invest in illiquid assets within the default because our 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. We also believe that long-term net risk-adjusted investment returns of the default may be improved by investing in illiquid assets.

We intend to consider the illiquid assets exposure further with the support of our investment advisers when we next review 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<sup>1</sup> management, 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.

## **5.6. 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.

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<sup>1</sup> Passive management includes a range of rules-based portfolio construction strategies

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.

## **6. Other matters**

### **6.1. What is the Trustee's policy on the realisation of investments?**

For the DB section of the Open fund, the Trustee, together with the ITB Funds' Office, will ensure that they hold sufficient cash to meet the likely benefit outgo. The Trustee holds buy-in contracts, which pay the Open Fund's benefit cash flows. It is therefore expected that there will be no need to disrupt the investment policy of the Reserve Assets in order to pay benefits.

The ITB Funds' Office assesses the likely outgoings from the Reserve Assets (e.g. to meet expenses) on a regular basis and ensure that sufficient cash reserves are available to meet the outgoings. It is expected that expenses will be able to be met from the Reserve Assets in such a way that is consistent with the Benchmark Allocation of the Open Fund.

The Trustee has delegated responsibility for the realisation of investments to the investment managers, within certain guidelines and restrictions.

For the DC Section of the Open Fund, including the default, the Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

### **6.2. What is the Trustee's policy on financially material and non-financial matters?**

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Open Fund and its members.

The Trustee expects the investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time-to-time review how the managers are taking account of these issues in practice.

Given the specific financial risks arising from climate change, the Trustee has specifically sought to address climate risk in the Defined Contribution Section's lifestyle investment strategies through the use of equity funds which seek to reduce their exposure to carbon emissions over time.

The Trustee encourages its managers to improve their ESG practices, although acknowledges that it has limited influence over managers' investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

The Trustee does not generally take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. However, within the DC Section the Trustee recognises that some members may wish for ethical matters to be taken into account in their investments and therefore have made available the L&G Ethical Global Equity Index Fund as an investment option to members.

### **6.3. What is the Trustee’s policy on the exercise of investment rights and Stewardship?**

The Trustee recognises its responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attached to investments, protect and enhance the long-term value of investments. The Trustee has an effective system of governance in relation to stewardship. This includes monitoring the voting and engagement activities that the Open Fund’s investment managers undertake on the Trustee’s behalf, engaging with them regarding expectations in relation to stewardship, and encouraging improvements in their stewardship practices. The Trustee will review this approach periodically, and at least triennially.

#### Exercise of investment rights

The Trustee has delegated to the investment managers the exercise of rights attached to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations. In addition, the Trustee has adopted the AMNT Red Lines as the Open Fund’s voting policy and will expect the investment managers to vote in line with this policy where appropriate or explain why if they have not.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment manager to exercise ownership rights and undertake monitoring and engagement in line with the manager’s general policies on stewardship and the Trustee’s policy, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries. The Trustee believes that strong stewardship policies help manage environmental, social and governance risks associated with the Open Fund’s investments, which it considers to be financially material. The Trustee believes that protecting the Open Fund’s investments from such risks will protect and enhance the long-term value of investments.

#### Stewardship Priorities

The Trustee has selected some priority ESG themes to provide a focus for its monitoring of investment managers’ voting and engagement activities. The themes are reviewed annually and updated if appropriate. The Trustee’s stewardship priorities are communicated to the Open Fund’s investment managers.

The current priorities are:

- **Climate change (Environmental)**  
Climate change is one of the most severe global risks and will affect most other environmental factors such as biodiversity loss and water shortages. This risk also poses physical risks (e.g., through flood or fire) as well as transition risks (eg the impact of changes in regulation to investments) to investors.
- **Diversity and Inclusion (Social)**  
Studies have shown that firms with good practices regarding Diversity and Inclusion deliver better financial performance than those with poorer practices. There is increased regulatory scrutiny on this theme, and it intersects with broader ESG areas.
- **Executive Pay (Governance)**  
Executive pay should be linked to good financial performance from companies. Bonuses or excessive remuneration agreements for executives should not be approved when financial indicators for a company are poor.

## Manager selection and monitoring

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

The Trustee expects investment managers to undertake engagement activity and it reviews how the investment manager implements its stewardship policies and practices. The investment consultant also reports annually their view of the responsible investment practices of each manager.

The Trustee has established a process for monitoring and engaging with the investment managers about relevant matters through quarterly reporting and will include an escalation process where reporting does not satisfy the Trustee that the investment manager is controlling the relevant risk sufficiently. Additionally, the Trustee may also meet with managers periodically in order to ask questions relating to their engagement and discuss their record on stewardship matters.

## Implementation statement

The Trustee prepares an annual statement which explains how it has implemented its Statement of Investment Principles during the year, which is published online for members to read. The statement describes how managers have voted on the Trustee's behalf during the year, including most significant votes cast. The Investment Committee selects these votes from a set of significant votes compiled by our investment consultant from those provided by our managers. In doing so, the Trustee has regard to its stewardship priorities, the size of the Open Fund's holding and whether the vote was high-profile or controversial.

### **6.4. What are the responsibilities of the various parties in connection with the Open Fund's investments?**

Appendix C contains brief details of the respective responsibilities of the Trustee, the investment adviser, the investment managers, the buy-in providers and the custodians. Appendix C also contains a description of the basis of remuneration of the investment adviser, the investment managers and the custodians.

### **6.5. Does the Trustee make any investment selection decisions of its own?**

Before making any investment selection decision of its own (e.g. an AVC policy), it is the Trustee's policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustee's policy to review their own investment selection decisions on a regular basis, based on written advice.

### **6.6. AVC options**

The Trustee has made available to members a choice of Unit Linked funds with Legal & General. The funds available are discussed further in Appendix B.

**7. Review**

The Trustee will, from time to time, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

A handwritten signature in black ink that reads "D N McGuinness". The signature is written in a cursive style with a large 'M' and 'G'.

D N McGuinness, Chair

For and on behalf of  
The Trustee of the ITB Pension Funds

18 January 2024

## The Trustee's policy towards risk, risk measurement and risk management

### A.1. Defined Benefits Section

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Open Fund in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee's aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the bulk annuity insurers' covenants and how this may change in the near/medium future;
- the Open Fund's liability profile;
- the Open Fund's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")).

At 30 September 2023 the Open Fund's Reserve Assets were invested in cash and there were no uninsured liabilities. The Trustee is in the process of implementing the strategy for the Open Fund residual assets as described in section 3.2. When deciding on the current investment strategy, the Trustee believed the level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Open Fund's objectives.

The Trustee considers that there are a number of different types of investment risk that are important for the Open Fund. These include, but are not limited to:

#### A.1.1 Strategic risk

This is the risk that the performance of the Open Fund's assets and liabilities diverge in certain financial and economic conditions. This risk has been taken into account in the Trustee's investment strategy review and will be monitored by the Trustee on a regular basis through regular actuarial valuation and investment reports. The buy-in contracts broadly cover all of the benefit liabilities.

The Trustee will review the Open Fund's investment strategy at least every three years in light of the various risks faced by the Open Fund.

#### A.1.2. Inadequate long-term returns

A key objective of the Trustee is that, over the long-term, the Open Fund should have adequate resources to meet its liabilities as they fall due. The buy-in contracts broadly cover all of the benefit liabilities. The Trustee invests the Reserve Assets to produce an adequate long-term return.

#### A.1.3. Investment manager risk

This is the risk that the investment manager fails to meet its investment objectives. Prior to appointing the investment manager, the Investment Committee undertook investment manager

selection exercises on behalf of the Trustee, to satisfy themselves that the manager could meet these objectives.

The Investment Committee of the Trustee holds regular meetings with the investment manager to satisfy themselves that the manager continues to carry out its work competently and has the appropriate knowledge and experience to manage the investments of the Open Fund.

An independent performance measurer provides quarterly updates of performance to assist in the reviews of the Open Fund's and manager's performance against the benchmark. A full presentation of the performance is considered annually by the Trustee.

#### **A.1.4. Risk from lack of diversification**

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet its investment objectives.

A significant proportion of the Open Fund's assets are invested in buy-in contracts and are therefore exposed to the risk of the buy-in providers defaulting (as discussed below).

The Trustee believes that the need for the rest of the Open Fund's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 3.2 and by the guidelines agreed with the investment manager.

#### **A.1.5. Default of the buy-in providers**

This is the risk that one or more of the buy-in providers default, and do not therefore meet the benefit liabilities in full. The Trustee notes that the buy-in providers' solvency is monitored by the Prudential Regulatory Authority, and that additional protection is provided by the Financial Services Compensation Scheme ("FSCS").

It is understood that FSCS protection currently covers 100% of the benefits payable under the contract.

#### **A.1.6. Liquidity/marketability risk**

This is the risk that the Open Fund is unable to realise assets to meet benefit cash flows as they fall due. The buy-in policies broadly cover all of the benefit liabilities. The Trustee is aware of the Open Fund's other cash flow requirements and believe that this risk is managed appropriately via the measures described in Section 6.1.

#### **A.1.7. 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.

**A.1.8. 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.

**A.1.9. Currency risk**

This is the risk that the value of the Open Fund's assets is affected by movements in currency exchange rates. Currency risk is managed within the pooled funds that the Trustee has selected.

**A.1.10. Custodian risk**

This is the risk that the custodians do not settle trades on time or provide secure safekeeping of the Open Fund's assets. It is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate.

**A.1.11. Inappropriate investments**

This is the risk that the investments are inappropriate. It is managed through constraints on the use of derivatives, gearing, specific asset limits and other restrictions as set out in the fund prospectuses.

**A.1.12. Political risk**

This is the risk of an adverse influence on investment values arising from political intervention. It is managed by regular reviews of the actual investments relative to policy and through regular assessments of the levels of diversification across different markets within the existing policy.

**A.1.13. Other risks**

The Trustee recognises that there are other, non-investment, risks faced by the Open Fund. Examples include:

- mortality risk (the risk that members live, on average, longer than expected). The Trustee has invested in bulk annuity contracts that provide a certain level of protection against longevity risk.; and
- sponsor risk (the risk that, for whatever reason, the Participating Employers are unable to support the Open Fund as anticipated). The Trustee has taken into account the strength of the employers' covenant in setting the Open Fund's investment strategy.

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Open Fund's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustee believes that it has addressed and are positioned to manage this general risk.

The risks A.1.1, A.1.2 and particularly A.1.13 will be monitored through regular actuarial valuations and reports.

## **A.2. Defined Contribution Section**

The Trustee considers that there a number of different types of investment risk that are important for the Open Fund's Defined Contribution Section. These include, but are not limited to:

### **A.2.1. 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.

### **A.2.2. 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.

### **A.2.3. 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.

### **A.2.4. 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.

### **A.2.5. 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.

### **A.2.6. 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.

### **A.2.7. 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.

**A.2.8. 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).

**Investment manager arrangements****B.1. Defined Benefits Section**

The Trustee has purchased buy-in policies with two insurers, as well as appointed two investment managers to manage the Open Fund's Reserve Assets.

The Trustee has ensured that the manager's objectives are still appropriate given the level of fees paid. Further details on the manager fee structure are given in section C.3.

**B.1.1 Index-linked gilts**

The Open Fund has appointed BlackRock Investment Management (UK) Limited ("BlackRock") to manage an allocation to index-linked gilts, which is invested in BlackRock's All Stocks Index-Linked Gilts Index Fund. The objectives of the fund is to track the return of the FTSE UK Gilts Index-Linked All Stocks Index, before the deduction of investment management fees. The fund is priced daily and is not listed on an exchange.

**B.1.2 Corporate Bonds**

The Trustee has appointed BlackRock as manager of a buy and maintain corporate bond fund mandate. The objective of the BlackRock Buy and Maintain UK Credit Fund is to produce income for investors by primarily investing in a diversified portfolio of high-quality non-government bonds. There is no formal performance benchmark. The fund is priced monthly, is open-ended and is not listed on any stock exchange.

**B.1.3. Property**

The Trustee previously selected Schroders Investment Management ("Schroders") as the manager of its European property portfolio. While the Open Fund currently holds an allocation to this fund, it is the Trustee's expectation that the residual holding will be fully disinvested over the short term, to target the benchmark detailed in section 3.2. The fund is priced monthly, is open-ended and is not listed on any stock exchange.

**B.1.4. Liquidity fund**

The Trustee has appointed FIL Investment Services (UK) ("Fidelity") to manage the allocation to liquidity funds. The objective of the Fidelity Cash Fund is to maintain the value of the investment and pay an income to investors. There is no formal investment benchmark for the fund. The fund is priced daily, is open-ended and is not listed on any stock exchange.

**B.1.5. The bulk annuity contracts**

The Trustee has invested the Fund's assets in bulk annuity contracts ("buy-ins") with two insurers; Pensions Insurance Corporation ("PIC") and Just Group (formerly known as Just Retirement Limited) to broadly cover all of the Fund's pensioner liabilities. The buy-ins afford a higher level of accuracy to matching the liabilities covered whilst also protecting against the longevity risk in respect of members covered by the policies.

It should be noted however, that whilst some of the buy-in payments are linked to the Retail Price Index (“RPI”), the Fund’s benefits increase in line with the Consumer price Index (“CPI”).

**B.1.6. Custodians**

The pooled funds used have underlying custodians, appointed by the manager of the underlying fund.

**B.1.7. Additional Voluntary Contributions (“AVCs”)**

The Trustee has selected Legal & General as the Open Fund’s money purchase AVC provider. The funds available to members are set out below. The default strategy for AVC members is the ITB Cash Strategy.

**Legal & General**

- L&G Global Equity Market Weights (30:70) Index Fund – 75% GBP Currency Hedged.
- L&G Low Carbon Transition Global Equity Index Fund Unhedged,
- L&G Ethical Global Equity Index Fund.
- HSBC Islamic Global Equity Index Fund,
- L&G AAA-AA-A Corporate Bond (Over 15 Years) Fund,
- L&G Over 5 Year Index-Linked Gilts Index Fund,
- L&G Over 15 Year Gilts Index Fund,
- L&G Cash Fund,
- L&G Multi Asset Fund,
- ITB Drawdown,
- ITB Cash, and
- ITB Annuity.

Detailed information on these funds is provided to members on the ITB Pension Funds website [www.itb-online.co.uk](http://www.itb-online.co.uk).

## B.2. Defined Contribution Section

The Trustee has selected Legal & General as the bundled, administration and investment platform provider for the Defined Contribution Section.

### B.2.1. Current fund range

The table below outlines the funds available to members of the Open Fund.

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.

### B.2.2. 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.

<b>Years to Retirement</b>	<b>Global Equities (GBP Hedged) (%)</b>	<b>Global Equities (Unhedged) (%)</b>	<b>Multi-Asset (%)</b>	<b>Cash (%)</b>
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	7.5	7.5	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

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### Responsibilities and fees

#### C.1. Responsibilities and investment decision-making structure

The Trustee has decided on the following division of responsibilities and decision-making for the Open Fund. This division is based upon the Trustee's understanding of the various legal requirements placed upon them, and their view that this division allows for efficient operation of the Open Fund overall, with access to an appropriate level of expert advice and service.

##### C.1.1. Trustee

The Trustee has delegated to an Investment Committee consideration of certain investment matters, authority to carry out certain activities on behalf of the Trustee, and to make recommendations where decisions are required to be taken by the Trustee.

In broad terms, the Trustee is responsible in respect of investment matters for:

- reviewing the investment policy following the results of each triennial actuarial valuation, and / or after any review of investment strategy (e.g. any asset liability modelling exercise);
- appointing (and, when necessary, dismissing) the actuary;
- consulting with the Participating Employers when reviewing investment policy issues;
- developing a mutual understanding of investment and risk issues with the employers;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged; and
- putting effective governance arrangements in place and documenting these arrangements in a suitable form

The Trustee has formulated a forward-looking business plan that provides further information on the processes and structure in place governing the Open Fund's investments.

##### C.1.2. Investment Committee

The Investment Committee shall perform its duties within the scope of any general guidelines, policies and instructions established or given by the Trustee from time to time, including the Statement of Investment Principles. The following matters are within the authority and scope of the Investment Committee:

- establishing general guidelines and policies on investment matters including revising from time to time the Statement of Investment Principles (after having consulted the employers in accordance with section 35 of the Pensions Act 1995);
- appointing and dismissing Fund Managers, AVC Providers, Custodians, performance measurement service providers and investment service providers;
- establishing overall investment objectives and strategic asset allocations;

- making investment decisions in accordance with the investment objectives and strategic asset allocations but not those which are required to be taken by an authorised person under section 191 of the Financial Services Act 1986;
- approving transfers of assets between Fund Managers and/or Custodians; and
- setting the policy for rebalancing between asset classes.

The Investment Committee shall generally monitor the performance of the Investment Managers in relation to the Portfolios under their control and shall:

- establish a benchmark consistent with the overall investment objectives for performance of each Portfolio and appoint a company (or person) to measure performance of each Portfolio against that benchmark;
- review performance of each Portfolio against the benchmark agreed for that Portfolio between the Trustee and the relevant Fund Manager;
- hold regular meetings with the Fund Manager to discuss performance, objectives (long and short term), any divergence, and any other relevant issues, and hold meetings as necessary with the Custodians (if they are not represented by the Fund Managers);
- regularly monitor the performance, service and credit risk of AVC Providers and hold meetings as necessary with them;
- appoint and manage consultants for specific limited projects to assist with the above.

As part of their performance monitoring the Investment Committee considers the ongoing financial stability of the buy-in providers. The buy-in providers are regulated insurers and are therefore supervised by the Prudential Regulatory Authority (PRA).

The Investment Committee shall generally review all investment related matters concerning the ITB Pension Funds and shall, as and when it considers appropriate (or at any time at the request of the Trustees), make recommendations to the Trustee about actions or changes that should be taken or made. Such investment related matters include:

- developments in and application of relevant laws, regulations, policy, and best practice in connection with pensions related investments;
- any other relevant matters related to the Investments.

The Investment Committee shall have the power to authorise the Chief Executive of the ITB Pension Funds to sign and execute documents on their behalf in order to implement decisions taken by them.

### **C.1.3 Buy-in providers**

The buy-in providers are responsible for making payments to the Trustee under the buy-in contracts. These payments broadly cover members' benefits covered under the policies. Appendix B provides more details.

### **C.1.4. Investment managers**

In broad terms, the investment manager will be responsible for:

- for active managers at their discretion, but within any guidelines given by the Trustee, implementing changes in the asset mix and selecting securities within each asset class;
- for passive managers, tracking the relevant benchmark return within an appropriate tracking error;
- providing the Trustee with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the investment processes applied to their portfolios;
- informing the Trustee of any material changes in the internal objectives and guidelines of any pooled funds used by the Fund and managed by the investment manager or an associate company; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

#### **C.1.5. Custodians**

The Fund invests in a range of pooled funds, each of which has its own custodian. The custodians' responsibilities include:

- the safekeeping of all the assets of the Open Fund;
- processing the settlement of all transactions;
- providing the Trustee with statements of the assets and the cash flows;
- undertaking all appropriate administration relating to the Open Fund's assets;
- processing all dividends and tax reclaims in a timely manner; and
- dealing with corporate actions.

#### **C.1.6. Investment consultant**

In broad terms, the investment consultant will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Open Fund's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on a suitable fund range and default strategy for the Defined Contribution section of the Open Fund, and how material changes to legislation or within the Open Fund's benefits and membership may impact this;
- advising on the regular updating of the Statement of Investment Principles;
- advising on the development of a clear investment strategy for the Open Fund and on the construction of a strategic asset allocation benchmark, given the liabilities of the Open Fund and the risk and return objectives of the Trustee;
- advising on an overall investment management structure that meets the objectives of the Trustees;

- advising on the selection and appointment of appropriate investment management organisations, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations);
- providing the consultant's current views of the investment managers employed by the Open Fund, as requested;
- advising on potential new areas or tools of investment such as hedge funds, currency hedging, interest rate swaps etc;
- providing trustee education, as requested; and
- providing general advice in respect of the Open Fund's investment activities, as requested.

### **C.1.7 Scheme Actuary**

The Scheme Actuary's responsibilities include:

- performing the triennial (or more frequently as required) actuarial valuations, providing annual actuarial reports, and advising on the appropriate contribution levels; and
- liaising with the investment consultant on the suitability of the fund's investment strategy given the Statement of Funding Principles and the financial characteristics of the Fund.

### **C.2. Mandates given to advisers and investment managers**

The Trustee has in place signed agreements with each of the Open Fund's advisers. These provide details of the specific arrangements agreed by the Trustee with each party.

The pooled funds are governed by a prospectus, setting out the terms for investors.

### **C.3. Fee structures**

The Trustee recognises that the provision of investment management, dealing, custodial and advisory services to the Open Fund results in a range of charges to be met, directly or indirectly, by deduction from the Open Fund's assets.

The Trustee has agreed Terms of Business with the Open Fund's actuarial and investment advisers, under which charges are calculated on a "time-cost" basis.

The investment manager receives base fees calculated with reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Open Fund. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

#### **C.4. Performance assessment**

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Open Fund's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

#### **C.5. Working with the Open Fund's employers**

When reviewing matters regarding the Open Fund's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employers' perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employers, the Trustee believes that better outcomes will generally be achieved if the Trustee and employers work together collaboratively.