

PensionNews

Summary of the Trustees' Report & Financial Statements 2011

August 2011 - Issue 25

Chairman's Statement

Year under review

It has been yet another eventful year where your Trustees have once again worked extremely hard to address the many challenges faced by the ITB Funds.

One of the most significant events during the period has been the triennial actuarial valuation of the Open Fund as at 31 March 2010 and the action required following confirmation of the expected valuation deficit. The valuation was conducted against a difficult economic background and, as the year unfolded, we saw companies and governments adopting strategies to deal with the issues left by the financial crisis. Despite this difficult economic backdrop characterised by historically low interest rates, there was gradual further recovery in investment markets and our investment strategy in the period has served us well. We shall continue to adapt the investment policy for the Funds to suit the economic climate and have various triggers in place to further de-risk the Fund.

Open Fund Actuarial Valuation

The purpose of a valuation is to determine the funding position of the Scheme by comparing the Scheme's assets and liabilities. While the assets of the Scheme are relatively straightforward to value, determining the present value of liabilities, which may or may not become due until many years in the future, is far more complex. In order to do so the Trustees, after obtaining actuarial advice, have the responsibility to agree a number of prudently chosen assumptions for the actuary to use when carrying out the valuation; such as those for salary and pensions increases, investment returns and life expectancy. A key part of the process is an examination of employer covenant which can influence the assumptions chosen. The intention is for the valuation to be undertaken on a prudent basis with the objective of securing the long term health of the Scheme for both Members and Employers.

The deficit revealed by the 2010 valuation result was not unexpected since the prospect of a deficit result had been forecast by the 2009 interim annual 'snapshot' of the Scheme's financial position, as reported in my statement to you last year. Participating Employers have been kept abreast of this likely outcome and were forewarned of the prospect of a requirement for additional deficit contribution funding.

In setting the funding strategy for the Scheme the Trustees must make difficult judgments. They must assess the ability of the Employer to make good funding deficits in the short-term and they must set their long-term risk appetite in the context of the Employers' ability to underwrite adverse outcomes.

The decisions about the actuarial methods and assumptions as agreed by the Employers are defined in the Statement of Funding Principles. This sets out how the statutory funding objective will be met; in short meaning the Scheme must have sufficient assets to cover its technical provisions (broadly its liabilities), or a recovery plan for reaching that position. Consequently the fund deficit arising from the valuation therefore led to another critical strand of work around formulating a deficit recovery plan to be agreed by Employers.

Further details on the results of the valuation and deficit recovery

plan are provided in the Summary Funding Statements in this newsletter.

Recovery Plan

The implementation of a deficit recovery plan requires careful calibration to ensure the right balance between effectiveness and jeopardising Employers businesses. Similarly, a measured timetable over which to eliminate the deficit is vital and, in conjunction with our advisers, we are working with Employers to arrive at a sustainable recovery plan to take the Open Fund back to fully funded status as quickly as possible. In doing so we recognise that Employers pension contributions should remain affordable, being mindful that underpinning the future stability of the Funds is the long term viability of our Participating Employers. In response to this backdrop, combined with the difficult operating conditions faced by Employers, many have taken decisive and timely action using the flexibility allowed by the Rules to balance Scheme cost and benefit provision.

As part of the overall review, following the valuation the Trustees will again review the investment strategy of the Scheme, its asset allocation and fund managers and examine whether the Scheme's profile has altered in any way that would necessitate changing the current asset allocation.

Statement of Investment Principles (SIP)

The Trustees' Statements of Investment Principles (SIP) embodies our investment approach and the current SIP can be found on the ITB Pension Funds' website at www.itb-online.co.uk. Your Trustees regularly review the SIPS and are required to consult with the Participating Employers before changing the SIP and adopting any new investment strategy.

Employer Covenant

As required by the Pensions Act 2004, this process has involved our advisers liaising with Employers over the examination of specific financial data in order to establish if each Employer's covenant was robust enough to meet their contribution obligations to the Scheme. The use of the term covenant in this

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context refers to an Employer's willingness and ability to fund the Scheme on a continuing basis and to pay any statutory debts which might be triggered on winding-up or earlier insolvency. With the support of the Employers our covenant monitoring processes have become more regular and extensive.

Subsequent Valuations

Valuations must be carried out at least every three years. At the next valuation of the Open Fund as at March 2013 the assumptions for the previous valuation, in this case the 2010 valuation, will be the starting point, which will need to be considered in the light of changing circumstances.

PIETT/JTL/Skillfast UK

In my statement to you last year I reported on the termination of participation in the Scheme of three of our Participating Employers, PIETT, Skillfast-UK and JTL.

PIETT: We are now in the closing stages of what has been an extended and time consuming process which had involved PIETT going into liquidation, with the liquidators only recently releasing funds to go towards PIETT's outstanding debt to the Fund. During this period PIETT's participation in the Scheme was terminated.

Skillfast-UK: Following the loss of its SSC licence to operate, Skillfast-UK terminated its participation in the Scheme as at 31 March 2010 after it had reached agreement with your Trustees over its prospective buy-out debt to the Scheme. The payment of the vast majority of the debt owed by Skillfast-UK was expedited by way of a compromise agreement with your Trustees.

JTL: After taking the decision to terminate its participation in the Scheme as at 31 March 2010 JTL made arrangements with your Trustees to settle in full its buy-out debt to the Scheme, which it did.

Interim Financial Assessments

An interim assessment is essentially a 'snapshot' of a pension scheme's funding position carried out by the Scheme Actuary in the years between formal valuations of a pension scheme.

The purpose of the annual assessment is to alert trustees and employers to any factors that may have arisen which may affect the long-term liabilities of the pension scheme since the date of their previous formal valuation; for example, changes in interest rates, inflation and market values of investments, as well as mortality.

Open Fund: Before embarking on the interim assessment of the Open Fund as at 31 March 2011 it is firstly most important to finalise the 2010 valuation. However, we anticipate being in a position to consider the 2011 interim funding assessment later this year.

Closed Fund: The latest interim assessment of the Closed Fund carried out as at 31 March 2010 revealed that the funding level had improved from 104% at 31 March 2009 to 113% as at 31 March 2010 and the Fund's surplus had increased from £8 million to £24 million. Whilst liabilities were greater, there had been higher than expected investment returns and lower than expected pension increases, which had contributed to the funding improvement.

The next valuation of the Closed Fund will be as at 31 March 2012.

Traditionally, the Investment Committee together with the Trustees' investment advisers regularly review the investment strategy of the Closed Fund, including the allocation and spread of index-linked gilts, particularly following an actuarial valuation. Following the most recent review we asked our investment advisers to explore ways of increasing the stability of the Closed Fund's funding level by measures such as; increasing the allocation to Index Linked Gilts and investigating an investment in a buy-in policy with an insurance company.

A buy-in was considered the most favourable investment option for the Closed Fund as an investment of this nature significantly reduces interest rate, inflation and longevity risks associated with the Scheme's liabilities. In practical terms in return for the required premium, the buy-in insurer would pay an agreed amount on agreed dates. The Funds' Office would then seamlessly continue to pay regular pension instalments to pensioners as normal.

Although the completion of a buy-in with the chosen provider, the Pension Insurance Corporation (PIC), was concluded post 31 March 2011, I am reporting it here as it is a matter of some importance for the Funds and particularly to Closed Fund members.

In proceeding with the buy-in we have taken similar action to the trustees of many other major UK pension schemes who had completed buy-ins over the last few years. Prior to the purchase was the completion of legal due diligence, which served to confirm material facts in relation to the purchase and the evaluation of the financial strength of PIC.

Governance

The management and administration of the ITB Funds is considered and questioned both internally by the Funds' Office, the Trustees' Management Panel and Trustee Board and in the case of investment and asset liability modelling, by the Trustees' Investment Committee, the Trustees' external Investment Consultants and finally by the full Trustee Board. Moreover, all Trustees have a regular opportunity to raise questions at our regular quarterly meetings which are attended by the Funds' Actuary and the Funds' legal advisers.

Our overall risk management processes seek to enable the early identification, evaluation and effective management of the key risks facing the Funds at an operational level and to operate internal controls to mitigate these risks. The key risks and internal control procedures are regularly reviewed by the Funds' management and form part of the Funds' Office internal audit activities. In addition the Scheme's auditors undertake regular independent reviews of the Funds' risk processes.

Conflict: Procedures to deal with Trustees' conflicts of interest

In accordance with increasing regulatory requirements we have procedures in place to deal with the situation where a Trustee has a conflict of interest. As part of this process we endeavour to consider each conflict situation separately on its particular facts and how it may conflict with the duties of the Trustee. Where authorisations are granted by the Trustee Board, the scope of any approvals given, or actions taken to attempt to eliminate actual or potential conflict, are recorded in the Trustees' minutes. Our procedures to deal with Trustees' conflicts of interest are regularly reviewed by the Funds' Office, Management Panel, full Trustee Board and external legal advisers.

Legislation

The relentless pace of change in pension reform has continued under the new Government. The many changes have included a substantial change in the Annual Allowance. Taking effect from April 2011 the maximum Annual Allowance, which is expressed as a capital value of tax-relievable pension built-up by a member in a Pensions Input Period, has been reduced from £255,000 to £50,000, with any excess subject to an Annual Allowance charge. The Pensions Input Period for the ITB Scheme is from 1 April to 31 March, inclusive.

There has also been a reduction taking effect from April 2012 in the amount of the Lifetime Allowance (LTA), from the current £1.8 million to £1.5 million. To recap the LTA is a limit on the overall pension benefits, expressed in capital value terms, which a member can take from a pension scheme tax-efficiently. Broadly speaking the multiple of pension for assessing the LTA value of pensions is 20:1.

The measure of inflation used for working out statutory minimum increases to pensions was also changed by Government. Instead of basing these increases on the Retail Prices Index (RPI), it now uses the Consumer Prices Index (CPI). The Scheme Rules, as they apply to the Open Fund (Old Section) and Closed Fund, specify that deferred pensions and pensions in payment will increase in line with the annual statutory order published by the UK Government. Consequently, those pensions were increased in April 2011 by the annual increase in CPI.

Moreover, at the request of Employers, the Trustees are considering Government plans to abolish the legal right of an employer to retire employees at age 65, the current default retirement age, in April 2011.

Communication

Members may be interested to find out more about the ITB Pension Funds and the benefits provided. As part of our information flow to supplement our written communications are the Funds' websites, "itb-online" and "MyITB". With their 24 hour presence they are equipped to resolve many enquiries and provide both general and personal benefit information in a quick and convenient way. Our website facilities extend to active and deferred members and pensioners. We also have a bespoke website dedicated to support Employers.

Trustees

Collectively, my colleague Trustees bring a wide range of experience and expertise to their board duties. I would especially like to thank them for their strong contributions over this period as we have taken some difficult decisions to work towards a more secure future for the Funds, whilst remaining mindful of balancing members' interests with the increasing pressures on Employers.

I am also indebted to my Trustee colleagues who sit with me on our Management Panel and Investment Committee, especially to my two Deputy Chairmen, Jonathan Swift and David Barnett, who give unstintingly of their time. All of their experience and sound judgement in all matters considered during this demanding year I have found to be of immeasurable benefit and assistance.

Horace Parker and Alan Ross

It was with great sadness that we had to report during the year the deaths of two of our fellow Trustees.

Our long standing and much valued Trustee colleague, Horace Parker, passed away in December 2010 following illness. Horace served on the Board for almost fourteen years as the Closed Fund Pensioner Trustee and in that time helped steer the Funds through a period of considerable change. His pertinent experience and contribution to discussion will be greatly missed.

Furthermore, we were advised in February of this year of the sudden and unexpected death of Alan Ross, the Employer Trustee for the Scottish Electrical Charitable Training Trust. Although Alan had been a Board member for only one year he had made an important contribution to our debates. He too will be sadly missed.

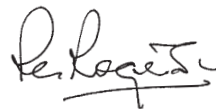
Funds' Office Staff

We would not have been able to meet the challenges we have faced during the year as well as we have done without the full support of the Funds' Office staff, under the expert guidance of the Director, Vincent Gordon, who is ably supported by Dennis Matthews and David Faulkner. They have been steadfast through one of the most testing periods in ITB's long history. On behalf of all of my colleagues on the ITB Trustee Board I wish to thank them for their continued support and dedication. I have no doubt we shall be drawing on their skills and commitment when meeting the challenges of 2011/12.

Outlook

Looking ahead, although optimistic, we remain cautious given that the likely scale and speed of economic recovery remains uncertain, but we recognise we may have to adapt to changing market conditions when continuing to work to secure the successful future of the Funds for all concerned.

Our overriding objective put simply is to ensure the payment of valuable benefits for members that are also sustainable for Employers to provide.



Peter Rogerson OBE

Chairman of Trustees - 1 July 2011



Financial Summary 2011

	Closed Fund £'000	Open Fund £'000
Value of the funds as at 31 March 2010	210,886	620,239
Income: contributions	0	32,544
AVCs transferred to main Fund	0	289
Income from Investments	3,400	7,765
Total Income	3,400	40,598
Expenditure		
Pensions and other benefits	(11,912)	(29,430)
Transfer values paid	(0)	(1,138)
Administration expenses	(568)	(1,209)
Pension Levy	(36)	(110)
Total expenditure	(12,516)	(31,887)
Balance deducted/added from value of funds brought forward	(9,116)	8,711
Net change in market value of investments	12,512	44,600
Value of Funds at 31 March 2011	214,282	673,550

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

Employers' Trustees

Peter Rogerson, OBE (Chairman)

Nominated by:
ConstructionSkills*
(Retired Deputy Chairman of
CITB-ConstructionSkills)



Jonathan Swift (Deputy Chairman-Employers)

Nominated by:
Lantra
(Deputy Chairman of Lantra)



Bob Monks

Nominated by:
Skills for Logistics
(General Secretary of the
United Road Transport Union)



David Birtwistle
Nominated by:
Science, Engineering and
Manufacturing Technologies
Alliance
(Global Reward Director of GKN plc)



Tony Pringle

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



Simon Tarr

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



Jacki Day

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



Newell McGuiness

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



Terry Lazenby, MBE

Nominated by:
Engineering Construction ITB
(Chairman of ECITB)



*ConstructionSkills is the trading name of Construction ITB

Members' Trustees



Lindsay Campbell

Nominated by:
People 1st
(Operations Director - National Skills
Academy for Hospitality)
(Left service 20 May 2011 - New
Trustee to be appointed)



John Edwards

Nominated by the
Trade Union 'Unite' for:
Engineering Construction ITB
(Regional Account Manager -
Engineering Design & Procurement Forum)



Chris Hall

Nominated by:
Skills for Logistics, CAPITB plc,
Cogent SSC Limited, Scottish Electrical
Charitable Training Trust (SECTT)
(Finance & Administration Director
for Skills for Logistics)



Gillian Black

Nominated by:
OPITO Limited
(Policy Affairs Director for OPITO Limited)



Mike Harris

Nominated by the Trade Union
'Unite' for:
ConstructionSkills*
(Training Adviser)
(Succeeded Peter McCulloch who
retired from service on 14 May 2010)



Madge Moore

Nominated by:
Lantra
(National Director - England for Lantra)



Reg D'Souza

Nominated by the Trade
Union 'Unite' for:
Science, Engineering and
Manufacturing Technologies Alliance
(Research Team Leader for Semta)



Pensioners' Trustees



David Barnett (Deputy Chairman-Members)

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



Hugh Edwards

Nominated by:
Closed Fund Pensioners
Previously Road
Transport ITB
(Retired - Formerly Training
Assessment Manager RTITB)

Changes to the Trusteeship

Changes to the Trustees

Members' Trustees

Peter McCulloch, the Member Trustee for ConstructionSkills, retired from service on 14 May 2010. He was succeeded by Mike Harris on 2 July 2010 after he had been nominated by the Trade Union 'Unite'.

John Edwards, the Member Trustee for Engineering Construction, retired by rotation on 31 December 2010 and was reappointed to serve a further term from 1 January 2011 by the Trade Union 'Unite'.

Chris Hall, the Joint Members' Trustee for CAPITB plc, Cogent SSC Ltd, Skills for Logistics and Scottish Electrical Charitable Training Trust, retired by rotation on 3 April 2011 and was reappointed to serve a further term from 4 April 2011.

Pensioners' Trustees

The Closed Fund Pensioner Trustee, Horace Parker, unfortunately died following illness on 4 December 2010. Therefore a nomination and ballot process was carried out with Closed Fund members, which resulted in Mr Hugh Edwards being appointed as the Closed Fund Pensioner Trustee on 1 April 2011.

The period of office of the Open Fund Pensioner Trustee, David Barnett, is due to end on 30 September 2011.

Employers' Trustees

Peter Rogerson, the Employer Trustee for ConstructionSkills, retired by rotation on 31 March 2011 and was reappointed to serve a further term from 1 April 2011.

Jonathan Swift, the Employer Trustee for Lantra, retired by rotation on 31 March 2011 and was reappointed to serve a further term from 1 April 2011. Alan Ross, the Joint Employers' Trustee for SECTT and CAPITB plc, unfortunately died suddenly on 8 February 2011. Under the Rules of the Scheme, SECTT, as the larger of the smaller Employers, was eligible to nominate the Joint Employers' Trustee from their organisation and therefore nominated Mr Newell McGuinness who was appointed on 1 April 2011.

Chairman

The period of office of the Chairman, Peter Rogerson (OBE), is due to end on 31 March 2012.

Deputy Chairmen

The period of office of Jonathan Swift as Deputy Chairman (Employers), is due to end on 13 April 2013.

The period of office of David Barnett as Deputy Chairman (Members), is due to end on 28 February 2013.

Trustee Training, Induction and Governance

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

The Funds' Office also maintains a Trustees' 'Register of Interests'. The content of this Register is regularly updated to take account of guidance issued by the Pensions Regulator. 'Conflicts of interest' are regarded as a priority area for the Trustees in their governance of the ITB pension schemes.

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

Meetings

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

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

There was overall 86% attendance at the Trustees' Board meetings.

Committees

The Investment Committee, the Management Panel and the Salaries Committee are formally set up by resolution in accordance with the Rules and have carefully defined remits.

Officers and Advisers

Officers

Director

Vincent Gordon FPMI

Accountant

Dave Faulkner FCA

Communications & Benefits Manager

Dennis Matthews APMI



Pictured left to right:

**Vincent Gordon, Dave Faulkner,
Dennis Matthews**

Advisers

Actuary

Government Actuary

Solicitors

Mayer Brown International LLP

Investment Managers

AXA Rosenberg Investment
Management Limited
(terminated April 2010)

BlackRock Advisors (UK) Limited

BNY Mellon Asset Management

Henderson Global Investors Limited

Insight Investment

Investec Asset Management

Liongate Capital Management

Longview Partners LP

Ruffer LLP

Schroder Investment Management (UK)
Limited

Stenham Asset Management

Wegelin & Co (terminated August 2010)

Property Investment Managers

Fletcher King

Investment Advisers

BNY Mellon Asset Servicing

Lane Clark & Peacock LLP

Custodians

BlackRock Advisors (UK) Limited

JP Morgan Chase Bank

Universal Pension Trustees Limited

ITB Pension Trustees (1) Limited

ITB Pension Trustees (2) Limited

Auditor

Chantrey Vellacott DFK LLP

Participating Employers

The Participating Employers comprise two Statutory Training Boards and eight Companies, which are in the main commercial enterprises and, along with their wholly-owned subsidiaries, are the Successor Bodies that have replaced former Statutory Training Boards.

During the year CAPITB plc merged RTITB into its operations. RTITB had been previously recorded as a subsidiary of CAPITB plc.

The Participating Employers at the Scheme year-end, each of which must be a Statutory Training Board or a Successor Body to a Training Board, are shown opposite:

- ✓ Education
- ✓ Training
- ✓ Knowledge
- ✓ Safety
- ✓ Skills
- ✓ Responsibility
- ✓ Excellence

CAPITB plc

Cogent SSC Limited

Participating Subsidiary:

Cogent (Telford) Limited

ConstructionSkills*

Engineering Construction ITB

Lantra

OPITO Limited

People 1st

Participating Subsidiary:

National Skills Academy for Hospitality (NSAH)

Science, Engineering and Manufacturing Technologies Alliance

Participating Subsidiaries:

EMTA Awards Limited

Metals Industry Skills and Performance
Limited (MetSkill)

Training Publications Limited

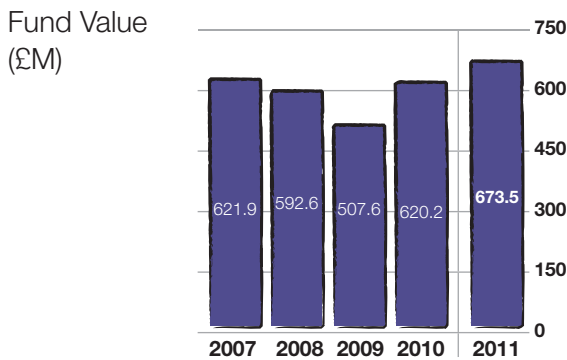
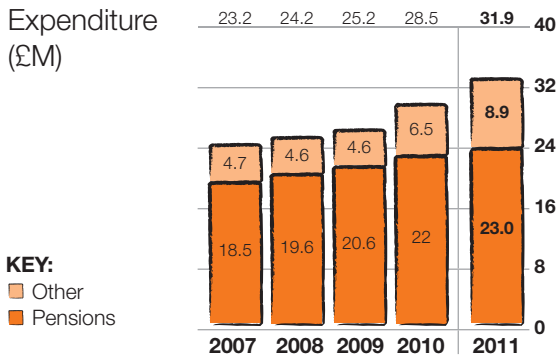
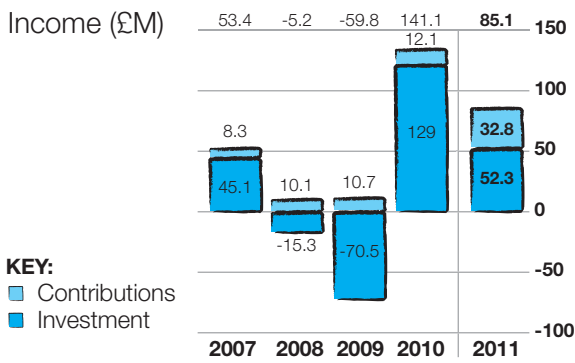
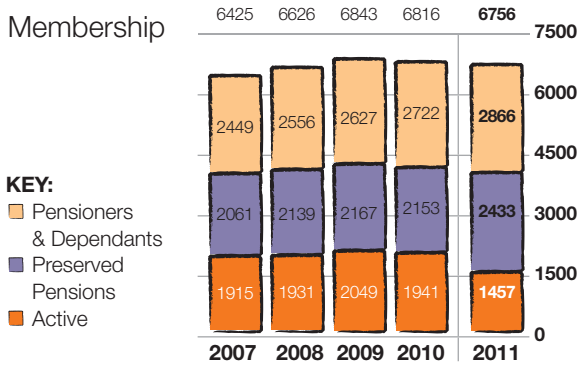
National Skills Academy for Manufacturing (NSAM)

Scottish Electrical Charitable Training Trust Skills for Logistics

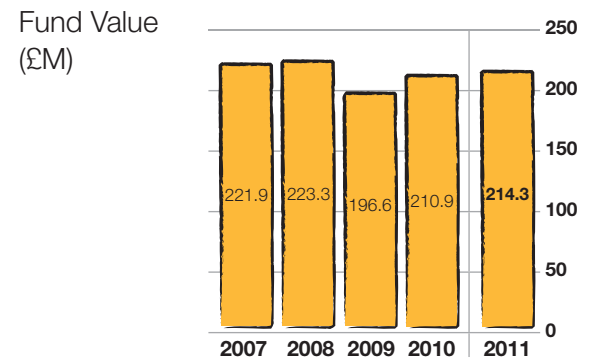
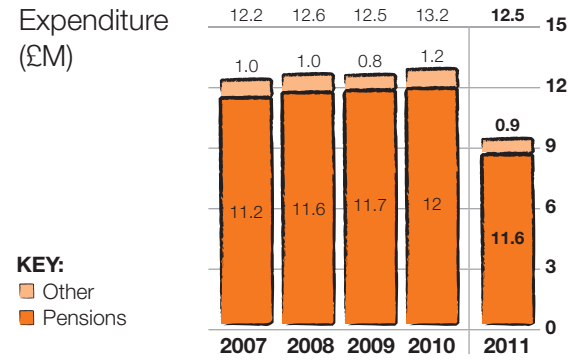
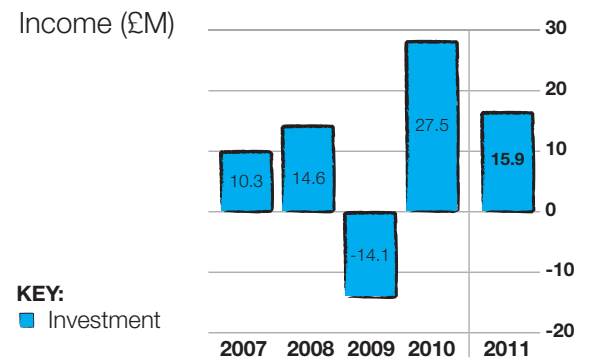
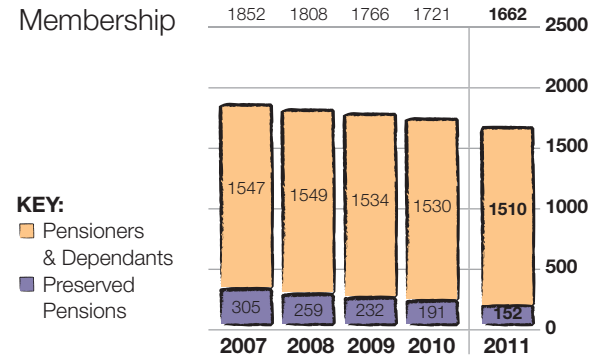
* ConstructionSkills is the trading name of Construction ITB

Five Year Summary

Open Fund



Closed Fund



The ITB Pension Funds (Open Fund): Summary Funding Statement for Period ending 31 March 2010

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

The last ongoing funding valuation

The most recent funding valuation of the Open Fund showed that on 31 March 2010 the funding position was as follows:

Assets	£620.2 million
Liabilities	£671.5 million
Funding level	92%

The estimated amount as at 31 March 2010 needed to ensure that all members' benefits could have been paid in full if the Scheme had started winding up (full solvency) was £874.9 million. Therefore, the Scheme was 71% funded on a full solvency basis as at 31 March 2010. Inclusion of this information does not imply that the Participating Employers are thinking of winding-up the Scheme.

Change in funding position

The funding level increased from 77% to 92% between 31 March 2009 and 31 March 2010. The increase in funding level reflects a number of factors, including higher than expected investment returns on the Fund's assets and the expected change in future indexation of Old Section benefits. These effects were partially offset by the effects of changes in some of the assumptions used to value the liabilities.

Actions to return the Scheme to full funding

The withdrawals of Skillfast-UK and JTL resulted in statutory payments to the Scheme of over £14 million during 2010.

The Participating Employers have agreed to pay additional contributions to the Scheme to restore the Scheme to full funding. Additional contributions are all expected to be paid for between 7 and 10 years from January 2011. The Trustees expect that where such contributions extend beyond 7 years, Employers agree to provide additional security to the Scheme.

Payment to the Participating Employers

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

How the Scheme operates

How is my pension paid for?

The Participating Employers pay contributions to the Pension Scheme so that the Scheme can pay pensions to its members when they retire. Active members also pay

contributions to the Scheme, and these are deducted from gross pay.

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

How is the amount the Scheme needs worked out?

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

The importance of the Participating Employers' support

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

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

What is the Scheme invested in?

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

Global equities	37%
Bonds/LDI mandate	30%
Alternative Investments	17%
Property	13%
Cash	3%

Where can I get more information?

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

Members of the Scheme can also use the Funds' secure modelling website 'MyITB' (www.myitb.com) to estimate their own benefits.

**Additional documents available on request
or in some cases on the Funds' website
www.itb-online.co.uk**

The Statement of Investment Principles: This explains how the Trustees invest the money paid into the Scheme.

The Schedule of Contributions: This shows how much money is being paid into the Scheme.

The Recovery Plan: This shows the agreed actions to restore the Scheme to full funding.

The Annual Report and Accounts of the ITB Pension Fund, which shows the Scheme's income and expenditure in the year up to 31 March 2011.

The full Actuarial Valuation report follows the Actuary's check of the Scheme's situation as at 31 March 2010.

The ITB Open Fund '2007 Section', 'New Section' and 'Old Section' Member Booklets (members should have been provided with a copy of the booklet relevant to their Scheme Section when you joined the Scheme, but a further copy can be requested).

An Annual Benefit Statement: If you are not getting a pension from the Scheme (and have not received a benefit statement in the previous 12 months) you can ask for a statement that provides an illustration of your likely pension, or visit www.myitb.com to view online benefits statements and model your pension.

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

The ITB Pension Funds (Closed Fund): Summary Funding Statement for Period ending 31 March 2010

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

The last ongoing funding valuation

The most recent funding valuation of the Closed Fund showed that on 31 March 2009 the funding position was as follows:

Assets	£196.7 million
Liabilities	£189.1 million
Funding level	104%

As a result, no further contributions were required, although

the funding level was less than the Trustees' target level of 110%.

The Scheme Actuary assessed that, as at 31 March 2009, the assets of the Scheme were very likely to be sufficient to pay for the liabilities in full if the Scheme had started to wind up at that date. (The Scheme was 113% funded on a full solvency basis as at 31 March 2009.) Inclusion of this information does not imply that the Participating Employers are thinking of winding up the Scheme.

Change in funding position

The Scheme Actuary carried out an interim review of the Closed Fund as at 31 March 2010. The purpose of that review was to assess how the Scheme's funding position has changed over the previous year.

The interim review showed that the funding level increased from 104% to 113% between 31 March 2009 and 31 March 2010. The increase in surplus between March 2009 and March 2010 was principally due to the investment return on the Scheme's assets being greater than expected. Further, the April 2010 pension increase was lower than expected.

Payment to the Employers

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

How the Scheme operates

How is my pension paid for?

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

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

How is the amount the Scheme needs worked out?

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

What is the Scheme invested in?

At 31 March 2010, the Trustees' policy was to invest the majority of the Scheme's assets in index-linked gilts to match the liabilities of the Scheme as they come due. Cash was held to pay the most imminent liabilities. More recently, the Trustees have insured the Scheme's benefits with an insurance company.

The reserve assets are invested in a broad range of assets, the majority of which are expected to be equities.

Where can I get more information?

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

Members of the Scheme can also use the Funds' secure modelling website 'MyITB' (www.myitb.com) to estimate their own benefits.

Additional documents available on request or in some cases on the Funds' website
www.itb-online.co.uk

The Statement of Investment Principles: This explains how the Trustees invest the money paid into the Scheme.

The Annual Report and Accounts of the ITB Pension Fund, which shows the Scheme's income and expenditure in the year up to 31 March 2011.

The full report on the Actuarial Valuation following the Actuary's check of the Scheme's situation as at 31 March 2009.

The report on the Interim Actuarial Review of the Scheme as at 31 March 2010.

An Annual Benefit Statement. If you are not getting a pension from the Scheme you can ask for a statement that provides an illustration of your likely pension, or visit www.myitb.com to view online benefit statements and model your pension.

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

Statement of Investment Principles (SIPs)

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

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

Specialist investment managers are employed by the Trustees to manage the portfolios of investments. Their appointments are regularly reviewed by the Trustees in light of quarterly monitoring of the performance and investment process.

The Trustees' investment strategy aims, over the long term, to achieve good investment growth while maintaining a secure funding position for the Open Fund.

Although an overall longterm strategic asset allocation is agreed by the Trustees, the investment managers are given individual benchmarks. The active managers are permitted to diverge from these benchmarks within policy guidelines which are determined periodically by the Trustees in conjunction with their investment advisers. The guidelines are reviewed by the Trustees' Investment Committee at regular quarterly meetings.

As the Closed Fund has no current Participating Employers with active members, an investment strategy has been adopted whereby the liabilities have been broadly matched by an underlying portfolio of index-linked gilts. Because of the surplus in the Closed Fund, a portfolio representing the reserve assets has been established and placed in a range of investments comprising global equities and bonds.

The ITB Pension Funds' assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulations 1996. The Funds do not invest in any of the Participating Employers' businesses. No investment represents more than 3% of share capital of the company concerned.

Increases in Pensions

Open Fund (Old Section) and Closed Fund

The Rules require pensions to be increased as if they were 'official pensions' to which the Pensions (Increase) Act 1971 applied (since incorporated into s59 Social Security Pensions Act 1975).

As was reported in the 2010 ITB Trustees' Report and Financial Statements, the government announced that they were intending to change the basis for measuring inflation, for pension increase purposes, from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The increases are made in accordance with up-rating orders issued by the government each year, stating the percentage rate of increase for that year, based on the rise in the "general level of prices". The legislation leaves it to the Secretary of State to decide what the appropriate inflation measure is for this purpose from time to time. The Secretary of State has now decided that the CPI is a more appropriate measure of inflation than the RPI.

The annual up-rating orders must be laid before parliament before they take effect. The order for this year completed the parliamentary process on 17 March 2011.

The order, which took effect on 11 April 2011, states that the increase will be 3.1%.

Because the Rules as they apply to Open Fund (Old Section) members and Closed Fund members require pensions to be increased as if they were official pensions to which the Pensions (Increase) Act 1971, this is the rate which applies.

As before, the increases commence on the first Monday after 6 April each year.

Date of Increase	Increase %
8 April 2002	1.7
7 April 2003	1.7
12 April 2004	2.8
11 April 2005	3.1
10 April 2006	2.7
9 April 2007	3.6
7 April 2008	3.9
6 April 2009	5.0
12 April 2010	0.0
11 April 2011	3.1

Open Fund New and 2007 Sections

Under the Rules of the Open Fund New and 2007 Sections pensions are increased in line with the annual increase in the Retail Price Index (RPI), subject to a maximum increase cap as described for the New and 2007 Sections in the table below. Increases commence on the first Monday after 6 April each year.

	Closed Fund & Open Fund (Old Section)	Open Fund (New Section) & Open Fund (2007 Section)	The State
Before State Pension Age the Scheme increases total pension by:	In line with annual up-rating orders issued by the government	*RPI subject to a maximum in one year of: 5% for pensions accrued prior to 6 April 2005 and 2.5% for pensions accrued thereafter.	Nil
After State Pension Age the Scheme increases Excess over **GMP by:	In line with annual up-rating orders issued by the government	*RPI subject to a maximum in any one year of: 5% for pensions accrued prior to 6 April 2005 and 2.5% for pensions accrued thereafter.	Nil
For **GMP accrued between: 6 April 1978 to 5 April 1988 by:	Nil	Nil	In line with annual up-rating orders issued by the government
6 April 1988 to 5 April 1997 by:	Lesser of 3% and the annual up-rating orders issued by the government	Lesser of 3% and the annual up-rating orders issued by the government	Excess of the annual up-rating orders issued by the government

* RPI = Retail Price Index ** GMP = Guaranteed Minimum Pension

Preserved Pensions – Increase Methods (All ITB Scheme Sections)

The methods by which any annual increases to preserved pensions currently apply are shown below in the following table:

	Closed Fund & Open Fund (Old Section)	Open Fund (New Section) & Open Fund (2007 Section)
Pensions accrued before 6 April 2009:	In line with annual up-rating orders issued by the government	Increased in line with the lower of the accumulated rise in the RPI and 5% pa compound
Pensions accrued on or after 6 April 2009:	In line with annual up-rating orders issued by the government	Increased in line with the lower of the accumulated rise in the RPI and 2.5% pa compound

continues on page 12

Contracting out

From 6 April 1978 all members of the ITB Pension Funds were contracted-out of the Second Tier of the State Pension, known as the State Second Pension (S2P formerly called SERPS), up to 5 April 1997.

A requirement of contracting-out was that an occupational pension scheme had to provide its members with pension benefits which were broadly equivalent to the S2P pension that members would have accrued had they not been contracted-out. This was called a Guaranteed Minimum Pension (GMP). GMPs do not accrue for post 5 April 1997 pensionable service, but members remain contracted-out and still receive benefits broadly equivalent to the S2P pension based on the benefits set out under the statutory standard Reference Scheme (The Reference Scheme Test).

On attaining State Pension Age, members are advised by the Department of Work and Pensions (DWP) of the amount of the GMP that will be paid by the Funds as part of their total pension. The Department will also confirm that subsequent cost of living increases on the GMP will be payable by the Department by making the necessary addition to members' basic State Pensions. Spouses' GMPs are inflation protected by the State, irrespective of age.

Post balance sheet event

Following a review of the Closed Funds investment strategy, in April 2011 the Trustees invested in a buy-in contract covering most of the existing liabilities, with the Pension Insurance Corporation (PIC).

The cost of the contract was £152.7 million. The funds remaining under the direct control of the Trustees will continue to be used to meet ongoing administration costs, as a contingency margin and to increase pensions, subject to the discretion of the Trustees.

The Scheme's administration will remain unchanged with pensions being paid to members from the ITB Pension Funds office and all correspondence should continue to be directed there.

Contact

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

E-mail: pensions@itb-online.co.uk Telephone: 01923 226 264

Websites: www.itb-online.co.uk and www.myitb.com

