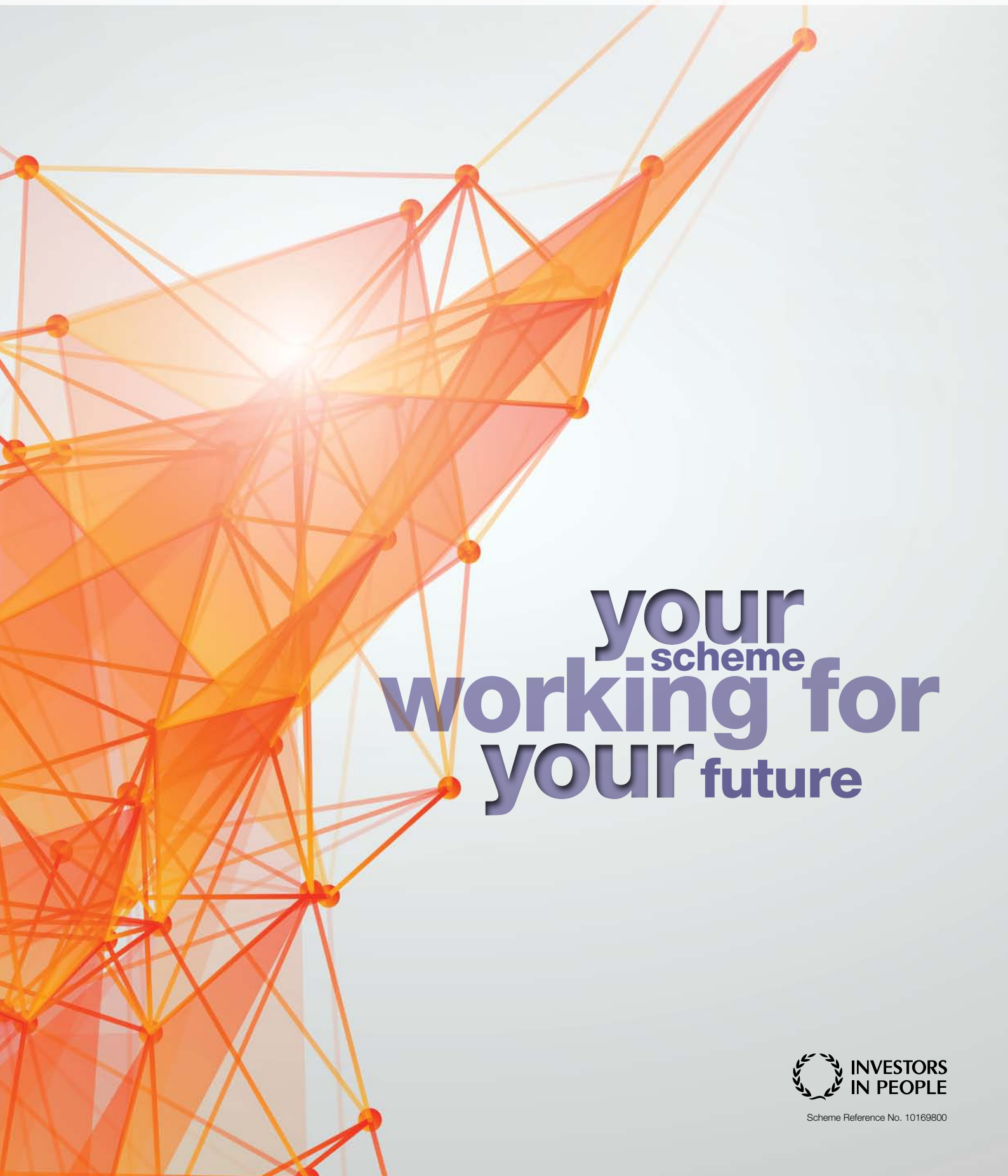


The ITB Pension Funds  
Trustees' Report & Financial Statements | 2013/14



your  
scheme  
working for  
your future



Scheme Reference No. 10169800



## Trustees' Report

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# Chairman's Statement

## Year under review



In what has been an eventful year for the Funds we saw a return to a more positive market environment in the first three quarters and above benchmark investment returns, only to have this performance

reversed by a mix of new concerns about global recovery and geopolitical factors in the final quarter of the Scheme year. Still, despite market fluctuations and some difficult investment conditions, there have been further signs of a strengthening of economic activity in the first quarter of the new financial year and we constantly keep abreast of expert intelligence on how this may affect our investment strategy.

A significant amount of our time during the year was taken up by events following on from the three-yearly formal actuarial valuation of the Open Fund's defined benefits (DB) Sections as at 31 March 2013. In particular the actions required following confirmation of an anticipated valuation deficit, given the significance the result has on our Participating Employers deficit recovery plans and ongoing standard contribution rates.

Throughout the period since the 2010 valuation, interest rates have been at very low levels and it is this impact of persistently low interest rates that represents a major challenge for pension funds. To a large extent it has had a counter-balancing effect on the positive performance of the Open Fund's investments and the deficit contribution funding paid by our Participating Employers in the period covered by the actuarial review. This is because low interest rates reflect in Government bond yields which are used to determine the discount rate; the rate used to calculate the present value of the Scheme's future defined benefit liabilities, which is then compared with the Scheme assets to establish whether the Scheme is in surplus or deficit.

## Open Fund Actuarial Valuation – process

The valuation process includes reference to various assumptions which in turn lead to the Statement of Funding Principles which your Trustees prepare for

the formal agreement of our Participating Employers. The production and maintenance of this Statement is at the heart of the valuation process as it records our decisions, taking into account the actuarial advice of the Scheme Actuary, regarding the valuation assumptions. The assumptions were chosen prudently with the objective of securing the long term health of the Scheme. In arriving at the assumptions for the valuation we took account of a statement from The Pensions Regulator which provided a steer for our salary related DB Sections of the ITB Scheme, on its expectations for funding valuations in current market conditions. Key to the whole approach is an examination of each Employer's covenant; the Employer's legal obligation and ability to fund the Scheme now and in the future, which influence the assumptions chosen as it underpins the whole Scheme funding process.

The foremost assumptions are the discount rate; investment return; inflation; salary increases; pension increases and member life expectancy which can have a significant impact on the Scheme's pension liabilities as pensions are likely to be paid for longer than previously assumed. We also state the reasoning behind the assumptions chosen in our policy for meeting the Statutory Funding Objective, which puts a value on the Scheme's liability to pay benefits and the period and manner within which any deficit in the Scheme is to be remedied. The contribution funding requirements are then normally reassessed at the time of the next formal valuation, that being as at 31 March 2016.

The results of the 2013 valuation revealed the requirement for an increase in the Scheme standard contribution rates and also the necessity of further deficit contributions from Participating Employers in order to strengthen the funding of the Scheme. The objective is to reduce the deficit as quickly as possible, while recognising that Employers pension contributions should be affordable. Following detailed discussions with Employers various deficit recovery periods have been agreed.

In conjunction with the Scheme's Actuary and the Trustees' Employer covenant advisers we have throughout the process sought to achieve the appropriate balance between prudence, given

the reduction in the Fund's solvency level since the last valuation, and the ability of the Employers to support the Scheme in the event of adverse circumstances; without damaging the ongoing viability of the Employers by requiring contributions at an unaffordable level.

As part of the overall review, following the valuation we will again review the investment strategy of the Scheme, its asset allocation and fund managers and consider what changes are required going forward.

Further details on the results of the valuation and deficit recovery plan are contained in the Actuarial Valuation section in this report.

### Employer Covenant

What Employers can afford to pay without damaging their business prospects requires mutual agreement between each Employer and our professional advisers, which is completed in confidence. The choice of prudent valuation assumptions is needed in the context of the Scheme's objectives and the strength of the Participating Employers' covenants. Throughout our deliberations we have been mindful to balance our obligations as Trustees to ensure the security of the Fund with the need to avoid unnecessary strain on the Employers' businesses, but we are also alert to The Pensions Regulator's repeated statement to pension fund trustees that prudence should not be watered down to help employers experiencing short term financial stress. Instead, as Trustees we should look more to setting a recovery period that Employers could afford. It is for this reason why we employ independent specialists to review Employers financial circumstances and develop appropriate recovery plans.

By monitoring the financial strength and other developments which may affect our Participating Employers we are better able to make decisions on the Scheme's funding assumptions, whether changes are needed to our investment strategy, and what recovery periods are appropriate for each Employer to repay their share of the funding deficit, along with their ability to meet the required ongoing contribution rate. This regular monitoring of Employer covenants is a fundamental element of our risk control policy.

It is reassuring to know that the result of the recent review by our specialists advises that overall our Participating Employers had performed in line with expectations.

### Further Flexibility

Given the required increase in the standard contribution rates identified by the 2013 valuation, we had concerns that some members may be unwilling or not be able to afford to pay any increase in member contributions and therefore may consider opting-out of the Scheme altogether. It was against this background that with effect from 1 January 2014 the Trustees agreed to authorise the flexibility for Employers to allow their existing members who wished it, to opt-out of DB Sections and become members of the less costly DC Section for future service. This is a significant step for members to take and should be considered very carefully as members who may decide to elect this option will become entitled to deferred pensions in the DB Scheme with no link to future salary increases.

### Auto-enrolment

Since the introduction of the DC Section of the Scheme in April 2012 the majority of our Participating Employers have supplanted DB provision for new members with the more cost certain DC provision.

Following a set of pro-forma modifications to the rules of the DC Section that would enable the DC Section to be used for auto-enrolment, our Employer with the largest number of members, Construction ITB, decided they would use the DC Section to meet their auto-enrolment obligations from their staging date in September 2013. A number of our other Employers have also indicated that the DC Section is their vehicle of choice to auto-enrol their members as their organisations reach their statutory staging dates through 2014 to 2017.

### Closed Fund – interim assessment

The purpose of the interim assessment, most recently carried out as at 31 March 2013, is to provide information on any changes to the Closed Fund's funding position since the most recent formal actuarial valuation; in this case being the valuation carried out as at 31 March 2012. The Trustees are not required

# Chairman's Statement

to make any decisions regarding the funding method and assumptions, and the review does not give rise to a surplus for distribution.

Closed Fund members will recall that in April 2011 the Trustees insured the vast majority of the Fund's benefits through a bulk annuity policy with Pension Insurance Corporation (PIC), thus removing much of the longevity and investment risk to which the Fund was previously exposed. The 2013 interim assessment considered material changes in the Fund's residual assets (those assets in excess of the bulk annuity policy), to meet future outgo not covered by the policy.

As normally is the case with an interim assessment, the 2013 update was carried out in line with the approach used in the Fund's previous formal valuation, being the valuation carried out as at 31 March 2012.

The 2013 assessment revealed a surplus of £21.8 million (2012 £19 million) that was derived from a market value of the Fund's assets of £67.4 million as at 31 March 2013 (2012 £63 million) and liabilities (excluding insured liabilities) of £45.6 million (2012 £44 million).

There are no active members in the Closed Fund and membership is comprised of pensioners and members with deferred pensions.

The next full valuation of the Closed Fund is due as at 31 March 2015.

## Open Fund – Interim Assessment

There was no interim assessment of the Open Fund DB Sections as at 31 March 2013 owing to the formal triennial valuation being carried out as at that date. The next interim assessment due as at 31 March 2014 will be carried out once the 2013 actuarial valuation is finalised.

## Statement of Investment Principles (SIP)

The Scheme SIP is a written statement of the principles governing decisions about investment for an occupational pension scheme which the Trustees are required to prepare and maintain through regular monitoring, particularly following an actuarial valuation or where there has been a change in policy. The Trustees must have regard to advice from a suitably qualified person and consult with the Employers.

The SIP must set out the basis on which the Trustees plan to invest the Scheme assets. There are detailed regulations for the contents of a SIP and a pension scheme's sponsoring employers have a right to be consulted on the contents of the SIP and any revisions the trustees periodically make, but they may not dictate the scheme's investment policy.

The ITB Trustees' SIP for the Open and Closed Funds describes our investment approach and the current SIPs can be found on the ITB Pension Funds' website at [www.itb-online.co.uk](http://www.itb-online.co.uk)

However, following the 2013 Open Fund Valuation we are currently in the process of reviewing the SIPs and consulting with the Participating Employers before adopting what is expected to be a number of changes to the Open Fund's investment strategy.

## Governance

Your Trustee Board is committed to high standards of governance and sees this as central to our role as Trustees. We consider all aspects of the governance of the business of the Funds, including risk management. We underpin this by endeavouring to ensure that your Trustees, and the Funds' Office staff, are properly trained to carry out our respective duties.

To further assist our effectiveness as a board we seek to have timely access to accurate and relevant information, which is supported by access to a secure website of ITB Funds' specific information. Agendas and supporting papers for board and committee meetings are circulated by the Funds' Office in good time prior to the meeting date to allow sufficient time for review to enable informed debate and challenge at meetings. An accurate record is made of all decisions taken at meetings of the board and its committees.

Our ultimate goal as your Trustee Board is to collectively and effectively manage the Funds in protecting the security of members' benefits, while delivering long-term sustainable success for the benefit of all of our stakeholders.

## Procedures to deal with Trustees' conflicts of interest

The Board has and formally applies procedures for the disclosure and review of conflicts of interest. Prior to appointment and then periodically thereafter a

trustee is required to provide information on any other offices they hold or relationships that may represent a potential conflict of interest. All Trustees are asked to declare any potential conflicts of interest in relation to any matters to be discussed at the start of each board meeting.

In this way each Trustee is aware of their responsibility to avoid a situation where they have an actual or potential conflict of interest and of the requirement to keep the matter under review and inform the Chairman and Director of any change in their situation. A procedure is in place for the board to manage conflict situations, should they arise.

### Regulation and Legislation

The Government, its agencies and The Pensions Regulator from time to time adopt statutes and issue regulations and guidance that directly or indirectly affect the operation of the Funds and Scheme benefits.

Over recent years far reaching reforms to the pensions market have been introduced and further reforms were introduced by the Chancellor in his Autumn Statement, supplemented by far more fundamental changes announced in the March 2014 Budget. These wide-ranging changes include the removal of the requirement to buy an annuity on retirement which will primarily impact DC benefits and to introduce greater flexibility when taking benefits as cash. While some of the changes will not take place until April 2015, some had an effect from 27 March 2014. The details of some of these reforms are still to be published. Meanwhile we are currently working with our legal advisers on other reforms that have more immediate effect. We recognise that members will wish to access these new options as soon as possible and once we have completed our review we shall issue further information and guidance on the Funds' website. In the interim more about these upcoming changes can be found in the Principal Activities section of this Report.

### Communication

Our internet communication facilities have been used by both our members and Participating Employers for a number of years now.

The ITB Funds' website [www.itb-online.co.uk](http://www.itb-online.co.uk) is where DB members have access to an array of member information, including pension and additional voluntary contribution (AVC) modelling facilities. It is a password protected platform hosting information about member's pensions administered by the Funds. Deferred members and pensioners also have access to information and benefits relevant to their category of membership.

Our Participating Employers are also well served by the ITB website with individual Employers able to access information specific to them and their membership through Employer authorised personnel user password access.

For ITB DC members the ITB website provides a link through to the Legal & General website; the current DC investment manager and service provider. There, members can gain access to such information as the value of their DC investment and review the various DC funds available to them for investment.

### Trustees

My thanks go out to my Trustee colleagues for their continued support and valued guidance throughout the year, and to their Employers who nominate and release them for this responsibility.

A critical element of the success of the Trustee Board is that we have the right mix of individuals with experience and expertise who are provided with the right information and support. This enables us to arrive at key decisions through free debate and constructive challenge so that we act in accordance with the Trust Deed and Rules and with a good understanding of the long-term interests of the various stakeholders in the ITB Pension Funds.

### Funds' Staff

The hard work and support of the Funds' Director, Vincent Gordon, his executive Dave Faulkner and the team at the Funds' Office is also significant to our continuing operational success. I would like to acknowledge their high level of commitment and professionalism.

During 2012 Dennis Matthews, the Funds' Communications and Benefits Manager, advised

# Chairman's Statement

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he would retire in July of 2013. A highly committed individual with relevant and deep knowledge of the Funds and pensions generally, Dennis made a wide ranging and consistently strong contribution to the organisation from the time he joined the Funds in 1996. Concurrent with Dennis' retirement, Chris Bettles, who worked with Dennis and headed his administration team for many years, was promoted as Pensions Administration Manager for the Funds. He takes over a number of Dennis' responsibilities on the next stage of our journey.

On behalf of the board I would like to thank Dennis for his excellent contribution during his years of service and wish him well in his retirement.

## Outlook

The ITB Pension Funds has a strong history. With the support of our Participating Employers on whom we rely to underpin Scheme benefit provision, we shall work to accelerate the restoration of Open Fund DB Sections to a fully funded position, without overburdening and possibly restricting Employers' future business development plans.

In doing so we are committed to working with our Participating Employers to understand the changing dynamics of their respective businesses, as this important information features strongly in our future funding considerations for the Scheme. An appreciation and understanding of the changes and challenges taking place within our Participating Employers is crucial in ensuring we can deliver the benefit expectations of members. It is our role as Trustees to balance these interests carefully and continue to review the options regarding what actions we can take to mitigate long-term risk to the Scheme.

In summary, your Trustees will continue to diligently monitor developments and respond as necessary; which will include adopting investment policy for the Funds to suit the economic climate and Employer covenant and have various triggers in place to further de-risk the Fund as circumstances change.

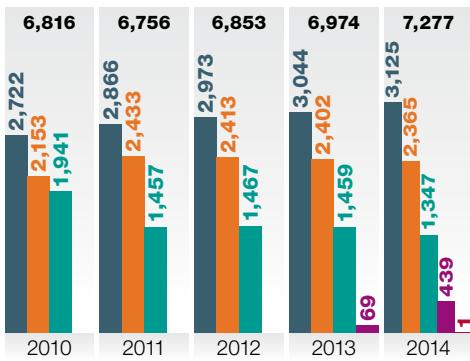


**Jonathan Swift**  
**Chairman of Trustees – 4 July 2014**

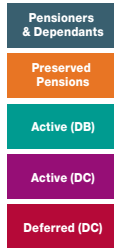


# 5 Year Summary

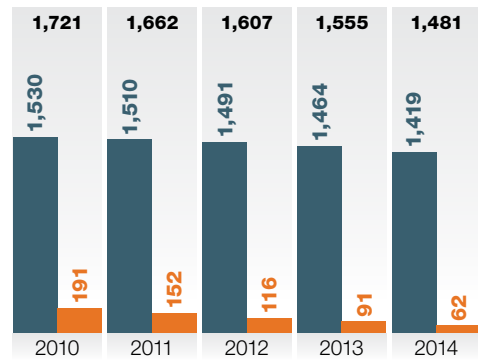
Open Fund - Membership



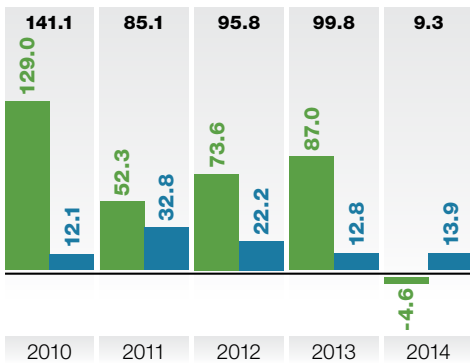
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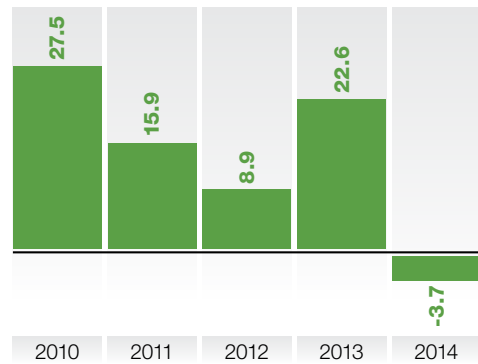
Closed Fund - Membership



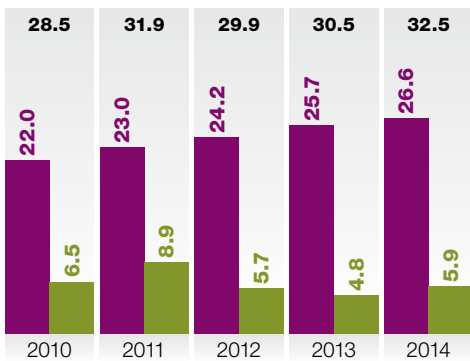
Open Fund (DB Section) - Income (£m)



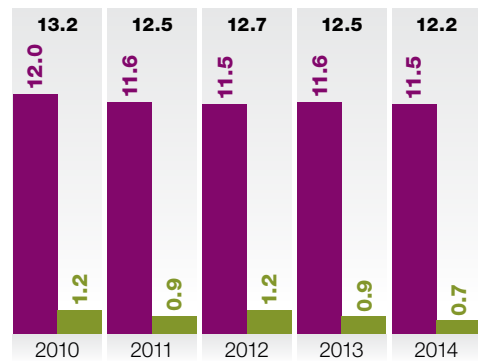
Closed Fund - Income (£m)



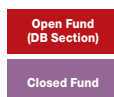
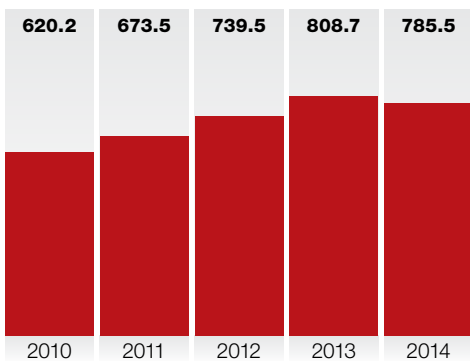
Open Fund (DB Section) - Expenditure (£m)



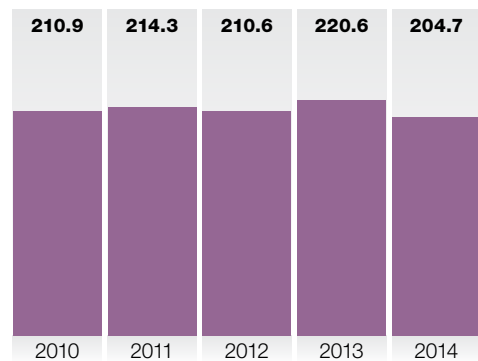
Closed Fund - Expenditure (£m)



Open Fund (DB Section) - Fund Value (£m)













Closed Fund - Fund Value (£m)



# Board of Trustees

## Employers' Trustees

 <p><b>David Birtwistle</b></p> <p>Nominated by: Science, Engineering and Manufacturing Technologies Alliance (Remuneration Committee Member for SEMTA)</p> 	 <p><b>Terry Lazenby, MBE</b></p> <p>Nominated by: Engineering Construction ITB (Retired Chairman of ECITB)</p> 	 <p><b>Newell McGuinness</b></p> <p>Nominated by: Scottish Electrical Charitable Training Trust (SECTT), CAPITB Limited (Managing Director of SELECT)</p> 	 <p><b>Gordon McNeil</b></p> <p>Nominated by: OPITO Limited (Technical Programs Director for OPITO Limited)</p> 	 <p><b>Theo de Pencier</b></p> <p>Nominated by: Skills for Logistics (Chief Executive of Freight Transport Association)</p> 
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## Members' Trustees

 <p><b>Roisin Boyer</b></p> <p>Nominated by: People 1st (Head of HR for People 1st)</p> 	 <p><b>Reg D'Souza</b></p> <p>Nominated by the Trade Union 'Unite' for: Science, Engineering and Manufacturing Technologies Alliance (Research Manager for SEMTA)</p> 	 <p><b>Chris Hall</b></p> <p>Nominated by: Skills for Logistics (Finance &amp; Administration Director for Skills for Logistics)</p> 	 <p><b>Madge Moore</b></p> <p>Nominated by: Lantra (National Director - England for Lantra)</p> 	 <p><b>Susan Smart</b></p> <p>Nominated by: Engineering Construction ITB (Regional Account Manager - Offshore)</p> 
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**Tony Pringle**

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



**Peter Rogerson,  
OBE  
(Deputy Chairman-  
Employers)**

Nominated by:  
Construction ITB  
(Retired Deputy Chairman of  
Construction ITB)



**Jonathan Swift  
(Chairman)**

Nominated by:  
Lantra  
(Deputy Chairman of Lantra)



**Simon Tarr**

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



Pensioners' Trustees



**Rob Sweeney**

Nominated by  
the Trade Union  
'Unite' for:  
Construction ITB  
(Product Developer for  
Construction ITB)



Note: No Joint Members' Trustee in place for CAPITB Limited, Cogent SSC Limited, OPITO Limited and Scottish Electrical Charitable Training Trust (SECTT) as at 31 March 2014.

**Maurice Alston**

Nominated by:  
Closed Fund Pensioners  
Previously Chemical  
and Allied Products ITB  
(Retired – formerly Senior  
Training Adviser Chemical and  
Allied Products ITB)



**David Barnett  
(Deputy Chairman-  
Members)**

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



## Appointment of Trustees

The ITB Pension Funds are controlled by 18 Trustees consisting of nine Employers', seven Members' and two Pensioners' Trustees. Details of the Trustees in office at the year-end are shown on pages 10-11 of this Report.

Of the nine Trustees nominated by Employers, the two Statutory Training Bodies each nominate one Trustee. Of the remaining Employers, the six with the largest average number of contributing members at 31 December have a right to nominate an Employer Trustee for the three years commencing on the following 1 April (or such shorter period as the Trustee Board may determine), irrespective of annual changes in active membership numbers in the period following appointment. Where an Employer has one or more wholly-owned subsidiaries, those subsidiaries have no right to nominate Trustees, but the members in their employ are added to the Principal Employer's members for qualification purposes. Any successor bodies to a previous Training Board may join together for the purpose of Trustee nomination and, if necessary, tally their combined membership for the purpose of qualification.

The remaining Employers not large enough to appoint a Trustee on their own will co-operate in nominating a Joint Employers' Trustee. However, where the remaining Employers cannot reach agreement over a particular nomination then a nomination by majority vote of those Employers will stand. In the event that there was an equal vote then the largest Employer of the smaller Employer group will have a casting vote. Moreover, if a larger Employer's participation is terminated then it would be replaced immediately by the largest of the smaller Employers for the purposes of sole Trustee nomination.

Contributing members employed by each of the six Employers with the largest number of members are entitled to nominate one Trustee each by ballot. The exception to this is where an Employer recognises a Trade Union for the purpose of negotiating terms and conditions of service. The Trade Union concerned then nominates the Trustee.

The members of all remaining Employers elect one further Joint Members' Trustee by ballot.

All Trustees appointed are normally expected to serve a minimum of three years on the Trustee Board, subject to there being no change in any Employer's status from

Large to Small Employer for the purpose of nominating a Trustee at the next 31 December head-count. If so, the period of Trustee appointment will come to an end as at the following 31 March.

The next member head count date is 31 December 2015.

Pensioners and members with preserved pensions who are in the Open Fund also nominate a trustee by ballot, as do such members in the Closed Fund.

A trustee may resign at any time and will automatically vacate office if he or she ceases to fulfil the eligibility qualifications. In addition, a trustee will immediately vacate office upon becoming bankrupt or of unsound mind. The Trustees have the power by resolution to terminate a Trustee's appointment if, in their opinion, the individual concerned has been guilty of misconduct, or is otherwise unfit or unable to carry out his or her duties.

## Changes to the Trustees

### Members' Trustees

Chris Hall resigned his position as Joint Members' Trustee as a result of his Employer, Skills for Logistics, becoming a Large Employer for the purpose of nominating a Members' Trustee on 1 April 2013. He was subsequently appointed as Member Trustee for Skills for Logistics after being nominated by the active membership of Skills for Logistics.

### Joint Members' Trustees

The position of Joint Member Trustee remains vacant as no nominations were received from the active members of the Employers eligible to participate in the nomination process. The Employers in this connection are CAPITB Ltd, Cogent SSC Ltd, OPITO Ltd and SECTT.

As Large Employers (which was determined by the active member headcount as at 31 December 2012) the active membership of Cogent SSC Ltd and OPITO Ltd would normally have each nominated a Member Trustee. However, there were no nominations received and therefore no appointments could be made in this respect. The Trustees therefore agreed a rule change so that where a Large Employer is unable to secure a member nomination for the office of Members' Trustee, the Employer concerned will come under the auspices of Joint Members' Trustee (or Joint Employers' Trustee in the case of the lack of an Employer nomination)

Consequently, the active membership of Cogent SSC Ltd and OPITO Ltd were able to participate with CAPITB Ltd and SECTT and nominate a Member Trustee jointly. However, no nomination for the Joint Member Trustee has to date been forthcoming.

#### **Pensioner Trustees**

Hugh Edwards retired from his position as Closed Fund Pensioner Trustee at the end of his period of office on 31 March 2014. Following a nomination process of Closed Fund Members he was succeeded by Maurice Alston.

The period of office of the Open Fund Pensioner Trustee, David Barnett, is due to end on 30 September 2014. Mr Barnett has indicated his wish to stand for re-election.

#### **Employers' Trustees**

David Birtwistle, the Employer Trustee for SEMTA retired by rotation on 8 April 2013 and was reappointed to serve a further term from 9 April 2013.

Theo de Pencier was appointed as Employer Trustee for Skills for Logistics on 4 October 2013, succeeding Bob Monks who had resigned as a Trustee on 30 November 2012.

Peter Rogerson OBE, the Employer Trustee for Construction ITB retired by rotation on 31 March 2014 and was reappointed to serve a further term from 1 April 2014.

Jonathan Swift, the Employer Trustee for Lantra retired by rotation on 31 March 2014 and was reappointed to serve a further term from 1 April 2014.

#### **Joint Employers' Trustee**

Newell McGuinness, the Joint Employer Trustee for SECTT and CAPITB Ltd retired by rotation on 31 March 2014 and was reappointed to serve a further term from 1 April 2014.

#### **Chairman**

The period of office of the Chairman, Jonathan Swift, is due to end on 31 March 2015.

#### **Deputy Chairmen**

The period of office of Peter Rogerson OBE as Deputy Chairman (Employers) is due to end on 31 March 2015.

The period of office of David Barnett as Deputy Chairman (Members) is due to end on 29 February 2016.

#### **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, Senior Managers and staff 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.

To identify and manage any potential problems related to Trustees conflict of interests, the Funds' Office also maintains a Trustees' 'Register of Interests'. The content of this Register has been updated during the past year and takes 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 Funds.

The Trustees are committed to maintaining high standards of governance and 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. 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, is therefore in place and adhered to.

#### **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, actuarial and financial 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, financial and administration are discussed and decisions made.

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

There was overall 85% attendance at the Trustees' Board meetings during the review year.

## 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. Where members of the various committees are unable to attend any meeting then agenda matters are addressed with them either in writing or by telephone, both prior to and after the meeting. Where possible any committee member who is not able to attend a meeting in person will take part in the meeting by way of a conference telephone call.

### Investment Committee

The Investment Committee's remit covers the financial and investment aspects of the Funds. They are assisted as appropriate in these roles by the Trustees' investment and other professional advisers.

The Investment Committee has at least five scheduled meetings during the year plus a number of other supplementary meetings as necessary.

During the Scheme year to 31 March 2014 the Investment Committee included four Trustees.

The formal members of the Committee were:

Mr JF Swift Chairman

Mr PG Rogerson OBE Deputy Chairman (Employers)

Mr DC Barnett Deputy Chairman (Members)

Mr SCV Tarr Employers' Trustee

In addition to the formal members of the Investment Committee an invited trustee also attends meetings to both contribute and improve their knowledge and understanding.

There was overall 88% attendance at the Investment Committee meetings.

### Management Panel

The Management Panel is a committee established by the Trustees to carry out research and investigation into pension matters not dealt with by the Investment Committee, making appropriate recommendations to the Trustee Board where necessary. They are assisted as required in these roles by the Trustees' professional advisers. The Management Panel meets as and when necessary.

During the year to 31 March 2014 the Management Panel comprised three Trustees. The members were:

Mr JF Swift Chairman

Mr PG Rogerson OBE Deputy Chairman (Employers)

Mr DC Barnett Deputy Chairman (Members)

In addition to the formal members of the Management Panel an invited trustee frequently attends meetings to both contribute and improve their knowledge and understanding.

There was overall 100% attendance at the Management Panel meetings.

### Salaries Committee

The Salaries Committee was established by the Trustees to deal with Human Resource issues affecting staff employed by the ITB Pension Funds on behalf of the Trustees. The Salaries Committee meets as and when required.

During the year to 31 March 2014 the members of the Committee were:

Mr JF Swift Chairman

Mr PG Rogerson OBE Deputy Chairman (Employers)

There was overall 100% attendance at the Salaries Committee meetings.

# Officers and Advisers

## Officers

### Director

### Funds' Accountant

### Communications & Benefits Manager

### Pensions Administration Manager

## Advisers

### Actuary

### Solicitors

### Investment Managers

### Property Investment Managers

### Investment Performance Monitors

### Investment Advisers

### Custodians

### Auditor

Vincent Gordon FPMI

Dave Faulkner FCA

Dennis Matthews APMI (retired July 2013)

Chris Bettles DipPMI

Trevor Llanwarne FIA, Government Actuary's  
Department

Mayer Brown International LLP

Barings Asset Management

BlackRock Advisors (UK) Limited

Capital International

Insight Investment

Investec Asset Management

Liongate Capital Management (terminated May 2013)

Longview Partners LLP

Pension Insurance Corporation (PIC)

Ruffer LLP

Schroder Investment Management (UK) Limited

Legal & General Assurance Society limited  
(DC Section)

Fletcher King

Lane Clark & Peacock LLP

Lane Clark & Peacock LLP

BlackRock Advisors (UK) Limited

JP Morgan Chase Bank

Universal Pension Trustees Limited

ITB Pension Trustees (1) Limited

ITB Pension Trustees (2) Limited

Chantrey Vellacott DFK LLP

Vincent Gordon  
FPMI



Dave Faulkner  
FCA



Dennis Matthews  
APMI



Chris Bettles  
DipPMI



# Participating Employers

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

Science, Engineering and Manufacturing Technologies Alliance advised during the year that it had changed the name of its subsidiary, EMTA Awards Limited, to Excellence, Achievement and Learning Limited.

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:

CAPITB Limited

Cogent SSC Limited

**Participating Subsidiaries:**

Technical Apprenticeship Service Limited

Cogent (Telford) Limited

Construction ITB

Engineering Construction ITB

Lantra

OPITO Limited

People 1st

**Participating Subsidiaries:**

Hospitality Guild

National Skills Academy for Retail

Skillsmart Retail UK Ltd

Science, Engineering and  
Manufacturing Technologies  
Alliance

**Participating Subsidiaries:**

Excellence, Achievement and Learning 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



## **Outlined in this section are the most significant developments and activities of the ITB Pension Funds during the course of the Scheme Year.**

### **Open Fund Actuarial Valuation 2013 – Defined Benefit Sections (DB)**

The actuarial valuation of the Fund as at 31 March 2013 revealed the Fund to continue to be in deficit. The main factor contributing to this deficit was the continuing low yield on gilts which are used to discount the Fund's future assumed liabilities. The deficit is despite better than anticipated investment returns on the Scheme's investments and the deficit contributions paid by Employers since the previous triennial valuation in 2010.

The work required to enable the valuation to commence required the Funds' Office to adhere to a tight timetable to provide the Scheme Actuary with the data necessary to carry out the 2013 valuation. This involved reconciling membership, salary and contribution data for Scheme DB members collected from each of the Scheme's Participating Employers during the Scheme year. Other critical components of the valuation process are investment and financial data for the Scheme relative to the period of the valuation and the updated reviews of the Participating Employers' covenants performed by specialist advisers appointed by the Trustees for this purpose.

The Trustees' objective was to agree a set of suitable assumptions to enable the Actuary to produce a draft Statement of Funding Principles. This sets out the policy of the Trustees for securing the Statutory Funding Objective; essentially that the Scheme has sufficient and appropriate assets to cover its DB benefits as they fall due.

The methodology and assumptions contained in the draft Statement of Funding Principles is considered very carefully by the Trustee Board, with the Trustees being alert to their responsibility to choose the valuation assumptions without unreasonably affecting the long term viability and growth prospects of Employers.

It is necessary for Employers to agree the actuarial methods and assumptions for the valuation proposed by the Trustees in the Statement of Funding Principles and after a comprehensive communication exercise the agreement of all the Employers was secured. Moreover, following detailed discussions with all Employers on a Schedule of Contributions and Deficit Recovery Plan to eliminate the deficit as quickly as possible, various deficit recovery periods have been agreed.

### **Employer Covenant**

Objective assessment of the Employer covenant is a regular feature of reporting to the Trustee Board. Essentially, this ongoing monitoring and review process which is carried out by independent specialists appointed by the Trustees assesses the financial strength and other relevant developments affecting the Employers ability to continue to pay the ongoing standard contributions and any required deficit contributions.

This strand of information was used by the Trustees' in arriving at informed decisions on the actuarial assumptions used by the Scheme Actuary for the 2013 actuarial valuation. It was also important in determining Recovery Plans that Employers could reasonably afford without jeopardising their long term viability. Where the covenant review identifies any issues with an Employer covenant, the Trustees will initiate a discussion with the Employer and consider the options available to protect the Scheme. Moreover, the strength of covenant cover is also considered by the Trustees when setting the investment strategy.

### **Staff Training and Continuous Improvement**

The Funds' Office is committed to the continuous pursuit of improvement and the maintenance of lean and efficient day to day operations, as well as longer term planning.

Emphasis is placed on a program of learning and development where a blend of education, reflection, feedback and direct experience is used, as well as formal and on-the-job training. The staff use specialist software programmes to produce pension entitlements which entail complex benefit calculations. Pension administration staff are also taught to complete calculations manually as this enables them to have a full understanding of the results of automated calculations and payrolls.

A culture of open and honest communication is encouraged at all levels of the organisation and the Funds' Office has also achieved and maintained Investors in People accreditation.

### **Investment**

Pension fund investment is long term to meet the long term liabilities of the Funds. The Trustees' objectives for the Open Fund and the reserve assets of the Closed Fund include: the acquisition of suitable assets of appropriate liquidity which will generate income

# Review of Principal Activities

and capital growth to meet, together with ongoing contributions from members and Employers, the cost of current and future benefits and to limit the risk of the assets failing to meet the liabilities over the long term. Bearing this principle in mind the Funds maintain a diversification strategy for both the Open and Closed Funds.

On an ongoing basis Investment Managers' performance is monitored against appropriate pre-determined benchmarks and targets, with several formal reviews held throughout the year by the Investment Committee. The Investment Committee monitors the Investment Manager's investment process carefully to ensure that there is no drift away from what the Trustees employed them to do. Should a manager be found to be underperforming, they will be interviewed to ascertain the reasons and to determine whether it is felt that the situation is likely to persist and whether the Trustees need to take remedial action.

A formal review of the Scheme's investment strategy is undertaken following an actuarial valuation. This work is to be finalised for Open Fund DB Sections after the completion of the 2013 valuation with a view to further de-risking the Fund given its maturing nature.

The Statement of Investment Principles (SIPs) sets out the Trustees' investment policy and includes the type of investments to be held within both the Open and Closed Funds and the balance between different types of investments. The SIPs are regularly reviewed. The full version of SIPs can be viewed by accessing the ITB website on [www.itb-online.co.uk](http://www.itb-online.co.uk) or obtained by requesting a copy from the Funds' Office.

## PRU AVC Transfer to L&G

The transfer of members' AVCs with the Prudential to Legal & General, which was earmarked at the end of the last Scheme year, eventually took place on 30 April 2013. The transfer which was concluded after taking appropriate professional advice, included the transfer of investments in the Prudential AVC Deposit Fund after a similarly suitable investment vehicle was identified within the L&G funds. Therefore only the AVC With-Profits Fund remains invested with the Prudential.

## Review of Professional Advisers

The Trustees have in place a policy for formal review of their non-investment professional advisers. During the year the Trustees reviewed the existing process,

which covers a number of issues including: adviser performance, workload and ongoing working relationship with advisers.

The conclusion of the review was that the Funds' current approach to monitoring advisers remained appropriate as it represented a workable policy for regular ongoing performance monitoring of the key advisers. Furthermore, that this process had developed to reflect the needs and priorities of the Funds. If the current policy of ongoing monitoring highlighted concerns with an adviser's costs or performance/quality of advice, it would provide the catalyst to conduct a full market review with the potential objective of replacing an adviser on the grounds that the uncertainty and costs of change were considered worthwhile given the dissatisfaction with the current adviser.

The Trustees' expect their advisers to provide useful specific advice in a timely manner, based on an in-depth knowledge of the complex structure of the Funds and its historical developments.

## Web

[www.itb-online.co.uk](http://www.itb-online.co.uk) is the Funds' internet platform. It allows active, deferred and pensioner members access to information on their benefits, documents and forms, which are specific to their category of membership. It is able to do this by member identification on entering the website.

Pension modelling facilities are also included, allowing defined benefit (DB) members under the Old, New and 2007 Sections of the Scheme to calculate their projected retirement benefits and to integrate these calculations with a projection of benefits including Additional Voluntary Contributions (AVCs), where paid.

The ITB has bespoke access for Employers for links to relevant benefit information, forms and procedures for pensions administration at Employer level.

Defined contribution (DC) members are also able to gain access to the website of the current DC investment manager, Legal & General (L&G), through a link on the ITB website. Member data recorded on the L&G website enables DC members to monitor the value of their investment and also to complete projections of their benefits given certain contribution and investment scenarios.

## Law, Regulation and Codes of Practice

### HMRC reporting requirements

Effective from 12 August 2013 the Funds' Office is required to report to HMRC those members who may claim Fixed Protection 2014, members who have been advised they will exceed their Annual Allowance and for members who are non-UK resident the date they request a transfer to a qualifying overseas pension arrangement on or after 12 August 2013.

### Duty to monitor pension contributions

The Pensions Regulator has clarified the draft code of practice relating to what checks must be made when monitoring contributions from members and their employers. The Regulator's stance is that trustees legal obligation is not just monitoring the fact that contributions were paid and when, but they should also identify underpayments and overpayments.

The Funds' Office practice exceeds the Regulator's latest announcement on the matter as regular detailed examinations of pay data are undertaken and where an over or underpayment is identified it is followed up to correct the situation.

### DC Disclosure Requirements

Changes to the disclosure of information requirements come into effect on 6 April 2014 which relate to DC members and members with money-purchase AVCs invested through the Trustees' arrangements with Legal & General, Prudential and Scottish Life. The key amendments include the flexibility for Trustees to delay the issue of members' first statutory money purchase illustration (essentially members' benefit statements) to allow for automatic enrolment opt-outs; flexibility in whether or not to offer members a choice of assumptions in their benefit statements; more flexibility in the way Trustees provide information to members and certain notifications to members if they have investment in the life-styling section of DC.

### DC Governance

The Pensions Regulator has issued guidance about establishing a DC governance framework. It lists 31 quality features which pension scheme trustees should consider in operating a DC scheme. Effectively, it is about having in place a solid system of DC governance; principally relating to, quality of DC administration, communication and investment.

The ITB Trustees already operate a continuous system of careful and regular monitoring of these important aspects and would take prompt action to rectify any fall in the high standards they require. The Trustees' Investment Committee also maintains a focus on developments relating to the DC invested funds. There is a default investment option for those members who do not choose any of the other available funds. Through the investment monitoring process the Investment Committee, in conjunction with their advisers, decides when and to what extent DC funds may need changing from time to time.

### Summary of Budget changes

On 19 March 2014 the Chancellor of the Exchequer, George Osborne, presented his 2014 Budget. The Chancellor announced various changes to the taxation of defined contribution (DC) pension savings. He also confirmed a number of measures announced in the 2013 Budget and the 2013 Autumn Statement.

With effect from 6 April 2014, the annual allowance will reduce from £50,000 to £40,000 and the lifetime allowance from £1.5 million to £1.25 million and there are new forms of transitional protection that also now apply.

### Interim Changes

The Chancellor announced a number of interim changes that will be implemented under the current regime, from 27 March 2014:

- The capped drawdown limit will increase from 120% to 150% of an equivalent annuity and the minimum income requirement for accessing flexible drawdown will be decreased from £20,000 to £12,000.
- The trivial commutation limit on total pension savings will increase from £18,000 to £30,000
- The small pension pots allowance (that provides for benefits to be taken as a lump sum regardless of total pension wealth) will increase from £2,000 to £10,000 and the number of small pension pots that can be taken as lump sums will increase from two to three.

### From April 2015

There are fundamental changes to the taxation of DC pension schemes which will apply from April 2015, including the following:

- Once the minimum pension age is reached, individuals will have complete freedom on how

# Review of Principal Activities

and when to draw their benefits. This will give them flexibility to withdraw the entire amount, purchase an annuity or opt for a drawdown, or any combination of the above. A tax free lump sum will continue to be available; any remainder taken (whether in a lump sum, by annuity or drawdown) will be taxed at the individual's marginal rate.

- Where an individual buys a drawdown product there will no longer be any maximum or minimum amounts that must be drawn, nor any minimum income requirement.
- The minimum pension age will initially be age 55. It is proposed that this will then increase to age 57 by 2028 and then rise in line with increases to State Pension Age (SPA) so it is always 10 years before SPA. It is proposed that this change will apply to all registered pension schemes, including defined benefit (DB) schemes.
- Pension providers and trustees will have a new obligation to deliver a 'guidance guarantee' at retirement. The Financial Conduct Authority will co-ordinate the development of a set of standards that the guidance will need to follow.

The Trustees are working with their advisers on how the changes and proposed changes might apply to the ITB Pension Funds.

## Same Sex Marriages

Under the Marriage (Same Sex Couples) Act 2013 which came into force on 13 March 2014 same sex spouses are treated in the same way as civil partners for pension purposes. On that basis the minimum a same sex spouse must receive is the same pension as an opposite sex spouse for the member's pension built-up from 5 December 2005 (plus that required under the contracting-out regulations as applicable to service prior to 5 December 2005).

The Trustees currently have the matter under consideration and are required to ensure that the Funds comply with the relevant legislation which they will do once Government publish their review into survivors' pension benefits expected later this year.

## The Pensions Regulator's Focus on Effective Risk Management of DB Schemes

Essentially the focus is on minimising any adverse impact on the sustainable growth of participating employers in a pension scheme; for example when trustees set the

assumptions and deficit plan requirements following on from an actuarial valuation, to make sure that these are affordable by employers.

The ITB Trustees already integrate this into the valuation process through regular Employer covenant monitoring.

## Auto-enrolment

The Funds' Office has already provided extensive assistance to a number of Employers who have elected to use the ITB Funds for auto-enrolment. The Funds' Office will remain ready to assist other Employers who decide to use the ITB Funds as their vehicle of choice to auto-enrol their members.

## Data Quality

Maintaining accurate and up to date records is a key priority for the Funds' Office. The quality has been established both by a number of data verification exercises carried out over the years, which has been subsequently supported by a continuous process of member data analysis. This relates to such events as members joining the Scheme and updating records on a member's retirement, death or leaving service. It is anticipated therefore that the member record data held by the Funds' Office will meet The Pensions Regulator's requirements for the accuracy of what it terms 'conditional data'.

## Internal Control

The Trustees', wherever practical, give a high priority to mitigating risks to the Funds that they and their advisers are able to identify. The Trustees focus on risk management is also actively pursued by the Funds' Office, who are encouraged to be risk aware and to develop and implement risk control initiatives, to ensure that all staff act in accordance with their objectives and internal procedures and comply with the Trust Deed and Rules and relevant laws and regulations.

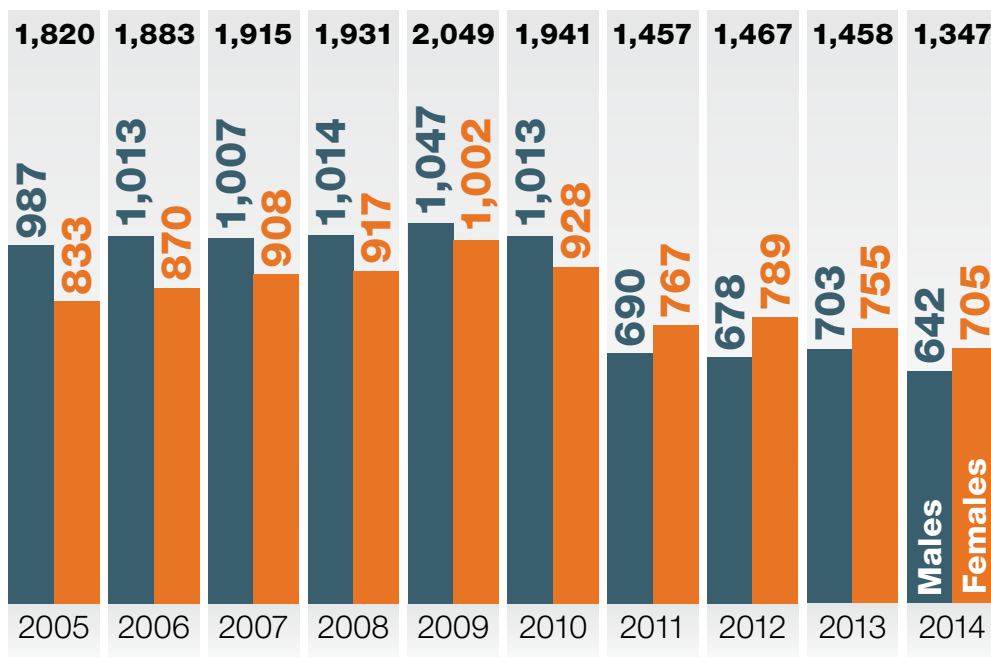
A regular programme of internal control reviews are carried out by the Funds' Office as part of the risk control policy. The internal control reviews include assessment of compliance with operating policies and procedures and are evaluated by the Funds' Auditors whose findings are addressed by the Funds' Office and reported to the Trustees. The Funds' Office risk management framework is continually being refreshed to better support Trustees' objectives and to recognise regulatory and legislative change.

The ITB Pension Funds consists of two separate Funds, the Open Fund and the Closed Fund

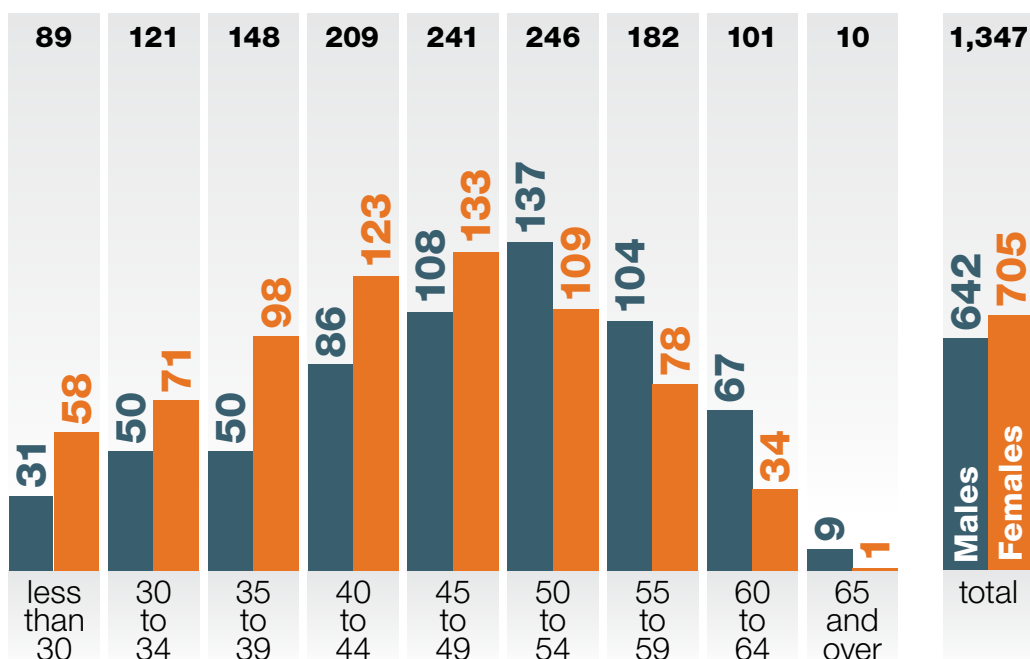
## Active Members – Defined Benefit (DB) Sections

As at 31 March 2014 all active members are either in the 'Old', 'New' or 2007 Sections of the Open Fund, with the majority of active members now in the 2007 Section. The numbers of active DB members has decreased this year as more Employers take up the Defined Contribution (DC) Section for new members, effectively reducing the number of new members into the DB Sections and increasing the number of DC members. It is anticipated that this trend will continue into the future.

Chart 1 - Active Members – Defined Benefit (DB) Sections



The age structure of the contributing members at 31 March 2014 was as follows:

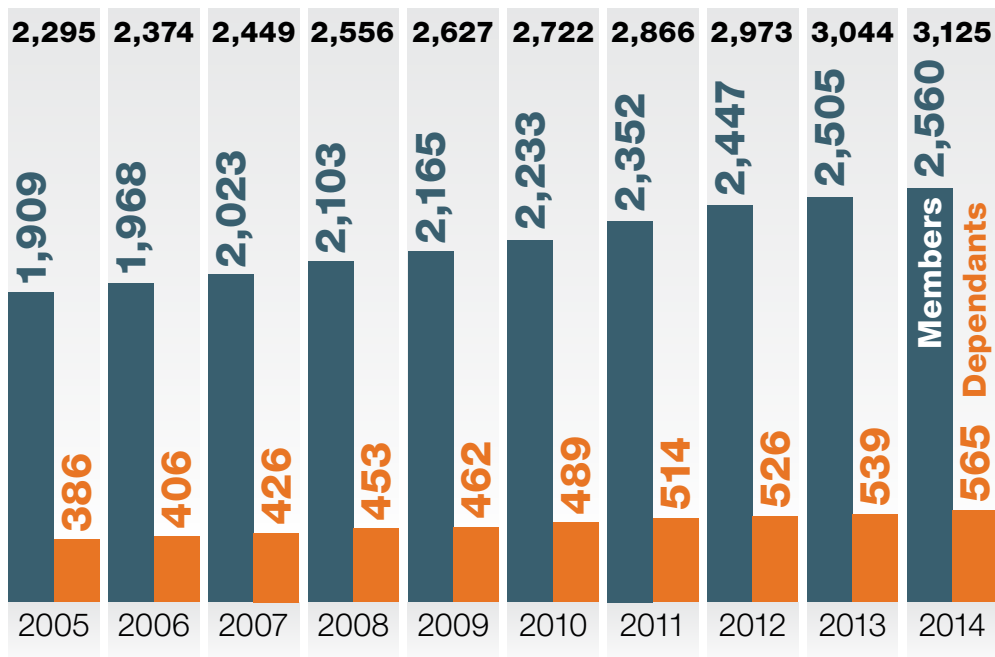


# Membership

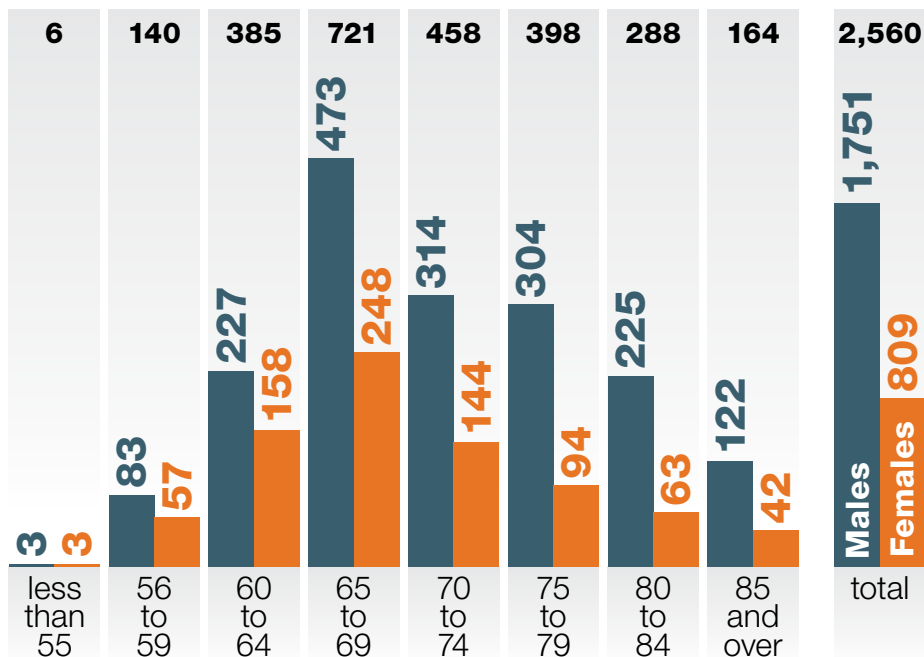
## Pensioners – Open Fund (DB Sections)

Continuing the trend from previous years the Open Fund has seen a further steady increase in the number of pensioners commonly associated with a mature fund. Pensioners are either members or dependants and the number in each category is shown below.

Chart 2 - Pensioners – Open Fund (DB Sections)



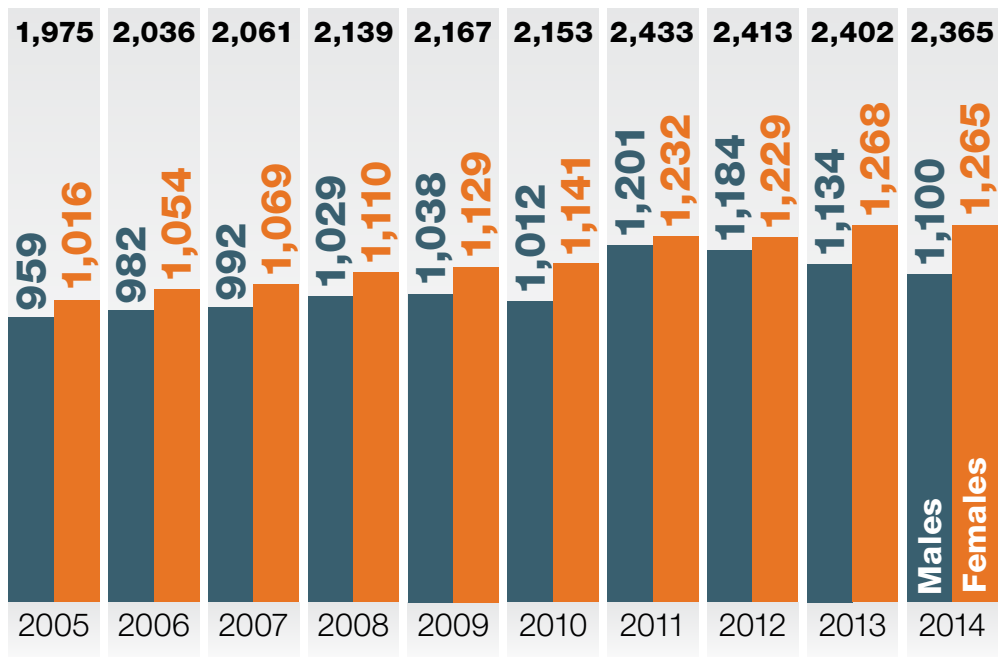
The age structure of pensioners in the Open Fund as at 31 March 2014 is shown below. The benefits paid to the pensioners cover early, normal, late retirement, compulsory and disability retirement.



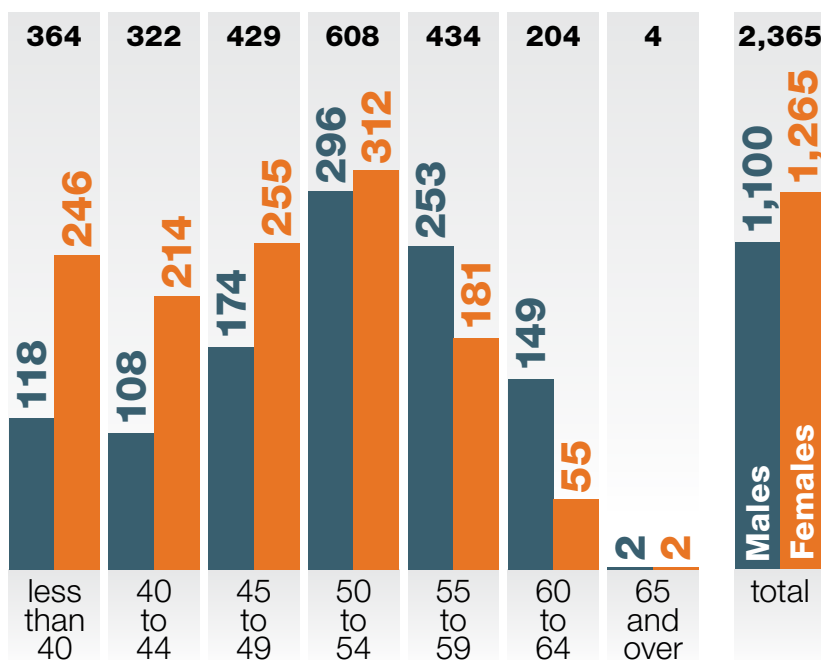
## Deferred – Open Fund (DB Sections)

The number of preserved pensioners in the Open Fund as at 31 March 2014 is shown below. Preserved pensioners (also sometimes referred to as deferred pensioners) are members who have left service, but still hold a benefit within the Open Fund which will become payable on their retirement date or death. The Open Fund has seen a small reduction in its number of preserved pensioners over the past year.

Chart 3 - Deferred – Open Fund (DB Sections)



The age structure of the deferred members at 31 March 2014 was as follows:



# Membership

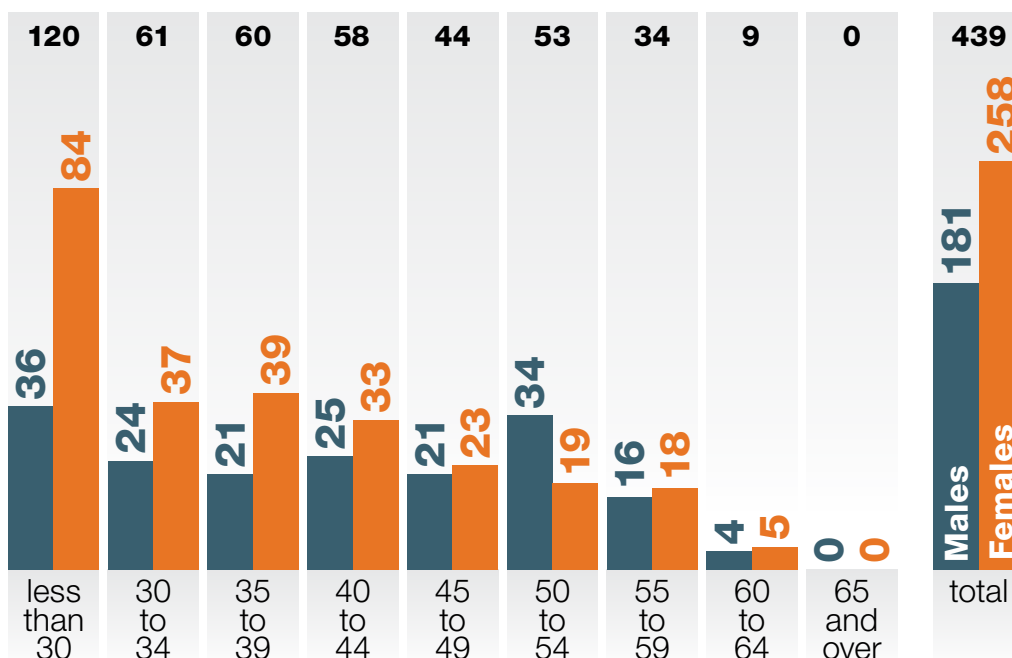
## Active Members – Defined Contribution (DC) Section

The large majority of the Participating Employers have now introduced the DC Section to their new eligible employees and DC membership has gained momentum during the year. Membership numbers as at 31 March 2014 are recorded in the following chart.

Chart 4 - Active Members – Defined Contribution (DC) Section



The age structure of the active members at 31 March 2014 was as follows:





## Deferred Members – DC Section

The numbers of DC Section members with preserved benefits will increase as active DC members leave service. Preserved benefits (sometimes referred to as deferred benefits) are the benefits of members who have left service and their benefits are secured with the Trustees' chosen provider (currently Legal & General). Unless preserved members elect to transfer their benefits to another provider their preserved benefit will become payable on their retirement date or death. The numbers of DC preserved pensioners as at 31 March 2014 is shown below.

Chart 5 - Deferred Members – DC Section

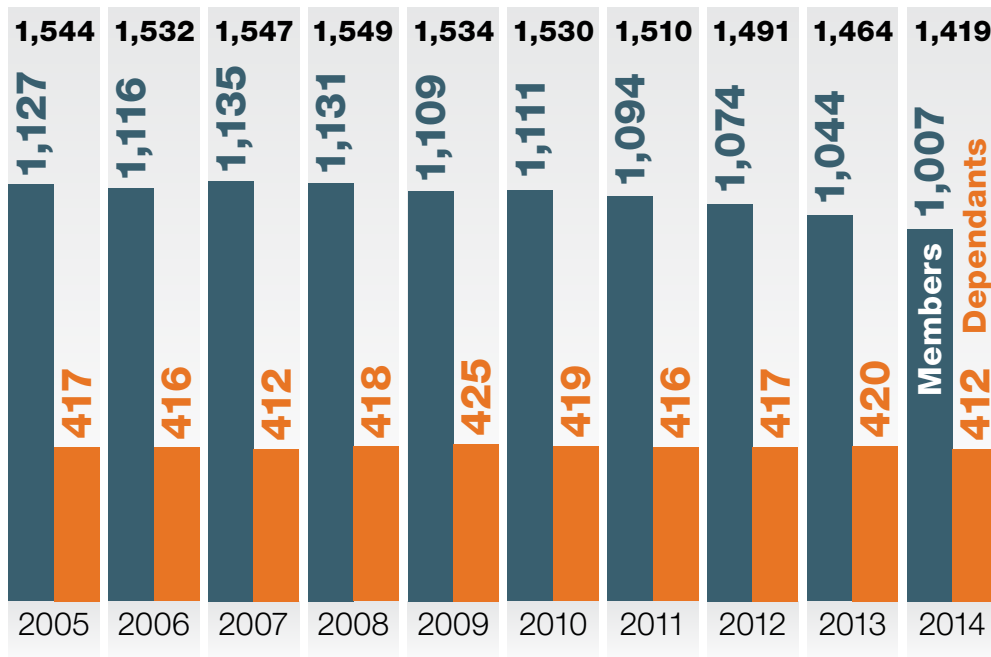


# Membership

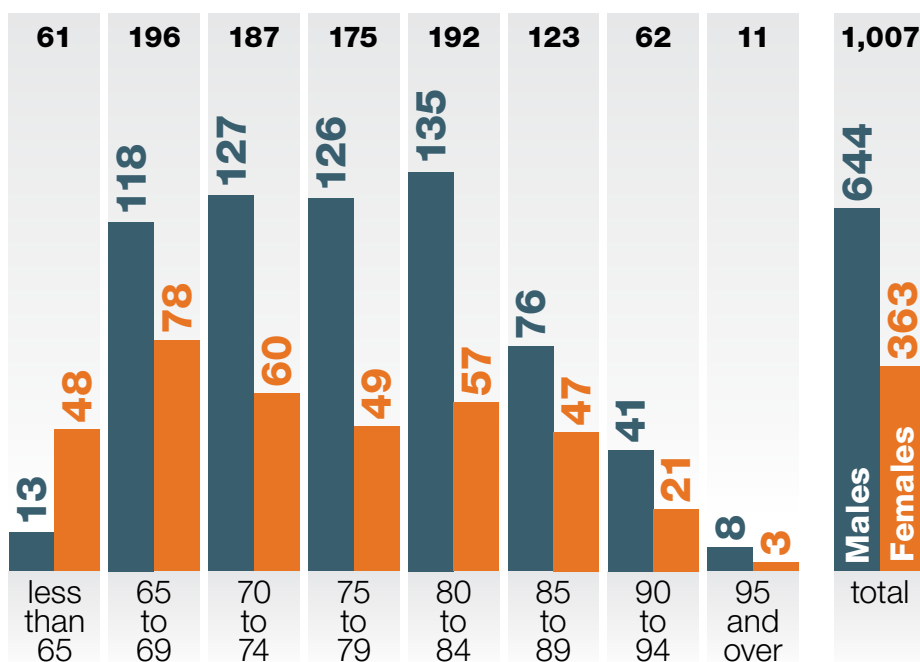
## Pensioners - Closed Fund - DB Section

The Closed Fund was established in April 1983 after the Government had dissolved 16 Training Boards. Membership of the Closed Fund is fixed by a Memorandum of Agreement. There are no active members in the Closed Fund, it consists only of pensioners, dependants and preserved pensions. The Closed Fund membership has naturally decreased during the year.

Chart 6 - Pensioners Closed Fund - DB Section



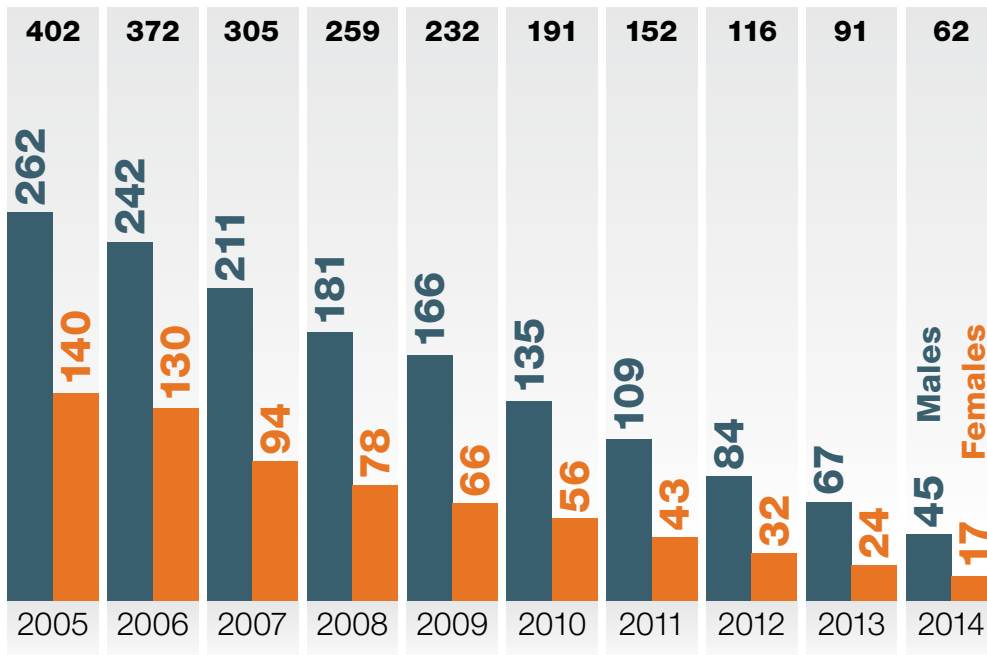
The age structure of pensioners in the Closed Fund as at 31 March 2014 is shown below:



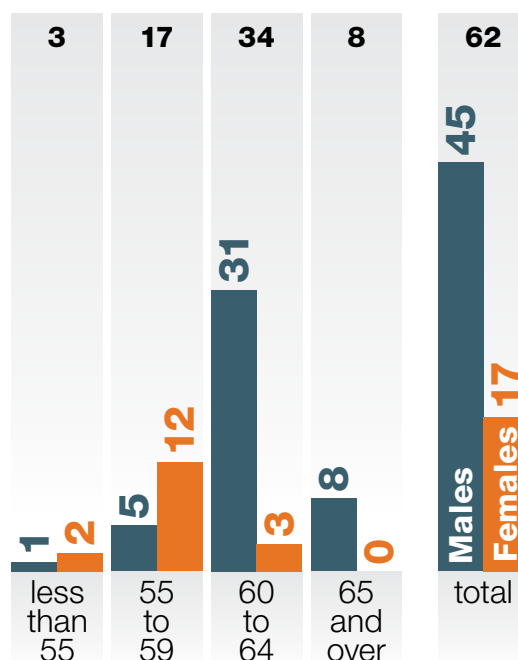
## Deferred Members - Closed Fund - DB Section

The number of preserved pensioners in the Closed Fund as at 31 March 2014 is shown below. Preserved pensioners (also sometimes referred to as deferred pensioners) are members who have left service, but still hold a benefit within the Closed Fund which will become payable on their retirement or death. The number of preserved pensioners in the Closed Fund will continue to decline as their pensions come into payment.

Chart 7 - Deferred Members - Closed Fund DB Section



The age structure of preserved pensioners in the Closed Fund as at 31 March 2014 is as follows:



# 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).

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 level of increase is currently determined by reference to the annual rise in the CPI at the end of September each year, with any increase being applied from the first Monday following the beginning of the new tax year.

This year the increase is 2.7% and is payable from 7 April 2014.

## 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, for the year to September 2013 was 3.2%), 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.

## 10 year pension increase history

Date of Increase	Increase %
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
9 April 2012	5.2
8 April 2013	2.2
7 April 2014	2.7

## Pensions in Payment – Increase Methods (All ITB Schemes):

	Closed Fund & Open Fund (Old Section)	Open Fund (New Section) & Open Fund (2007 Section)	The State
<b>Before State Pension Age the Scheme increases total pension by:</b>	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
<b>After State Pension Age the Scheme increases Excess over **GMP by:</b>	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
<b>The **GMP is increased as follows:</b>	Nil	Nil	In line with annual up-rating orders issued by the Government
<b>6 April 1978 to 5 April 1988 by:</b>			
<b>6 April 1988 to 5 April 1997 by:</b>	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)
<b>Pensions accrued before 6 April 2009:</b>	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
<b>Pensions accrued on or after 6 April 2009:</b>	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

### 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). DC members participate in S2P as they and their Participating Employers pay full rate National Insurance contributions.

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 known as 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.

The Government has set out changes to the State Pension with the introduction of a flat-rate pension to take effect from 6 April 2016, when contracting-out is also to be abolished. The new pension will apply to people who reach State Pension Age after the changes are introduced, so will not affect people who are already pensioners.

# Transfer of Benefits

The policy of the Trustees in relation to transfer payments when a member of the Funds leaves Pensionable Service has always been that such a payment should be available, provided that after the transfer has been concluded the Funds should retain no further liability.

Members have a statutory right to request a statement of transfer value once every 12 months. The Pension Schemes Act 1993 gives members who have left the Funds a statutory right to a transfer value in respect of their accrued benefits, which must be calculated according to the regulations made under the Act.

Such transfer values can be paid to the occupational pension plan of the member's new employer, to a personal pension scheme, or into an insurance company pension policy.

Members who leave service and are granted a preserved pension may therefore elect to have their benefits transferred to another pension plan, or to an insurance pension policy, at any time thereafter, subject to the transfer being completed no less than one year before Normal Retirement Date.

Leavers from the DC Section will have their benefits secured in a pension policy with the DC scheme's provider (currently Legal & General) approximately one year after leaving service, unless benefits have been refunded or transferred in the interim.

All transfer values paid during the year were calculated and verified in the manner prescribed under the regulations and made no allowance for discretionary benefits.

The rights granted to members either by Statute or by the Rules do not extend to members who have already started to receive a pension. However, there is an exception to this where a Pension Sharing Order is implemented following divorce proceedings as a transfer amount may be paid to a divorcing spouse with the member's pension being reduced accordingly.

In common with many other pension schemes the Trustees no longer accept transfers-in to the Open Fund DB Section because of concerns about the exposure to additional liabilities\*.

Legislation requires cash equivalent transfer values to be at least equivalent to the value of the benefits given up while Scheme funding levels allow this.

The Trustees, along with the Funds' Actuary, continue to ensure that transfer values remain consistent with legislative requirements and reflect the expected cost to the Scheme of providing the benefits being valued.

*\* As there are not the same concerns with exposure to additional liabilities as there are with the DB Section, the Members of the DC Section may apply to the Trustees for them to accept their transfer values from other similarly approved schemes.*

## Closed Fund

### Schedule of Contributions

Effective date of actuarial valuation: **31 March 2012**

Period covered by this schedule: **1 April 2012 to 31 March 2018**

This schedule of contributions has been prepared by the Trustees, after obtaining the advice of Trevor Llanwarne, the actuary to the scheme.

For each month after 1 April 2012, the following contributions will be paid:

By the Employers: **Nil**

There are no active members and so no member contributions will be paid.

No contributions are required from the Employers in respect of administration expenses or the PPF levy.

This schedule may be revised from time to time where the revisions are agreed between the Trustees and the Employers, for example at a subsequent actuarial valuation.

### Actuary's Certification of Schedule of Contributions

#### Name of Scheme:

#### **The ITB Pension Funds – The Closed Fund**

#### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2012 to continue to be met for the period for which the schedule is to be in force.
2. I also certify that any rates of contributions forming part of this schedule which the scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

#### **Adherence to statement of funding principles**

3. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 November 2012.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Trevor Llanwarne (Fellow of the Institute and Faculty of Actuaries)

Government Actuary's Department

Finlaison House

15-17 Furnival Street

London EC4A 1AB

29 January 2013

# Actuarial Certificates

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## Open Fund

### Actuarial Certificate - Schedule of Contributions

Name of Scheme:

#### **The ITB Pension Funds – The Open Fund**

##### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2013 to be met by the end of the period specified in the recovery plan dated 16 June 2014.
2. I also certify that any rates of contributions forming part of this schedule which the scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

##### **Adherence to statement of funding principles**

3. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 4 October 2013.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Trevor Llanwarne FIA  
Government Actuary's Department  
Finlaison House  
15-17 Furnival Street  
London EC4A 1AB  
30 June 2014

The Schedule of Contributions referred to in this certificate is that dated 16 June 2014.



# Summary Funding Statements

## The ITB Pension Funds (Open Fund DB Section): Summary Funding Statement for period ending 31 March 2013.

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 Scheme 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 2013 the funding position was as follows:

Assets	£808.7 million
Liabilities	£832.5 million
Funding level	97%

The estimated amount as at 31 March 2013 needed to ensure that all members' benefits could have been paid in full if the Scheme had started winding up (full solvency) was £1,165.4 million. Therefore, the Scheme was 69% funded on a full solvency basis as at 31 March 2013. Inclusion of this information is a standard requirement and is not related to any consideration of the Trustees to wind up the scheme.

### Change in funding position:

The funding level increased from 92% to 97% between 31 March 2012 and 31 March 2013. This increase in funding level was principally down to a change in some of the assumptions used to calculate the value of the liabilities, higher than expected investment returns and deficit contributions paid by Employers.

### Actions to return the Scheme to full funding:

The Participating Employers have agreed to pay additional contributions to the Scheme to restore the

Scheme to full funding. Generally Employers will pay additional contributions for between 5 and 8 years from January 2014. Where such contributions extend beyond 5 years, Employers have agreed 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.

# Summary Funding Statements

## 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	28%
Bonds/LDI mandate	30%
Alternative Investments	26%
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](http://www.itb-online.co.uk)).

- Members of the Scheme can also use the Funds' secure modelling website 'MyITB' which can be accessed via [www.itb-online.co.uk](http://www.itb-online.co.uk) to estimate their own benefits.
- Additional documents available on request or in some cases on the Funds' website [www.itb-online.co.uk](http://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 2014.
- The full Actuarial Valuation report follows the Actuary's check of the Scheme's situation as at 31 March 2013.
- 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 they 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.itb-online.co.uk](http://www.itb-online.co.uk) 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 2013.

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 2012 the funding position was as follows:

Assets	£63.0 million
Liabilities	£44.2 million
Surplus	£18.8 million

In April 2011, the Trustees insured the Scheme's benefits through an insurance policy. This policy provides payments to the Scheme intended to cover benefit payments to members. The actuarial valuation of the Scheme excluded the insurance policy and the liabilities covered by it to the extent that they offset each other.

As a result of the valuation surplus, no further contributions were required. The Trustees decided to use some of the surplus to increase all members' benefits in early 2013.

Had the Scheme started to wind up on 31 March 2012, the Scheme Actuary assessed that the assets would have been sufficient to meet the liabilities of the Scheme in full on a solvency basis at that date. This assessment is based on the understanding that the terms of the Trustees' insurance policy would remain appropriate in a wind up. Inclusion of this information is a standard requirement and is not related to any consideration of the Trustees to wind up the scheme.

### **Change in funding position**

The surplus increased from £19 million to £22 million between 31 March 2012 and 31 March 2013. While the Trustees used part of the surplus to increase member benefits by 3.4% in February 2013, there has been a small increase in the surplus over the year due to favourable investment returns and proceeds related to the Scheme's insurance policy.

### **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 majority of the Scheme's benefits are now covered by an insurance policy. This means the Scheme receives payments to cover most of the members' benefits and the Scheme only needs to ensure it has enough assets to cover the differences between the policy payments and members' benefits.

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?**

The majority of the Scheme's assets are held in the insurance policy. The remaining funds are invested in a broad range of assets, including index-linked gilts, equities and cash.

### **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](http://www.itb-online.co.uk)

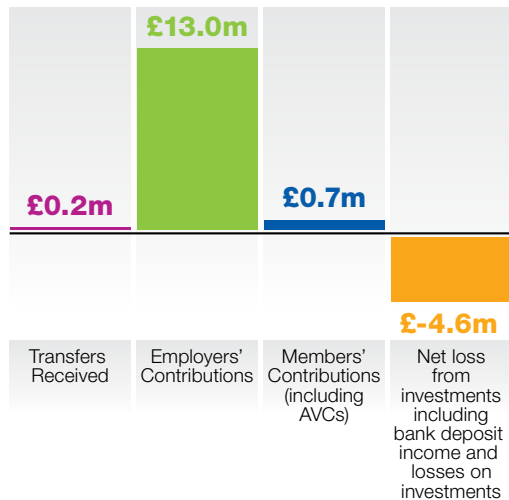
- Members of the Scheme can also use the Funds' secure modelling website 'MyITB' which can be accessed via [www.itb-online.co.uk](http://www.itb-online.co.uk) to estimate their own benefits.
- Additional documents available on request or in some cases on the Funds' website [www.itb-online.co.uk](http://www.itb-online.co.uk)
- 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 2014.
- The full report on the Actuarial Valuation following the Actuary's check of the Scheme's situation as at 31 March 2012.
- The report on the interim Actuarial Review of the Scheme as at 31 March 2013.
- 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.itb-online.co.uk](http://www.itb-online.co.uk) to view online benefit 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.

# Fund Accounts

## Source of Income 2013/2014

Chart 8 - Open Fund (DB Section)



### Open Fund

The way in which the income of the Open Fund of £9.3m was made up is shown in Chart 8. The total net investment income consists mainly of income from bonds and index linked securities, property rentals and bank interest after adding the profits on foreign exchange and deducting Investment Managers' fees. The loss on investments includes the realised profit/loss on the sale of investments.

Chart 9 - Closed Fund



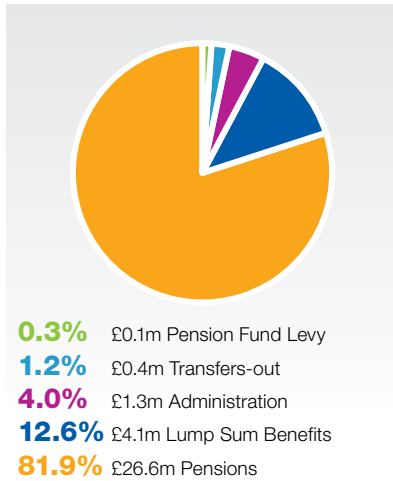
Net Loss on Investments	£-16.4m
Net Income from Investments	£12.7m
<b>Total Income</b>	<b>£-3.7m</b>

### Closed Fund

The net investment income consists of income from index linked gilts, alternative investments, annuity income and bank interest. The net loss on investments includes the realised profit/loss on the sale of investments.

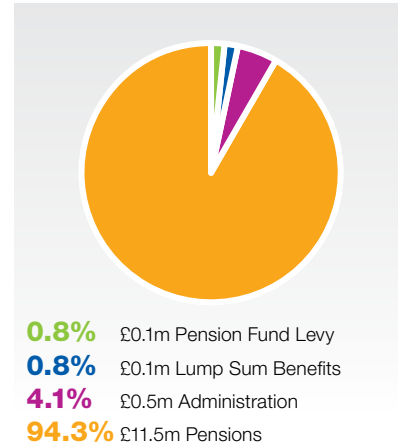
## Allocation of Expenditure 2013/2014

Chart 10 - Open Fund (DB Section)



The way in which the total Open Fund expenditure of £32.5m was made up is shown in Chart 10.

Chart 11 - Closed Fund



The way in which the total Closed Fund expenditure of £12.2m was made up is shown in Chart 11.

# Investment Report

## Statement of Investment Principles (SIP)

The Pensions Act 1995, as amended, sets out certain requirements for trustees of pension schemes to prepare a SIP that governs 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 the SIP. 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 the SIPs can be viewed by accessing the ITB website on [www.itb-online.co.uk](http://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 portfolio of investments. Their appointments are reviewed by the Trustees annually in the light of quarterly monitoring of the performance and investment process. The investment performance of both the Open and Closed Funds is shown on pages 41-46.

The recommendations of a report on institutional investment for defined benefit pension schemes – the Myners Report – which have previously been accepted by the Government, identified a set of investment principles which pension schemes should comply with on a voluntary basis. The Trustees consider that the Funds are currently mostly compliant with the Report's recommendations (with a few relevant areas where the Trustees are working towards becoming fully compliant) and have taken steps, where appropriate, to integrate the recommendations into working practices and procedures.

In April 2012 a Defined Contribution (DC) Section of the Open Fund was introduced. The Trustees are mindful of the Principles included within The Pensions Regulator's (TPR) Code of Practice No.13 - Governance and administration of occupational defined contribution trust based pension schemes. This concerns the governance matters The Pensions Regulator recommends be considered when setting up and operating a DC pension scheme. These Principles are designed to encourage better investment governance and decision making by Trustees. They provide a framework which can be used as a practical checklist to benchmark a scheme's investment governance processes against 'best practice'.

The Trustees consider that the Funds are currently mostly compliant with the guidance recommended by the The Pensions Regulator (with a few relevant areas

where the Trustees are working towards becoming fully compliant) and have also taken steps, where appropriate, to integrate the guidance into working practices and procedures.

## Closed Fund

The majority of the Closed Fund's liabilities were bought-in with Pension Insurance Corporation in April 2011 and therefore, a reduced number of index linked gilts are now held within the fund. In addition to these residual index linked gilts, the Closed Fund also has a portfolio invested in a range of return seeking assets such as UK and overseas equities, and diversified growth fund strategies.

## Open Fund

Following a review of the investment strategy of the Open Fund in August 2011, the Trustees gave detailed consideration to a report on the asset liability study carried out by the Fund's investment advisers, Lane Clark & Peacock LLP. With the benefit of this report a new investment strategy was set with the objective of achieving the Trustees' desired long term return of 2.3% in excess of gilts, while reducing the expected level of investment risk.

A further review of the investment strategy will be undertaken in the Scheme year 2014/2015 to reflect the results of the 2013 actuarial funding valuation.

The current asset allocation of the Open Fund is shown on pages 41-42.

## Investment Management

The Trustees employ external investment managers who have the discretion to invest the assets of the Funds within the Trustees' prescribed guidelines.

The strategy to achieve the investment objectives involves the Funds' assets being invested across a range of asset classes and geographical areas.

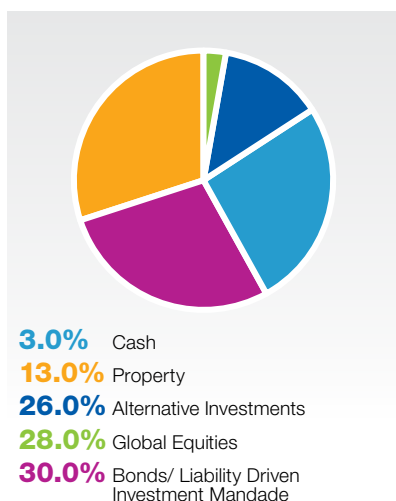
Although the Trustees have delegated day-to-day management of the Funds' investments to external managers, the custody (safe-keeping) of segregated assets is carried out independently of the managers through custodians JP Morgan Chase Bank, BlackRock Advisors (UK) Ltd, ITB Pension Trustees(1) Limited and ITB Pension Trustees(2) Limited.

Details of and the performance of the individual managers looking after Open Fund assets is shown within the Investment Performance Review on pages 43-46.

The Closed Fund's portfolio of index-linked gilts is under the control of the Trustees. The return seeking assets are managed by two external managers detailed on pages 44-45.

### Open Fund Asset Allocation

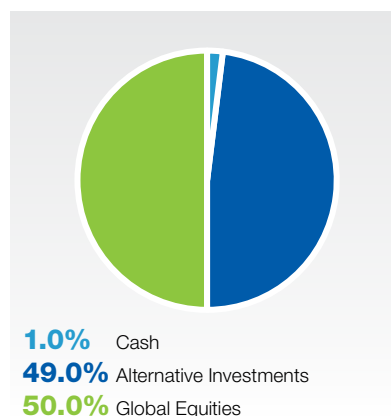
The target asset allocation existing at 31 March 2014 for the Open Fund (DB Section) is as follows:



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 long-term 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.

### Closed Fund Reserve Assets Allocation

The target asset allocation existing at 31 March 2014 for the reserve assets of the Closed Fund not invested in index-linked gilts, is as follows:



Details of the Open and Closed Funds' total asset allocation, individual manager's allocation and mandates at the Funds' year-end, together with their investment performance for the year, are shown on pages 41-46.

### Financial Review

The member payments made by the Closed Fund are financed by amounts received from PIC. The administration expenses of the fund are essentially financed by the interest received on the holding of index linked gilts.

The ongoing contribution income of the Open Fund continued to be insufficient to meet benefit payments and other expenditure. The balance was made up from investment revenue and Employers' deficit contributions, as well as from the sale of investments.

# Investment Background

## UK equities

For the 12-month period as a whole, the FTSE All-Share index rose 8.8% in sterling, total return terms. UK equity markets declined sharply in May after an announcement by the Federal Reserve's then-chairman Ben Bernanke that the US central bank might reduce its quantitative easing programme in the near future. Markets subsequently recovered as economic growth remained positive, and when the Fed began to reduce the size of its quantitative easing programme in early 2014, the impact on UK equity markets was apparently muted. The Bank of England's new governor Mark Carney took over in June, and in August he declared that future rate policy would be tied to the unemployment rate. However, unemployment subsequently declined at a faster rate than previously forecast, prompting speculation that rates would be raised in the near future. This led Carney to state in early 2014 that the Bank would no longer consider unemployment alone when deciding rate policy. By the end of the period analysts broadly expected rates to start rising in 2015.

## Europe ex-UK equities

For the 12-month period as a whole, the FTSE World Europe ex UK index rose 15.7% in sterling, total return terms. European equity markets rose for much of the year though they declined sharply in May after an announcement by the Federal Reserve's then-chairman Ben Bernanke that the US central bank might reduce its quantitative easing programme in the near future. However, market sentiment was boosted by the European Central Bank's (ECB) decision to cut interest rates to historic lows, first from 0.75% to 0.5% in May, and then to 0.25% in November. Separately, there were signs of improvement in economic growth, but these remained weak. Inflation fell to well below the ECB's target of 2% by the end of the period, leading to fears late in the period that the region might experience deflation in the near future. This in turn prompted speculation that the ECB could embark on a form of quantitative easing to boost the economy.

## Global equities

For the 12-month period as a whole, the MSCI World index rose 9.0% in sterling, total return terms. Markets were driven for much of the year by concerns over the Federal Reserve's plans for its quantitative easing (QE) programme: the Fed's then-chairman Ben Bernanke announced in May that the US central bank might reduce QE in the near future, leading to a sharp market correction around the world. Markets subsequently recovered but remained driven by uncertainty over the

future for QE, until the Fed decided in December to begin reducing its QE programme in early 2014. Subsequently, markets were broadly affected by weaker- than-expected US data, which was affected by extreme winter weather across much of the US, which contributed to uncertainty over underlying US economic growth. Focusing on economic growth, US data was broadly positive over the year; but European data remained weak. Economic growth in emerging markets also remained broadly weak, most notably in China, driving speculation that Chinese authorities might act to stimulate growth.

## Bonds

Returns on gilts were negative over the period. Economic data improved during the period, with positive growth data reported for the first half of 2013, driven by a strong recovery in the services sector. Manufacturing and construction also started to pick up. In May, the announcement by Federal Reserve chairman Ben Bernanke that the US central bank could reduce its quantitative easing programme later in the year led to a sharp correction in government bond markets globally, and gilts were no exception. Yields moved significantly higher across the curve, with the biggest moves seen in the 5-10-year segment, and the gilt market remained weak for the rest of the year. At the start of 2014, gilts followed other global government bond markets by rallying as investors shunned equity markets and looked for safer havens. The rally was driven by softer-than-expected economic data from the US and China combined with poor newsflow from emerging markets. The Bank of England (BoE) kept interest rates at 0.5% and did not extend its quantitative easing programme beyond £375 billion, but adapted its guidance on interest rates; the new policy now references 18 factors rather than solely unemployment data in determining interest rates.

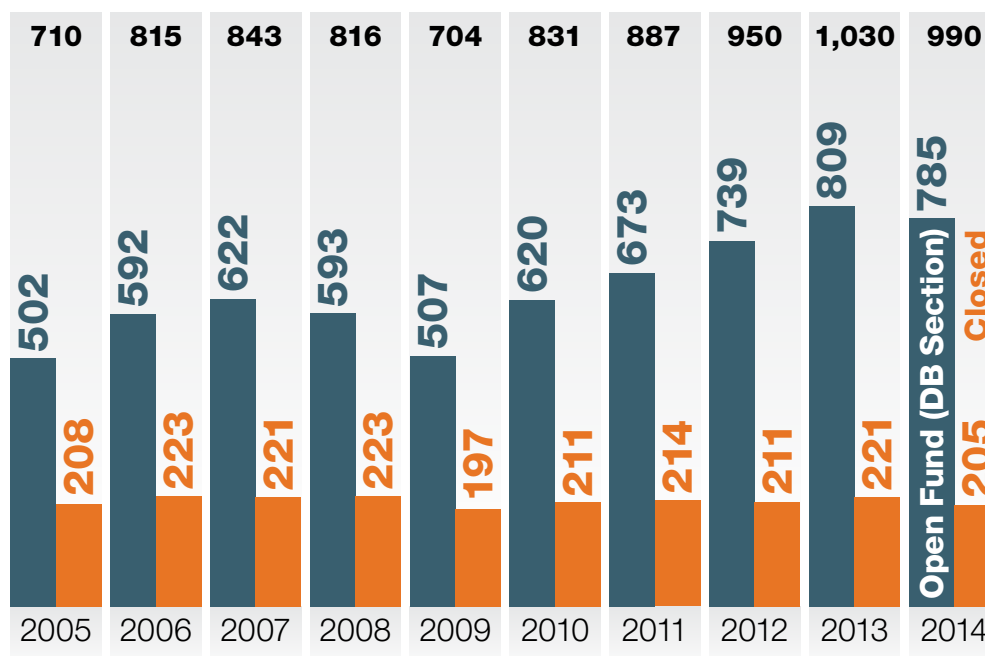
## Property

In the UK, property returns were boosted by the return of robust levels of capital growth as investor confidence grew as economic recovery became more evident. Retail rents remained under pressure while Central London office rents again grew strongly and there were indications of a recovery in the provincial office and industrial markets. North American markets strongly outperformed Asian and European markets. Capital values continued to decline in Portugal, Italy and Spain but stabilised in France and Germany. South Africa, Ireland, New Zealand, United States, Canada, the UK and Australia outperformed the Investment Property Databank's global average total return of 8.3% in 2013.



The size of each Fund and the growth achieved in the past ten years is demonstrated in Chart 12.

Chart 12 - Growth of Total Funds - £m's



## Asset Allocation

At the end of March 2014, the Funds' investments were allocated between the following categories:

Open Fund (DB Section)	Market Value £000's	Proportion of Market Value %
UK Equities	24,273	3.1
Overseas Equities	251,137	32.1
Fixed Interest:		
UK	98,312	12.5
Index Linked	420,393	53.6
Derivatives	(290,544)	-37.1
Property	73,052	9.3
Alternatives (e.g. Diversified Growth Funds)	140,369	17.9
Cash	67,089	8.6
<b>Total</b>	<b>784,081</b>	

Closed Fund	Market Value £000's	Proportion of Market Value %
Insurance Policy	137,400	67.2
UK Equities	7,044	3.4
Overseas Equities	14,594	7.1
Fixed Interest:		
Index Linked	25,227	12.4
Alternatives	19,238	9.4
Cash	1,090	0.5
<b>Total</b>	<b>204,593</b>	

# Investment Report

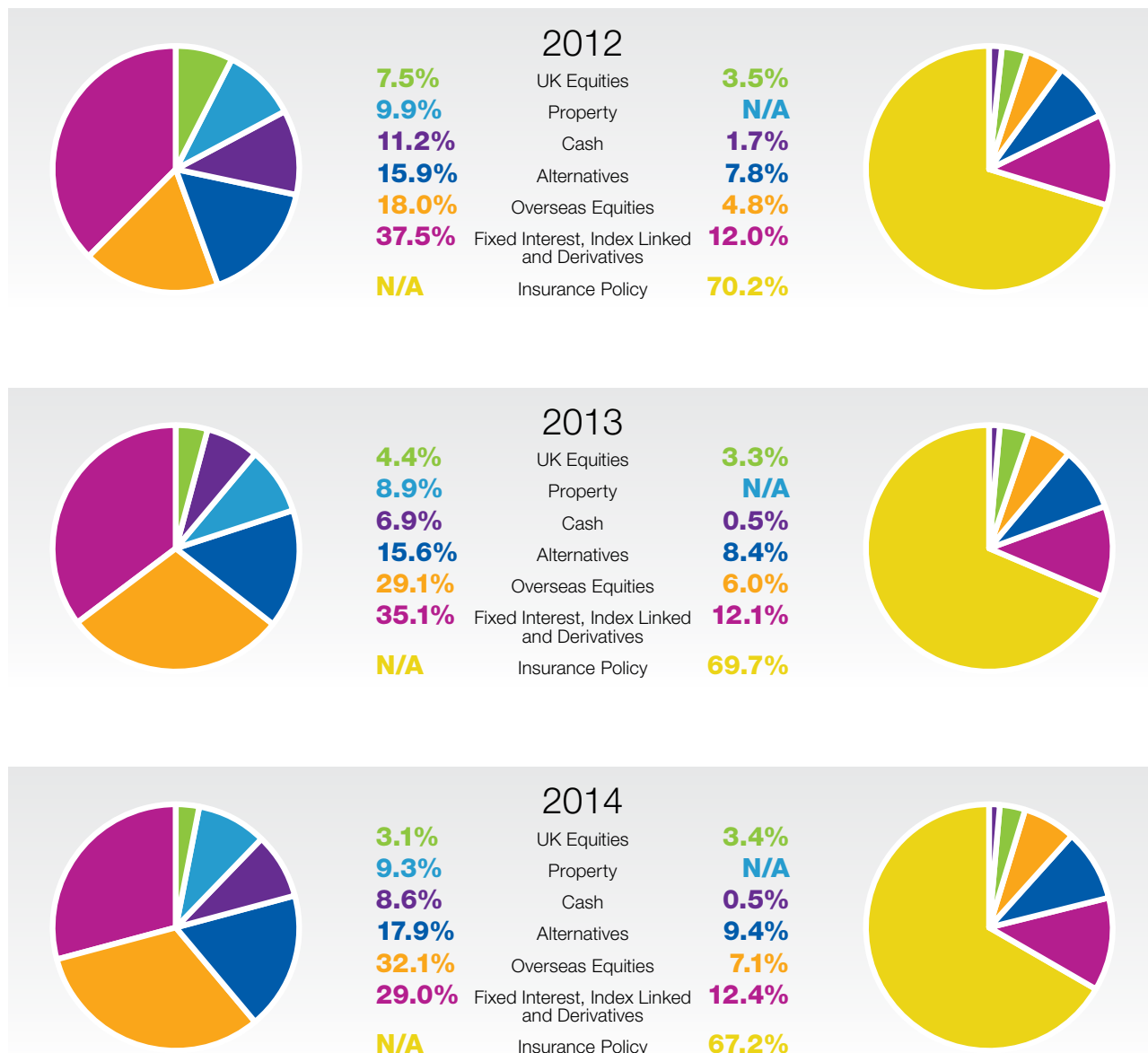
The overseas equities for both Funds consists of holdings in Europe, North America, Japan, South East Asia and Emerging Markets. The changes in asset allocation made since 2012 are shown in Charts 13 and 14.

Chart 13

Asset Allocation - Open Fund (%)

Chart 14

Asset Allocation - Closed Fund (%)



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.

# Investment Performance Review

## Total Fund

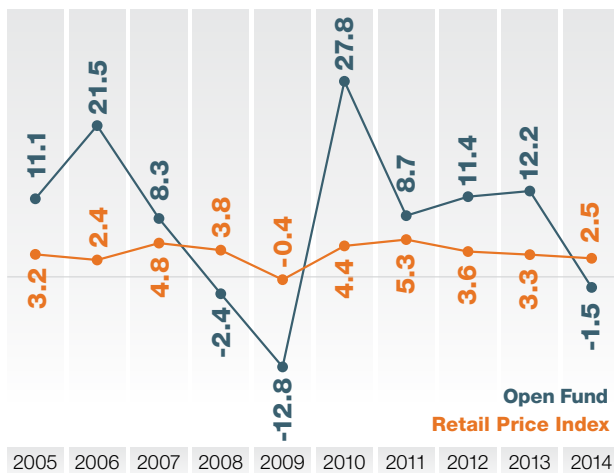
The investment performance of both the Closed and Open Funds is monitored by an independent investment performance monitoring service provided by Lane Clark & Peacock the Funds' investment adviser. For performance purposes the Closed Fund and the Open Fund are treated separately and separate reports are provided in respect of each investment manager.

The period reviewed in the most recent full report relates to the year ended 31 March 2014. In addition, Lane Clark & Peacock also provide an overview for each fund and present calendar year-end reports at an annual Trustees' seminar while they also attend and present at quarterly Trustees Investment Committee meetings.

Investment performance is closely monitored by the Trustees. Benchmarks are based on various indices and the investment managers are set appropriate performance targets so as to ensure that, as far as is practicable, the Funds perform in line with their strategic benchmark.

## Defined Benefit Funds (DB)

Chart 15 - Rates of Return



The relevant benchmark return for the Open Fund (DB Section) this year was -0.4%, whereas the Fund achieved a return marginally lower than this of -1.5%.

The reserve assets of the Closed Fund achieved a return of 0.0% against the relevant benchmark of 0.7%. These Closed Fund's returns exclude the return achieved on the movement of the Pension Insurance Corporation's insurance policy as any gains or losses made on this investment cannot be realised by the Closed Fund.

Chart 15 shows the rate of return on all assets achieved by the Open Fund (income and capital appreciation combined) in the recent past, compared with the increase in prices, as measured by the Retail Price Index. Past returns are, of course, no guarantee of future performance.

## Managers' Mandates and Performance – Open Fund

All figures include cash held with the investment manager. The charts shown on page 41 have cash shown separately.

**UK Equities (including index-tracking equities) (3% of total fund)**

### BlackRock Advisors (UK) Limited (3% of total fund)

This part of the UK equity portfolio has the objective to match the UK FTSE All Share Index. BlackRock's fees are market value based. Over the year the BlackRock portfolio matched its benchmark.

**Fixed Interest (including index-linked gilts and derivatives) (36% of total fund)**

### Insight Investment (28% of total fund)

The objective of the LDI (Liability Driven Investments) portfolio is to reduce the Scheme's exposure to interest rate and inflation risk by constructing and managing a portfolio with the objective of matching a specially calculated benchmark which is linked to the Fund's liabilities. The fees for this portfolio are market value based. Over the year this portfolio outperformed its benchmark.

### BlackRock Advisors (UK) Limited (8% of total fund)

Index linked gilts are held in this portfolio to support the liabilities of former Participating Employers'. The funds are passively managed and the fees are market value based.

**Global Equities (25% of total fund)**

### BlackRock Advisors (UK) Limited (15% of total fund)

Part of this overseas equity portfolio is managed to track index benchmarks. The fees for these funds are market value based. Over the year, these funds closely matched their benchmarks.

BlackRock also operates a currency hedging fund which is managed on a passive basis. The passive fund is operated to greatly reduce the effect of currency fluctuations within the total overseas equity portfolio. Fees for the currency fund are market value-based.

# Investment Performance Review (cont.)

## **Longview Partners LLP (5% of total fund)**

The objective of this part of the global equity portfolio is to achieve a positive absolute return of between 8% and 10% pa after fees. The fees for this portfolio are market value based. No performance fees are payable. Over the year, the portfolio outperformed its benchmark.

## **Investec Asset Management (5% of total fund)**

The objective of this part of the global equity portfolio is to outperform the MSCI World Gross Total Return Index by 3% to 5% gross of fees over rolling three-year periods. The fees for this portfolio are market value based. No performance fees are payable. Over the year, the portfolio outperformed its benchmark.

## **Property (10% of total fund)**

### **Fletcher King (8% of total fund)**

The objective of this portfolio is to match the Investment Property Database (IPD) Year End Annual Index. Fletcher King is remunerated on the basis of an annual retainer fee together with transaction fees related to acquisition, disposals and lettings. In addition, further fees are payable based on the gross rental income of the portfolio, together with fees for work on rent and lease renewals. Over the year Fletcher King marginally underperformed their benchmark.

### **Schroder Investment Management (UK) Limited (2% of total fund)**

The total investment committed for this European Property Fund has been paid in increments over a period up to and including 2013. The total commitment was approximately £19 million. The objective of this fund is to achieve an absolute return of between 8% and 10% pa net of fees over the 12 year life of the fund. The fees for this portfolio are market value-based. No performance fees are payable. Over the year, the portfolio underperformed its objective.

## **Alternatives (24% of total fund)**

### **Schroder Investment Management (UK) Limited Diversified Fund of Hedge Funds**

The mandate of Schroders was terminated during the 2009 Scheme year due to concerns over the performance of the fund. The investment was finally liquidated during the current scheme year.

## **BlackRock Advisers (UK) Limited Global Tactical Asset Allocation Fund (GTAA)**

The objective of this part of the alternatives portfolio was to outperform three-month LIBOR (London Inter-bank Offer Rate) by 15% pa after fees. The fees for this portfolio were market value based with a performance related element. This portfolio was terminated during the year.

## **Ruffer LLP (9% of total fund) - Diversified Growth Fund**

The objective of this portfolio is to outperform three month LIBOR after fees. The fees for this fund are market value based. No performance fees are payable. Over the year, the portfolio marginally underperformed its objective.

## **Barings Asset Management (9% of total fund) - Diversified Growth Fund**

The objective of this part of the alternative portfolio is to outperform three month LIBOR by 4% pa after fees. The fees for this fund are market value based. No performance fees are payable. Over the year, the portfolio outperformed its benchmark.

## **Capital International (6% of total fund) - Emerging Market Multi Asset Fund**

The objective of this part of the alternative portfolio is to outperform the MSCI Emerging Market Investable Market Index, with dividends reinvested, after fees. The fees for this fund are market value based. No performance fees are payable. Over the year, the portfolio underperformed its benchmark.

## **Cash (2% of total fund)**

This part of the portfolio is under the Trustees control and is retained to pay pension benefits and other Funds' expenses and to avoid realising assets at short notice.

## **Managers' Mandates and Performance – Closed Fund**

### **UK Equities (3% of total fund)**

#### **BlackRock Advisers (UK) Limited (3% of total fund)**

The objective of this portfolio is to match the UK FTSE All Share Index. The fees for the fund are market value based. Over the year, the portfolio matched its benchmark.

#### Global Equities (7% of total fund)

##### **BlackRock Advisers (UK) Limited (7% of total fund)**

This part of the overseas equity portfolio is managed to track index benchmarks. The fees for this part of the fund are market value based. Over the year these funds closely matched their benchmarks. BlackRock also operate a passive currency fund with the objective of greatly reducing the effect of currency fluctuations within BlackRock's overseas equity portfolio. The fees for this part of the fund are market value based.

#### Alternatives (9% of total fund)

##### **BlackRock Advisers (UK) Limited Global Tactical Asset Allocation Fund (GTAA)**

The objective of this portfolio was to outperform three-month LIBOR by 15% pa after fees. The fees for this portfolio were market value-based with a performance related element. This portfolio was terminated during the scheme year.

##### **Ruffer LLP (9% of total fund) - Diversified Growth Fund**

The objective of this portfolio is to outperform three month LIBOR after fees. The fees for this fund are market value based. No performance fees are payable. Over the year, the portfolio marginally underperformed its objective.

#### Buy-in Insurance Policy (68% of total fund)

##### **Pension Insurance Corporation (68% of total fund) Insurance buy-in policy**

This buy-in investment was purchased in April 2011 to finance the pension liabilities of the Closed Fund. No fees are payable on this investment and the policy cannot be redeemed or sold.

#### Trustees (13% of total fund)

Index-linked securities and cash which are under the control of the Trustees.

# Investment Performance Review (cont.)

## Defined Contribution Funds (DC)

### Manager's Mandate and Performance - Open Fund

All assets of the DC Section of the Open Fund are invested with Legal & General Assurance Society Limited (L&G). Monies invested with L&G are allocated to any of the designated funds at the discretion of each member. A default fund is available to members and this is made up of a mixture of the Global Equity fixed weight 50/50 index fund, the Standard Life global absolute return strategies fund and the Newton real return fund. Contributions' will be allocated to this fund if a member does not nominate specific investment funds. All fund fee charges are fixed and based on the value of each member's fund.

Shown below are the designated funds together with performance, fee charges and fund size information.

All index funds performed at or close to benchmark for the year. Both the Standard Life and Newton funds outperformed their benchmarks.

Fund	Fund Value £000's	% of Total DC Funds	Performance Benchmark	Performance Target	Fee Charges
<b>Fixed Interest Funds (including index-linked gilts):</b>					
Over 5 years index-linked gilts index fund	43.7	3.9%	FT A index-linked gilts (over 5 year) index	To track the index	0.38%
Over 15 year index-linked gilts index fund	3.4	0.3%	FT A gilts (over 15 year) index	To track the index	0.38%
AAA-AA-A Corporate Bond over 15 year index fund	24.3	2.2%	iBoxx £ non gilts (ex BBB) over 15 year index	To track the index	0.42%
<b>Global Equity Funds:</b>					
Global equity fixed weight 50:50 index fund	522.7	46.7%	Composite of 50/50 distribution between UK and overseas	To track the index	0.40%
Ethical global equity index fund	2.6	0.2%	FTSE4 Good Global Index	To track the index	0.60%
Standard Life global absolute return strategies fund	259.8	23.2%	6 month £ LIBOR	To outperform the benchmark by 5% pa	1.26%
Newton real return fund	258.7	23.1%	1 month £ LIBOR	To outperform the benchmark by 4% pa	1.21%
<b>Other Funds:</b>					
HSBC life Amanah fund	-	-	Dow Jones Islamic Titans 100 index	To track the index	
Cash fund	3.3	0.3%	7 day LIBID	CAPS pooled pension fund median	0.40%
<b>Total Fund</b>	<b>1118.5</b>	<b>100.0%</b>			

# Statement of Trustees' Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Trustees.

Pension Scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

The Trustees are also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised, a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employers and the active members of the Scheme and the dates on, or before which, such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the Employers in accordance with the Schedule of Contributions. Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the Funds' websites.

# Summary of Contributions payable in the year

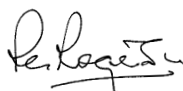
During the year, the contributions payable to the Open Fund by the Employers under the Schedule of Contributions were as follows:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<hr/>		
<b>Contributions payable under the Schedule of Contributions</b>		
Employers' normal contributions	7,025	6,224
Employers' deficit contributions	5,776	4,929
Employers' life assurance contributions	9	4
Members' normal contributions	1,087	1,007
<hr/>		
Total contributions payable under the Schedule	13,897	12,164
<b>Other contributions</b>		
Employers' augmentation costs	696	273
Members' additional voluntary contributions	-	1
Transfers from other schemes	102	1
Transfers from money purchase AVC schemes	188	459
<hr/>		
<b>Total payable to the Scheme</b>	<b>£14,883</b>	<b>£12,898</b>
<hr/>		

The Trustees Report was approved by the Trustees on 4 July 2014.



J Swift  
Trustee



P Rogerson  
Trustee





# Independent Auditor's Report

to the Trustees of the ITB Pension Funds

We have audited the financial statements of the ITB Pension Funds for the year ended 31 March 2014 which comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustees, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Trustees and the Auditor

As explained more fully in the Statement of Trustees Responsibilities set out on page 47, the Scheme's Trustees are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Trustees' Report & Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

CHANTREY VELLACOTT DFK LLP  
Chartered Accountants and Statutory Auditor  
LONDON

18 July 2014

# Independent Auditor's Statement about Contributions to the Trustees of the ITB Pension Funds

We have examined the summary of contributions to the ITB Pension Funds in respect of the Scheme year ended 31 March 2014 which is set out in the Trustees' Report on page 48.

This statement is made solely to the Trustees, as a body, in accordance with Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Trustees as a body, for our audit work, for this statement, or for the opinions we have formed.

## Respective responsibilities of the Trustees and the Auditor

As explained more fully in the Statement of Trustees' Responsibilities, the Scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employers and the active members of the Scheme. The Trustees are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employers in accordance with the Schedule of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions and to report our opinion to you.

## Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the Schedule of Contributions.

## Statement about contributions payable under the Schedule of Contributions

In our opinion contributions for the Scheme year ended 31 March 2014 as reported in the Summary of Contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with (a) the Schedule of Contributions certified by the Scheme Actuary on 13 January 2012 in respect of the DB Section and on 26 June 2012 in respect of the DC Section supplement and (b) the Schedule of Contributions certified by the Scheme Actuary on 30 June 2014.

CHANTREY VELLACOTT DFK LLP  
Chartered Accountants and Statutory Auditor  
LONDON

18 July 2014

# Fund accounts

for the year ended 31 March 2014

	Notes	Closed Fund 2014 £'000	Open Fund DB Section 2014 £'000	DC Section 2014 £'000	Combined Fund 2014 £'000	Combined Fund 2013 £'000
<b>Income</b>						
From Employers:						
Normal	3c	-	6,466	559	7,025	6,224
Augmentation costs	3c	-	696	-	696	273
Deficit funding	3c	-	5,776	-	5,776	4,929
Other contributions	3c	-	-	9	9	4
Total Employers' contributions		-	12,938	568	13,506	11,430
Members' contributions	3c, 15	-	732	355	1,087	1,008
Transfers from other schemes	3g, 5	-	188	102	290	460
		-	13,858	1,025	14,883	12,898
<b>Expenditure</b>						
Retirement and death benefits	6	11,666	30,733	-	42,399	40,713
Payments to and on account of leavers:						
Contribution refunds		-	48	15	63	47
Transfers to other schemes		-	396	-	396	496
Other payments:						
Life assurance premiums		-	-	9	9	4
Administrative expenses:						
General administration	7	444	720	12	1,176	1,146
Professional services	7	97	603	3	703	554
Pension fund levy		7	41	-	48	79
		12,214	32,541	39	44,794	43,039
<b>Net (withdrawals)/additions from dealings with members</b>		(12,214)	(18,683)	986	(29,911)	(30,141)
<b>Returns on investments</b>						
Investment income	8	12,700	7,400	-	20,100	24,461
Change in market value of investments	11	(16,363)	(10,605)	14	(26,954)	86,184
Investment manager fees	9	(46)	(1,386)	-	(1,432)	(988)
<b>Net returns on investments</b>		(3,709)	(4,591)	14	(8,286)	109,657
<b>Net (decrease)/increase in the funds during the year</b>		(15,923)	(23,274)	1,000	(38,197)	79,516
Net assets as at 31 March 2013		220,643	808,738	154	1,029,535	950,019
<b>Net assets as at 31 March 2014</b>		<b>£204,720</b>	<b>£785,464</b>	<b>£1,154</b>	<b>£991,338</b>	£1,029,535

The notes on pages 54 to 64 form part of these financial statements.

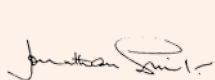
# Net assets statements

31 March 2014

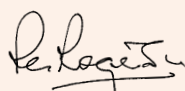
	Notes	Closed Fund 2014 £'000	Open Fund DB Section 2014 £'000	DC Section 2014 £'000	Combined Fund 2014 £'000	Combined Fund 2013 £'000
<b>Investments</b>						
Assets	11	204,593	1,159,791	1,118	1,365,502	1,085,916
Liabilities	11	-	(375,710)	-	(375,710)	(72,851)
<b>Net investments</b>		204,593	784,081	1,118	989,792	1,013,065
Fixed assets	12	-	66	-	66	107
		204,593	784,147	1,118	989,858	1,013,172
<b>Current assets</b>						
External	13	331	2,208	37	2,576	18,049
Inter-fund balance	13	-	21	-	21	59
		331	2,229	37	2,597	18,108
<b>Current liabilities</b>						
External	14	183	912	1	1,096	1,686
Inter-fund balance	14	21	-	-	21	59
		204	912	1	1,117	1,745
<b>Net current assets</b>		127	1,317	36	1,480	16,363
<b>Net assets as at 31 March 2014</b>		<b>£204,720</b>	<b>£785,464</b>	<b>£1,154</b>	<b>£991,338</b>	£1,029,535

The financial statements summarise the transactions of the Funds and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the year. The actuarial position of the Funds, which does take account of such obligations, is dealt with in the Summary Funding Statements and the certificates by the Actuary and these financial statements should be read in conjunction with them.

The financial statements were approved by the Trustees on 4 July 2014.



J Swift  
Trustee



P Rogerson  
Trustee

The notes on pages 54 to 64 form part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 March 2014

## 1 Organisation of the funds

The financial statements reflect the Actuary's report dated 22 January 1985 regarding the apportionment of assets between the Closed and Open Funds. This apportionment of the market value of the assets was made on 1 April 1985.

The Closed Fund relates to former employees of discontinued Industrial Training Boards; all employees of continuing Boards whose service ceased before 31 March 1982; and, certain other employees of those Boards whose service ceased before 31 March 1983 and whose membership was specifically agreed with Government.

On 1 April 2012 the Open Fund introduced a defined contribution section.

## 2 Actuarial valuations

The Trustees have received and adopted the Valuation Report by the Actuary on the Closed Fund as at 31 March 2012 and on the Open Fund as at 31 March 2013. The valuation report on the Open Fund resulted in a recovery plan, which was formally implemented during the 2014/2015 Scheme year.

## 3 Accounting policies

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and substantially within the guidelines set out in the Statement of Recommended Practice Financial Reports of Pension Schemes.

### a) Basis of preparation

These financial statements have been prepared on an accruals basis, that is, income and expenditure is recognised as it is earned or incurred, not as it is received or paid.

### b) Valuation of investment assets and liabilities

Investments are valued at their market value determined as follows:

- i) Listed securities are valued at last traded price or bid-market price ruling at the balance sheet date.

- ii) Pooled investment vehicles are stated at the bid-point of the latest prices quoted by the managers prior to the year end.
- iii) Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling at the balance sheet date.
- iv) Properties were valued by Fletcher King, Property Asset Managers, at 31 March 2014, in accordance with the definition of open market value as defined in Practice Statement 4 of the Royal Institute of Chartered Surveyors' appraisal and valuation manual.
- v) Forward contracts are valued at amounts that assume settlement at the spot rates ruling on the year end.
- vi) Exchange traded derivatives are stated at market values determined using market quoted prices.
- vii) Over the counter derivatives are stated at market value using pricing models and relevant market data as at the year end date.
- viii) Repurchase agreements are valued at cost.
- ix) The insurance policy held by the Closed Fund has been valued on an actuarial basis.

### c) Contribution income

Contributions relating to wages and salaries earned up to the year end have been included in these financial statements. Allowance has been made for increased standard contributions due under the Schedule of Contributions dated 30 June 2014.

Augmentation costs represent amounts recoverable from Employers to improve the benefits of certain members and these are due to the Open Fund from the relevant Participating Employers. These are recognised when agreed with the Participating Employer concerned.

Deficit funding contributions have been paid to the scheme in accordance with an agreed Schedule of Contributions. These are recognised when received.

Employer's buy-out contributions, due under section 75 of the Pensions Act 1995 when an Employer ceases to be a Participating Employer,

are accounted for when received or determined by the Scheme Actuary, whichever is earliest.

**d) Investment income**

Dividend income and interest on Government stocks have been recognised on the ex-dividend/ interest date. Rents, interest and annuity income are recognised on a receivable basis. Interest payable under repurchase agreements is treated as a deduction from investment income.

**e) Foreign income**

Foreign income has been translated into sterling at the rate ruling at the date of the transactions. Income due at the year end is translated at the rate ruling at the year end. All differences are taken to the Fund Accounts.

**f) Benefits payable**

Benefits payable include all valid benefit claims notified to the Trustees during the financial year.

**g) Transfers receivable**

Transfers receivable represent payments to the Open Fund from the separate money purchase schemes (see note 16). Amounts received into the Fund are paid out as part of a member's lump sum retirement benefit. Transfers are only taken into account where benefits are payable before the year end. Transfers from other pension funds into the Defined Benefit section of the scheme are not currently accepted. Transfers into the Defined Contribution section of the scheme are allowed.

**h) Withdrawal benefits**

Transfers payable relate to those early leavers whose transfers have been agreed by the Trustees during the year. Included under withdrawal benefits are accruals of contributions and interest in respect of members who left the Funds on or

before the year end and who were entitled to a refund of these.

**i) Fixed assets**

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Furniture - 10% per annum

Equipment - 20% per annum

**j) Administration expenses**

Administration expenses are allocated between the Closed Fund and Open Fund's DB and DC sections in accordance with a basis determined by the Trustees.

**4 Contributions receivable**

Normal contributions receivable by the Scheme during the year, including amounts outstanding at the year end (see note 13), were paid in accordance with the Scheme Rules (and the recommendation of the Actuary).

Following the formal agreement of a revised Schedule of Contributions to deal with the deficit arising in the Open Fund valuation as at 31 March 2013, appropriate Employers continued to pay deficit recovery contributions and these have been included in the financial statements on the basis of amounts due under the Schedules of Contributions.

# Notes to the Financial Statements

for the year ended 31 March 2014

## 5 Transfers in

	2014 £'000	2013 £'000
<b>DB Section</b>		
Individual transfers from money purchase AVC schemes (see note 16)	188	459
<b>DC Section</b>		
Individual transfers from other schemes	102	1
<b>Total</b>	<b>£290</b>	£460

## 6 Retirement and death benefits

	Closed Fund 2014 £'000	Open Fund DB Section 2014 £'000	DC Section 2014 £'000	Combined Fund 2014 £'000	Combined Fund 2013 £'000
<b>Retirement benefits</b>					
Lump sums	118	4,053	-	4,171	3,171
Members' pensions	7,774	23,472	-	31,246	30,749
Total retirement benefits	7,892	27,525	-	35,417	33,920
<b>Death benefits</b>					
Lump sums	-	97	-	97	276
Dependants' pensions	3,774	3,111	-	6,885	6,517
Total death benefits	3,774	3,208	-	6,982	6,793
	<b>£11,666</b>	<b>£30,733</b>	<b>£-</b>	<b>42,399</b>	£40,713
<b>2013</b>	£11,718	£28,995	£-		



## 7 Administrative expenses

	Closed Fund 2014 £'000	Open Fund DB Section 2014 £'000	DC Section 2014 £'000	Combined Fund 2014 £'000	Combined Fund 2013 £'000
<b>General administration:</b>					
Employment costs	271	433	7	711	694
Office accommodation	40	64	1	105	101
General expenses	104	177	3	284	277
Trustees' honoraria	29	46	1	76	74
	<b>£444</b>	<b>£720</b>	<b>£12</b>	<b>£1,176</b>	£1,146
<b>2013</b>	£436	£710	£-		
<b>Professional services:</b>					
Auditor's fees	16	26	-	42	42
Legal and professional services	28	110	1	139	131
Investment consultancy	28	92	2	122	137
Actuarial services	20	263	-	283	193
Other	5	112	-	117	51
	<b>£97</b>	<b>£603</b>	<b>£3</b>	<b>£703</b>	£554
<b>2013</b>	£204	£350	£-		

## 8 Investment income

	Closed Fund 2014 £'000	Open Fund DB Section 2014 £'000	DC Section 2014 £'000	Combined Fund 2014 £'000	Combined Fund 2013 £'000
Income from fixed interest securities	-	3,191	-	3,191	5,144
Income from index linked securities	434	3,491	-	3,925	1,586
Income from pooled investment vehicles	371	2,304	-	2,675	2,637
Net rents from properties	-	3,282	-	3,282	2,814
Interest on cash deposits	6	121	-	127	240
Derivative (cost) / income	-	(4,067)	-	(4,067)	151
Annuity income	11,889	-	-	11,889	11,889
Interest paid under repurchase agreements	-	(922)	-	(922)	-
	<b>£12,700</b>	<b>£7,400</b>	<b>£-</b>	<b>£20,100</b>	£24,461
<b>2013</b>	£12,754	£11,707	£-		

# Notes to the Financial Statements

for the year ended 31 March 2014

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## 9 Investment managers' fees

Under the powers given to them under the Scheme Rules, the Trustees delegate most investment management to external investment managers; the exception being the index linked gilt stock in the Closed Fund. The non-property investments were managed during the year by the following managers: BlackRock Advisors (UK) Limited, Schroder Investment Management Limited, Insight Investment, Baring Asset Management, Longview Partners LLP, Investec Asset Management, Liongate Capital Management, Ruffer LLP and Capital International Limited all of which are registered in the UK.

The remuneration of these managers is calculated as a variable percentage of the market value of the assets under management. Properties are managed by Fletcher King who are remunerated on a fixed percentage of the market value of properties under management, with additional fees in respect of property purchases, sales, rent reviews and rental income.

## 10 Taxation

The ITB Pension Funds is a Registered Pension Scheme under Chapter 2 of Part IV of the Finance Act 2004.

## 11 Investments

	Closed Fund valuation 2014 £'000	Open Fund DB Section valuation 2014 £ '000	DC Section valuation 2014 £'000	Combined Fund valuation 2014 £'000	Combined Fund valuation 2013 £'000
<b>Fixed interest securities</b>					
Public sector	-	98,312	-	98,312	71,686
<b>Index-linked securities</b>					
Public sector	21,017	352,470	-	373,487	142,446
UK other	-	7,555	-	7,555	7,577
<b>Pooled investment vehicles</b>					
Index linked	4,210	60,368	71	64,649	62,068
UK equities	7,044	24,273	-	31,317	42,415
Overseas equities	14,594	251,138	525	266,257	243,706
Diversified	19,238	140,368	519	160,125	142,560
Commercial property	-	18,132	-	18,132	18,292
Cash	-	45,103	3	45,106	-
<b>Derivative assets</b>	-	84,998	-	84,998	93,513
<b>Commercial property</b>					
Freehold	-	45,583	-	45,583	36,284
Long leasehold	-	9,337	-	9,337	15,663
<b>Insurance policy</b>	137,400	-	-	137,400	153,266
<b>Bank deposits &amp; loan notes</b>	975	19,573	-	20,548	40,023
<b>Other investment assets</b>	115	2,581	-	2,696	16,417
<b>Investment assets</b>	204,593	1,159,791	1,118	1,365,502	1,085,916
<b>Derivative liabilities</b>	-	(375,542)	-	(375,542)	(72,489)
<b>Other investment liabilities</b>	-	(168)	-	(168)	(362)
<b>Net investments at 31 March 2014</b>	<b>£204,593</b>	<b>£784,081</b>	<b>£1,118</b>	<b>£989,792</b>	£1,013,065
<b>31 March 2013:</b>					
<b>Investment assets</b>	220,595	865,179	142	1,085,916	
<b>Investment liabilities</b>	-	(72,849)	(2)	(72,851)	
<b>Net investments at 31 March 2013</b>	<b>£220,595</b>	<b>£792,330</b>	<b>£140</b>	<b>£1,013,065</b>	

Basis of valuation - as set out in note 3 b). Commercial properties are mainly industrial and office premises with rent review periods of five years.

The insurance policy is a bulk annuity policy (also known as a "buy-in") with Pension Insurance Corporation ("PIC") to secure the benefits of Closed Fund members. As the policy is written in the name of the Trustees and does not fully discharge their liabilities to those members the policy has been included in the Net Assets Statement at a figure provided by PIC valued on an actuarial basis. The year end value represents 67% of the value of the Closed Fund and 14% of the total combined assets of the Funds.

There are no other investments in which more than 5% of the total value of the net assets of the Funds is invested.

# Notes to the Financial Statements

for the year ended 31 March 2014

## 11 Investments (cont'd)

The movements in investments during the year were:	Closed Fund 2014 £'000	Open Fund DB Section 2014 £ '000	DC Section 2014 £'000	Combined Fund 2014 £'000	Combined Fund 2013 £'000
Market value at 1 April 2013	220,595	792,330	140	1,013,065	948,471
<b>Purchases at cost and derivative payments:</b>					
Fixed interest	-	153,302	-	153,302	
Index linked	5,402	381,299	-	386,701	
Pooled investment vehicles	4,968	103,834	991	109,793	
Derivatives	-	712,237	-	712,237	
Property	-	20	-	20	
Bank deposits and loan notes	3	-	-	3	
Other liabilities	-	-	2	2	
	10,373	1,350,692	993	1,362,058	354,306
<b>Sales proceeds and derivative receipts:</b>					
Fixed interest	-	(121,439)	-	(121,439)	
Index linked	(4,195)	(137,225)	-	(141,420)	
Pooled investment vehicles	(5,805)	(45,423)	(29)	(51,257)	
Derivatives	-	(1,011,063)	-	(1,011,063)	
Bank deposits and loan notes	-	(19,477)	-	(19,477)	
Other assets	(12)	(13,709)	-	(13,721)	
	(10,012)	(1,348,336)	(29)	(1,358,377)	(375,896)
<b>Change in market value of investments</b>	(16,363)	(10,605)	14	(26,954)	86,184
<b>Market value at 31 March 2014</b>	<b>£204,593</b>	<b>£784,081</b>	<b>£1,118</b>	<b>£989,792</b>	<b>£1,013,065</b>

There are no transaction costs included within the above purchases and sales figures. Costs are borne by the Scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

The ITB Pension Funds' assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulation 1996 and the Statements of Investment Principles adopted by the Trustees for both Funds. The Funds do not invest in any of the Participating Employers' businesses.

No investment represents more than 3% of the share capital of the company concerned.

## 11 Other investment balances

	Closed Fund 2014 £'000	Open Fund DB Section 2014 £ '000	DC Section 2014 £'000	Combined Fund 2014 £'000	Combined Fund 2013 £'000
<b>Assets:</b>					
Amounts due from brokers	-	-	-	-	15,091
Investment revenue receivable	112	2,559	-	2,671	1,324
Income tax receivable	3	22	-	25	2
	<b>£115</b>	<b>£2,581</b>	<b>£-</b>	<b>£2,696</b>	£16,417
<b>2013</b>	£127	£16,290	£-		
<b>Liabilities:</b>					
Amounts due to brokers	-	-	-	-	2
VAT	-	167	-	167	360
	<b>£-</b>	<b>£167</b>	<b>£-</b>	<b>£167</b>	£362
<b>2013</b>	£-	£360	£-		

### Derivatives

The Trustees hold derivatives in accordance with the Statement of Investment Principles for the Open Fund and use them to reduce the effect on the scheme of interest rate, inflation and foreign exchange fluctuations. At 31 March 2014 the open arrangements may be summarised as follows:

#### a) Swaps

Type	Base	Settlement	Asset value £	Liability value £
Asset	ASSW	2020 – 2050	3,874,677	28,418,894
Interest rate	IRSW	2014 – 2064	46,982,940	43,055,721
Retail price index ("RPI")	UK RPI	2014 – 2063	22,468,054	7,325,553
Liability driven	UK LPI	2014 – 2058	11,671,911	245,514

The counterparties for all the swaps are banks. At 31 March 2014 the Funds held collateral of £5,833,485 in a mixture of cash and UK gilts.

#### b) Repurchase agreements

Included in derivative liabilities are repurchase agreements with a cost and market value of £296,496,298 (2013 - £Nil) which mature over the period April to September 2014. The counterparties for all the repurchase agreements are banks which hold as collateral gilts to a value of £299,399,153.

# Notes to the Financial Statements

for the year ended 31 March 2014

## 12 Fixed assets

	Cost £'000	Depreciation £'000
Balance at 1 April 2013	827	720
Additions	8	-
Depreciation charge	-	49
Balance at 31 March 2014	835	769
Net book value: 31 March 2014	<b>£66</b>	
31 March 2013	£107	

## 13 Current assets

	Closed Fund 2014 £'000	Open Fund DB Section 2014 £ '000	DC Section 2014 £'000	Combined Fund 2014 £'000	Combined Fund 2013 £'000
Bank balances	330	835	35	1,200	17,020
<b>Debtors:</b>					
Amounts due from Employers					
Employers' contributions	-	1,265	2	1,267	873
Members' contributions	-	46	-	46	50
Sundry debtors	1	62	-	63	106
External current assets	331	2,208	37	2,576	18,049
Inter-fund balance	-	21	-	21	59
<b>Individual Funds' current assets 2014</b>	<b>£331</b>	<b>£2,229</b>	<b>£37</b>	<b>£2,597</b>	£18,108

	Closed Fund £'000	Open Fund DB Section £'000	DC Section £'000	Combined Fund £'000
<b>31 March 2013:</b>				
External current assets	315	17,731	3	18,049
Inter-fund balance	-	48	11	59
Individual Funds' current assets 2013	£315	£17,779	£14	£18,108

Amounts due from Employers in respect of contributions were paid in full to the Scheme substantially within the timescale required by the respective Schedules of Contributions in force at the time they became payable.

## 14 Current liabilities

	<b>Closed Fund 2014 £'000</b>	<b>Open Fund DB Section 2014 £ '000</b>	<b>DC Section 2014 £'000</b>	<b>Combined Fund 2014 £'000</b>	<b>Combined Fund 2013 £'000</b>
Withdrawal benefits:					
Transfers and contribution refunds	-	-	-	-	7
Sundry creditors	183	912	1	1,096	1,679
External current liabilities	183	912	1	1,096	1,686
Inter-fund balance	21	-	-	21	59
<b>Individual Funds' current liabilities 2014</b>	<b>£204</b>	<b>£912</b>	<b>£1</b>	<b>£1,117</b>	£1,745

	<b>Closed Fund £'000</b>	<b>Open Fund DB Section £ '000</b>	<b>DC Section £'000</b>	<b>Combined Fund £'000</b>
31 March 2013:				
External current liabilities	219	1,467	-	1,686
Inter-fund balance	48	11	-	59
<b>Individual Funds' current liabilities 2013</b>	<b>£267</b>	<b>£1,478</b>	<b>£-</b>	£1,745

## 15 Member credited service

Additional voluntary contributions (AVCs) made during the financial year to purchase added years under the principal scheme of £Nil (2013 - £1,251) are shown in the income of the Open Fund and the assets acquired with the AVCs are included in the net assets statement.

# Notes to the Financial Statements

for the year ended 31 March 2014

## 16 Money purchase schemes

Additional Voluntary Contributions (AVCs) are receivable for separate investment for the benefit of individual members. The Open Fund's AVC arrangements are operated by Scottish Life Assurance Company (SLAC), the Prudential Assurance Company (PAC) and Legal & General (L&G) and include a selection of unit linked investment funds.

The individual members receive details of their investments directly from the insurance company concerned and the investment and income are not treated as part of the Open Fund's assets and income as shown in the financial statements.

On retirement members may use the money purchase investments they may have accumulated under the AVC arrangements to provide a cash lump sum at retirement. This sum would be tax-free under current legislation and subject to certain limits. Such transfers from the AVC arrangements are included in individual transfers from Money Purchase Schemes (see note 5). There is also an 'Open Market Option' available to members where they may use their accumulated AVC funds to purchase an annuity with an insurer of their choosing.

All administration provided by the ITB Pension Funds does not incur any cost for Money Purchase members.

The amounts involved during the year are as follows:	<b>L&amp;G 2014 £'000</b>	<b>Prudential 2014 £'000</b>	<b>Scottish Life 2014 £'000</b>	<b>Prudential 2013 £'000</b>	<b>Scottish Life 2013 £'000</b>
Funds as at 1 April 2013	-	1,034	253	1,246	258
Members' AVC contributions	111	19	4	138	4
Transfers into L&G from Prudential	886	(886)	-	-	-
Interest credited by SLAC	-	-	15	-	14
Interest and bonuses credited by PAC	-	-	-	7	-
Change in market value of units	18	27	-	80	-
Transfers out (including to main Fund)	1,015 (171)	194 (17)	272 -	1,471 (437)	276 (23)
<b>Funds at 31 March 2014</b>	<b>£844</b>	<b>£177</b>	<b>£272</b>	<b>£1,034</b>	<b>£253</b>

Monies invested with SLAC are invested in the Scottish Life Deposit Administration Fund.

Monies invested with PAC are invested in the With Profits Fund.

Monies invested with L&G are invested in any of the following funds at the discretion of the Member concerned:

- Global Equity Fixed Weight 50:50 Index
- L&G Pension Standard Life Global
- L&G Pension Newton Real Return Fund
- Over 5 Year Index Linked Gilts Index
- AAA-AA-A Corporate Bond Over 15 Year Index
- Over 15 Year Gilts Index
- L&G Cash
- Ethical Global Equity Index
- The HSBC Life Amanah Fund





## Internal Dispute Resolution

The Pensions Act 1995 (as amended by the Pensions Act 2004) requires that all pension schemes have a formal internal dispute resolution procedure in place allowing members, prospective members, beneficiaries and contingent beneficiaries an avenue for complaint.

It is hoped that members and beneficiaries will always be pleased with the service provided by the ITB Pension Funds' Office and that no-one has reason to complain. However, in the unlikely event that a complaint arises and a member of the Funds' staff fails to provide a satisfactory answer, then a copy of the formal internal dispute resolution procedure is available upon request from: The Director, The ITB Pension Funds, 23 King Street, Watford WD18 0BJ.

## The Pensions Advisory Service (TPAS)

The Pensions Advisory Service (TPAS) is an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of pensions covering State, occupational, personal and stakeholder schemes.

TPAS is commonly used by members and beneficiaries to help resolve a pensions query or any difficulty which they have failed to resolve with the trustees of their pension scheme, which may be before or during an official dispute procedure.

Address: 11 Belgrave Road, London SW1V 1RB

Website: [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

Telephone: 0300 123 1047

## The Pensions Ombudsman

If you are unable to resolve your dispute using the internal dispute resolution procedure, and normally only after having sought the assistance of TPAS, an application can be made to the Pensions Ombudsman for adjudication.

The Pensions Ombudsman's role and powers have been decided by Parliament, and he is appointed by the Secretary of State for Work and Pensions. He is

completely independent and is available to investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme. He does not charge for his services.

The Pensions Ombudsman's decision is final and binding on all the parties to the complaint or dispute. It can be enforced in the Courts. His decision can only be changed by appealing to the appropriate court on a point of law.

Address: 11 Belgrave Road, London SW1V 1RB

Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

Telephone: 020 7630 2200

## The Pensions Regulator

The Pensions Regulator is the UK regulator of work-based pension schemes. Under the Pensions Act 2004, the Pensions Regulator's objectives are to protect the benefits of members, promote good administration; and to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund and to maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008. The Pensions Regulator can intervene in the running of schemes where trustees, employers or professional advisers have failed in their duties.

Address: Napier House, Trafalgar Place,  
Brighton BN1 4DW

Website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

## The Pension Protection Fund

The Pension Protection Fund was set up under the provisions of the Pensions Act 2004 in April 2005 and is classified as a public financial corporation. It was established to pay regular compensation to members of eligible defined benefit schemes when there has been a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

The Pension Protection Fund is also responsible for the Fraud Compensation Fund - a fund that will provide compensation to occupational pension schemes that suffer a loss that can be attributable to dishonesty.

Address: Pension Protection Fund, Renaissance,  
12 Dingwall Road, Croydon, Surrey CR0 2NA

Website: [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)

Email: [information@ppf.gsi.gov.uk](mailto:information@ppf.gsi.gov.uk)

Telephone: 0845 600 2541

### Pension Tracing Service

If you think you may have an old pension, but are not sure of the details, contact the Pension Tracing Service. The Service (part of the Department for Work and Pensions) has access to a database of over 200,000 pension schemes and can be used, free of charge, to search for a scheme.

Address: The Pension Service 9, Mail Handling Site A,  
Wolverhampton, WV98 1LH

Website: [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)

Telephone: 0845 6002 537

### HM Revenue & Customs Registration

The ITB Pension Funds is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 (HM Revenue & Customs Pension Scheme Tax Reference No. 00329981RF).

### Keeping us Informed

Please ensure that you keep the Trustees of the ITB Pension Funds advised of any change of address. You can do this by writing to the Funds' Office or using the Funds' website [www.itb-online.co.uk](http://www.itb-online.co.uk)

### ITB Pension Funds Tax Office

The Tax Office dealing with the ITB Pension Funds can be contacted via:

Address: HM Revenue & Customs, Pay As You Earn  
Self Assessment, PO Box 1970, Liverpool, L75 1WX

Telephone: 0300 2003300

Open Fund Reference: 073/11012A

Closed Fund Reference: 073/11012

## Contact

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

Telephone: 01923 226 264

E-mail: [pensions@itbpen.com](mailto:pensions@itbpen.com)

Website: [www.itb-online.co.uk](http://www.itb-online.co.uk)



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