The ITB Pension Funds

THE ITB PENSION FUNDS (THE “FUNDS”)

DC INVESTMENT NEWSLETTER

FEBRUARY 2018

INTRODUCTION

The Trustees of the ITB Pension Funds have recently carried out a review of the Funds' Defined Contribution investment arrangements, and this newsletter sets out details of the changes that will be made as a result of this review.

You do not need to take any action; the changes will take place automatically on **9 April 2018**. However, you may wish to review your investment choices. Please note that due to the changes taking place, from 30 March 2018 to 11 April 2018 (inclusive) you will not be able to access your L&G online account, make additional contributions or amend your investment choice.

BACKGROUND

In April 2015, the Government introduced a number of new pension flexibilities. These new flexibilities give you more choice when you decide to access your pension savings. You no longer have to use your Fund savings to buy an income for life (also called an annuity). The three broad choices you have when you access your pension savings are as follows:

- *If you want to spread the withdrawal of your pension savings flexibly over a period of time, you can transfer your pension savings to an external pension provider (e.g. a personal pension) at the time you plan to access them. This is often called "drawdown". You can decide the amount of income you want to take and how to invest your remaining savings; or*
- *you can take some or all of your pension savings as a cash lump sum; or*
- *you can use some or all of your pension savings to purchase an annuity to receive an income for life.*

The ITB Pension Funds use a lifestyle strategy for the default investment option (the default is where member pension savings are invested for members that do not make an investment decision when joining the Funds). Lifestyle strategies use a pre-determined mix of investment funds and automatically change that mix over time for members invested in them as they approach their target pension age.

The default lifestyle is designed for members that wish to target drawdown in retirement. There are also lifestyle strategies available that are aimed at members that wish to target a cash lump sum or annuity purchase.

Apart from the drawdown, cash and annuity lifestyle strategies, there are also a range of self-select investment funds available for you to choose from.

The Trustees have decided to make changes to all three lifestyle strategies and to the self-select fund range, with the main reason for the changes being to further improve the value for money members receive and to target a better retirement outcome for members by incorporating a higher allocation to equity in the early part of the lifestyle strategies. Full details of the changes that are being made are detailed in this newsletter.

INITIAL INVESTMENT APPROACH OF ALL LIFESTYLES – DETAILS OF CHANGES

All three of the lifestyles available to you are invested in the same way for members that are more than 15 years from their target pension age. The way in which the lifestyles are initially invested is changing, as shown below.

The current lifestyles are initially invested:

- *50% in an equity fund;*
- *33% in a passive multi-asset fund; and*
- *17% in a diversified growth fund.*

This is being changed so that it initially has a 70% allocation to a different equity fund (the new equity fund is split 30% to the UK and 70% to overseas developed country equity markets, compared to 50%/50% for the current equity fund) and 30% to a multi-asset fund. In order to manage risk, the new equity fund also aims to remove 75% of the exposure to overseas currencies – this is a change from the existing fund which does not look to remove overseas currency exposure.

The existing passive multi-asset fund and diversified growth fund allocation are being replaced by a single lower cost multi-asset fund in the initial part of the lifestyle, the L&G Multi-Asset Fund (details of this new fund are set out later in this newsletter). The diversified growth fund allocation is now only introduced from 15 years to the target retirement date, where it is more important that your pension savings are invested in a range of assets that reduce the risk of your pension savings falling in value.

From 15 years to target pension age, the lifestyles begin to diverge as appropriate for the specific retirement outcome they are targeting. The changes that are taking place for each lifestyle are set out in the following sections.

DEFAULT LIFESTYLE – DETAILS OF CHANGES

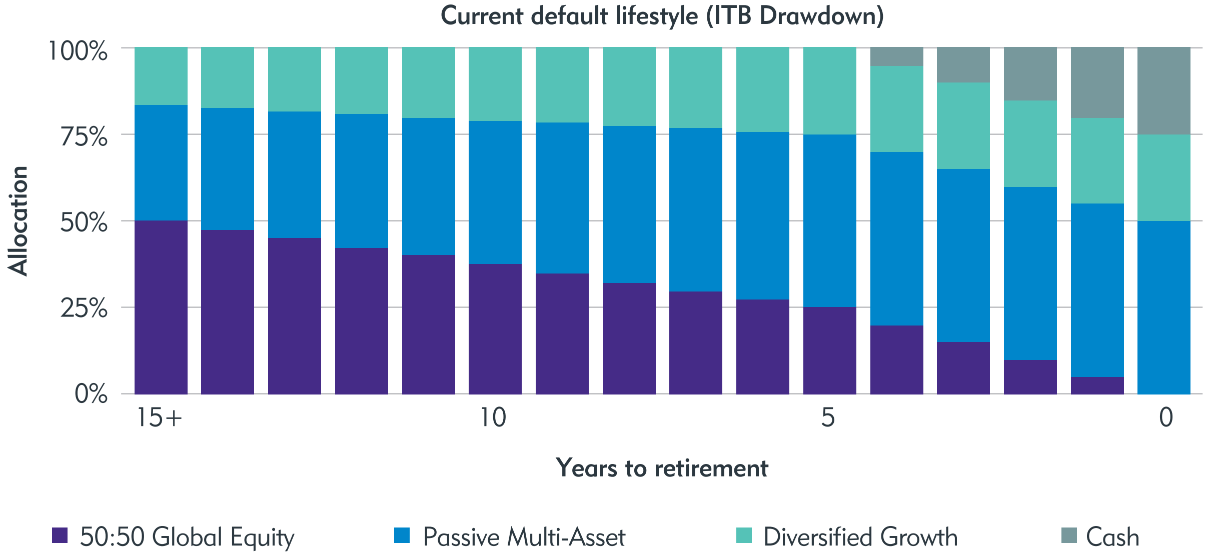
If you are invested in the default lifestyle strategy, we will automatically be making changes to your investments.

The "ITB Drawdown" lifestyle will remain as the default, but its asset allocation will be changing.

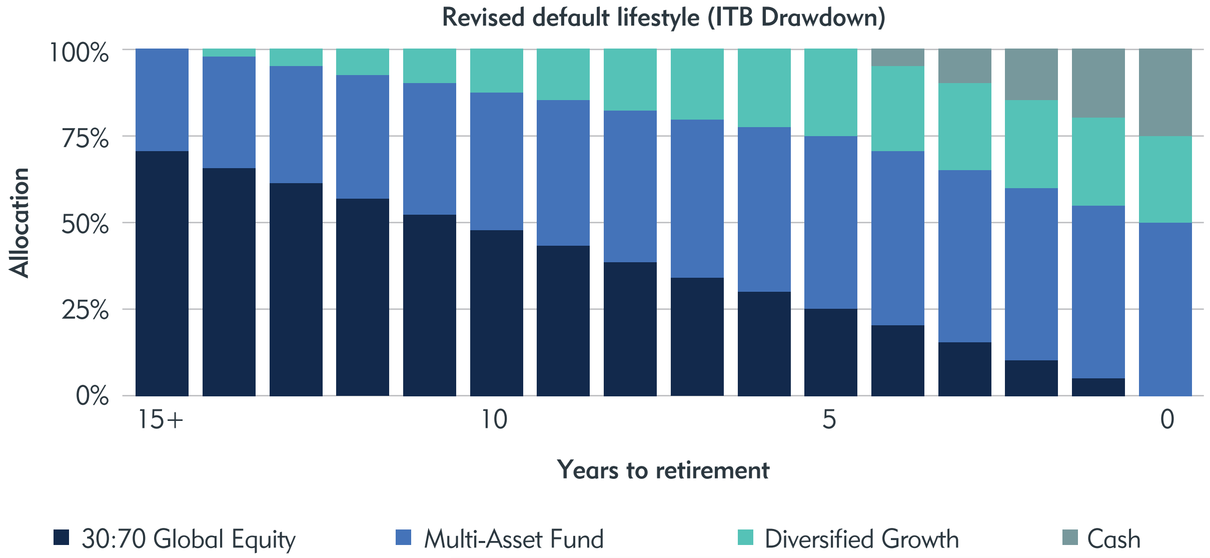
Under the revised lifestyle, starting 15 years before retirement, the equity fund will be gradually reduced, the L&G Multi-Asset Fund allocation will be increased, and the diversified growth fund allocation will be built-up to a 25% allocation at the target retirement age. In the final 5 years before retirement an allocation to cash will also be built-up.

At the point of reaching the target retirement age, your pot will be invested 50% in the L&G Multi-Asset Fund, 25% in the diversified growth fund and 25% in cash. The initial part of the lifestyle (prior to 15 years to target pension age) will change as previously explained.

As a result of these changes you will be paying lower fees as you move through the new lifestyle. The changes described are illustrated in the following charts. The charges you incur at each phase of the lifestyle are shown underneath each of the charts.



Years to retirement	15+	14	13	12	11	10	9	8	7	6	5	4	3	2	1	0
Annual charge (%)	0.57	0.58	0.59	0.60	0.60	0.61	0.62	0.63	0.64	0.65	0.66	0.66	0.66	0.66	0.66	0.66



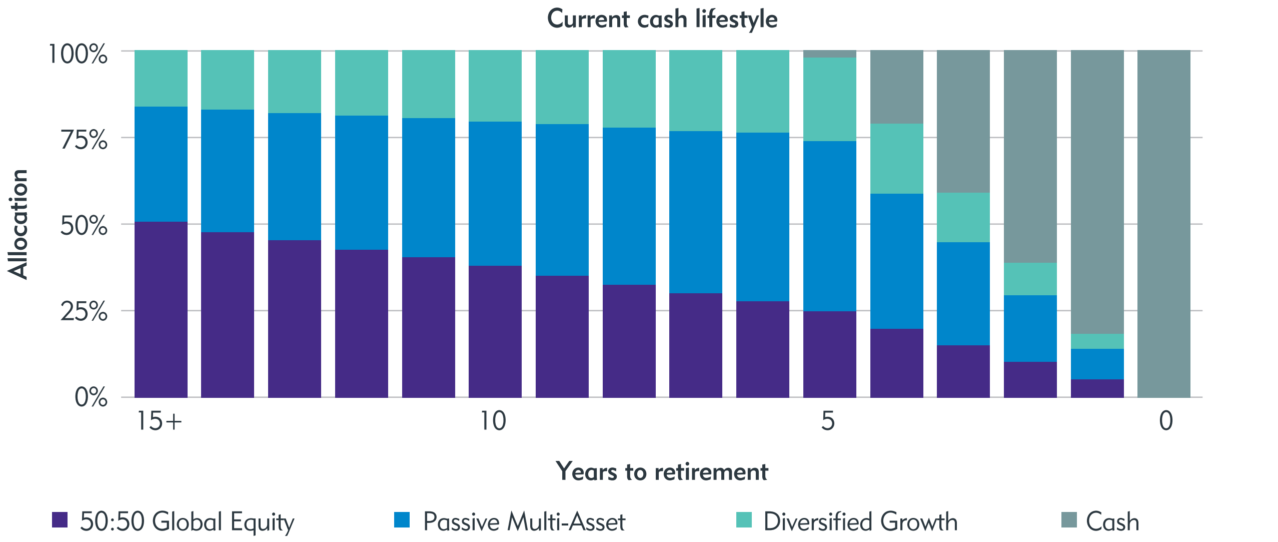
Years to retirement	15+	14	13	12	11	10	9	8	7	6	5	4	3	2	1	0
Annual charge (%)	0.44	0.45	0.47	0.49	0.51	0.53	0.54	0.56	0.58	0.60	0.62	0.61	0.61	0.61	0.61	0.61

CASH LIFESTYLE – DETAILS OF CHANGES

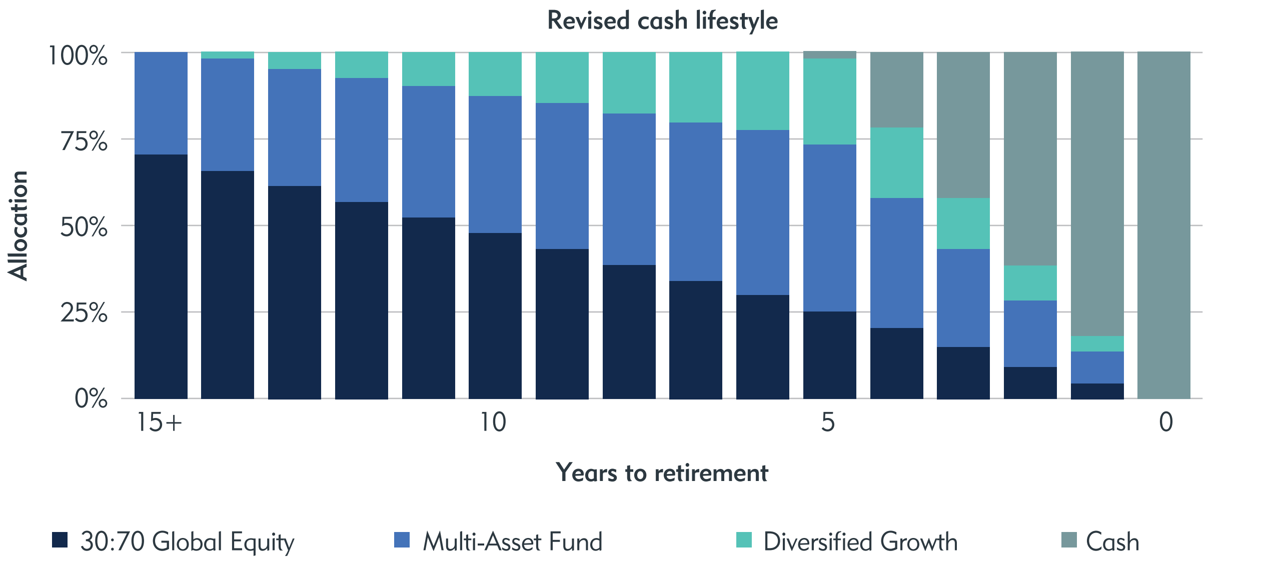
If you are invested in the cash lifestyle, we will automatically be making changes to your investments.

The initial part of the lifestyle (prior to 15 years to target pension age) will change as previously explained. Starting 15 years before retirement, the equity fund allocation will be gradually reduced, the multi-asset fund allocation will be increased, and the diversified growth fund allocation will be built-up. In the final 5 years before retirement, the entire allocation will be gradually switched into cash, so that at the point of retirement, your pot will be 100% invested in cash.

As a result of these changes you will be paying lower fees as you move through the new lifestyle. The changes described are illustrated in the following charts. The charges you incur at each phase of the lifestyle are shown underneath each of the charts.



Years to retirement	15+	14	13	12	11	10	9	8	7	6	5	4	3	2	1	0
Annual charge (%)	0.57	0.58	0.59	0.60	0.60	0.61	0.62	0.63	0.64	0.65	0.65	0.60	0.55	0.50	0.45	0.40



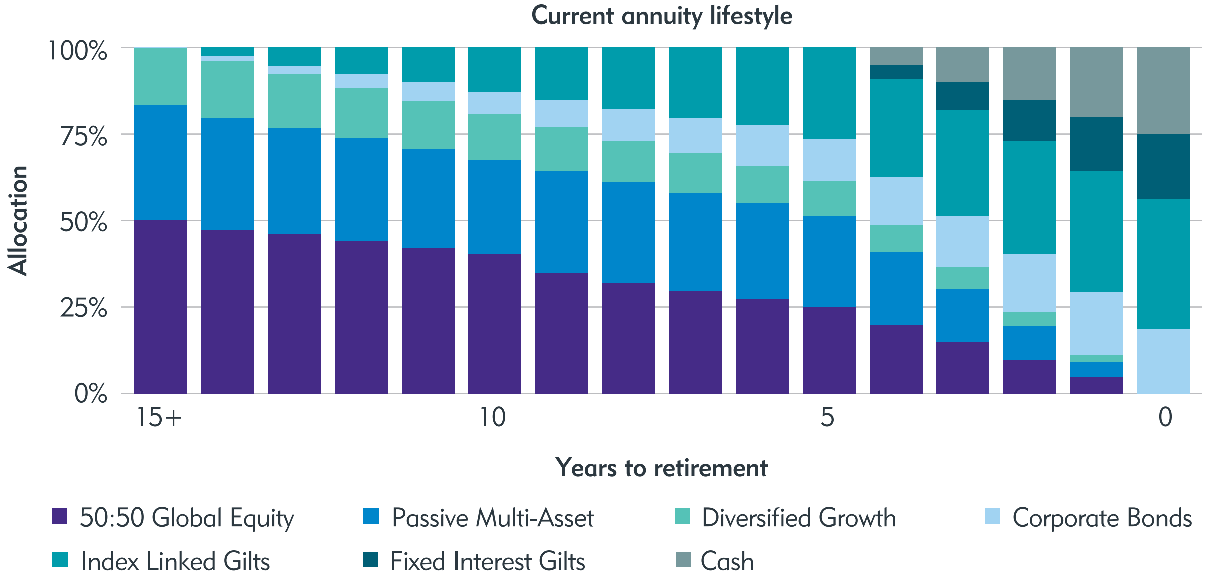
Years to retirement	15+	14	13	12	11	10	9	8	7	6	5	4	3	2	1	0
Annual charge (%)	0.44	0.45	0.47	0.49	0.51	0.53	0.54	0.56	0.58	0.60	0.61	0.57	0.53	0.48	0.44	0.40

ANNUITY LIFESTYLE – DETAILS OF CHANGES

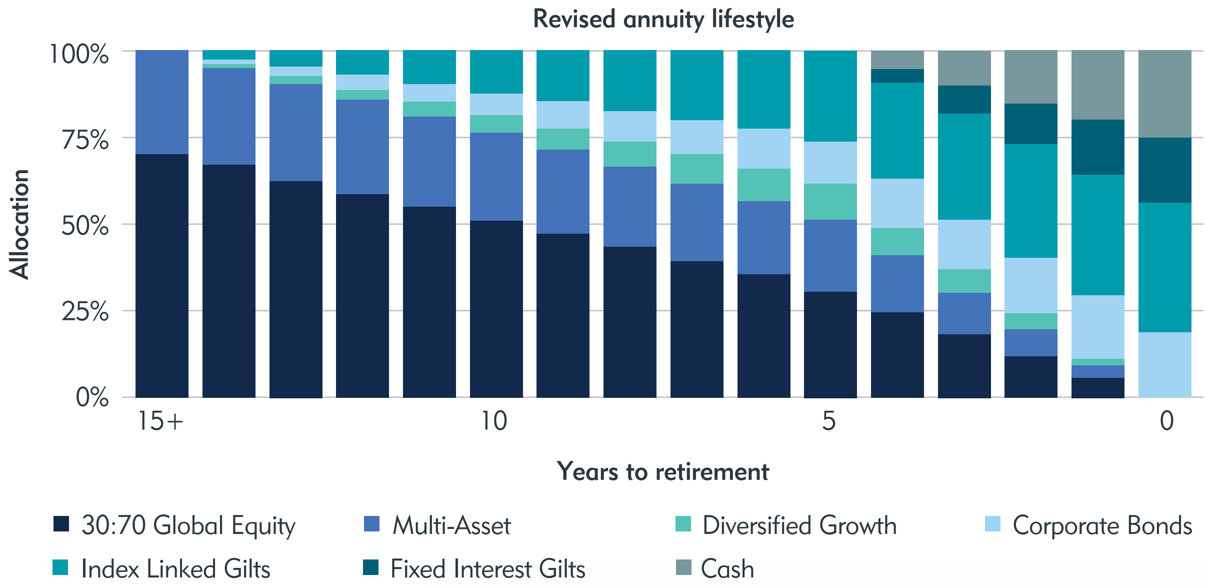
If you are invested in the Annuity Lifestyle, we will automatically be making changes to your investments.

The initial part of the lifestyle (prior to 15 years to target pension age) will change as previously explained. Starting 15 years before retirement, the equity and multi-asset fund allocations will be gradually reduced, allocations will be built-up to index-linked gilts and corporate bonds and a small diversified growth fund allocation will be built-up. In the final 5 years before retirement, allocations will also be made to fixed interest gilts and cash. At the point of retirement, your pot will be invested 18.75% in corporate bonds, 18.75% in fixed interest gilts, 37.5% in index-linked gilts and 25% in cash, exactly the same as in the current lifestyle.

As a result of these changes you will be paying lower fees as you move through the new lifestyle. The charges you incur at each phase of the lifestyle are shown underneath each of the charts.



Years to retirement	15+	14	13	12	11	10	9	8	7	6	5	4	3	2	1	0
Annual charge (%)	0.57	0.56	0.56	0.55	0.54	0.54	0.53	0.52	0.52	0.51	0.50	0.48	0.46	0.44	0.41	0.39



Years to retirement	15+	14	13	12	11	10	9	8	7	6	5	4	3	2	1	0
Annual charge (%)	0.44	0.44	0.45	0.45	0.46	0.47	0.47	0.48	0.48	0.49	0.49	0.47	0.45	0.43	0.41	0.39

SELF-SELECT RANGE – DETAILS OF CHANGES

We will be making some changes to the funds available in the self-select range, to ensure the range remains appropriate and competitively priced.

The Passive Multi-Asset Fund and Newton Real Return Fund will both be removed from the self-select range. If you are currently invested in either of these two funds your assets and future contributions will be transferred to the lower cost L&G Multi-Asset Fund, which will be added to the self-select range.

The existing L&G Global Equity Fixed Weights 50:50 Index Fund, which invests 50% in UK equities and 50% in overseas equities will be removed from the self-select range. If you are invested in the L&G Global Equity Fixed Weights 50:50 Index Fund then your assets and future contributions will be directed to the L&G Global Equity Market Weights 30:70 Index Fund instead. The L&G Global Equity Market Weights 30:70 Index Fund, invests 30% in UK equities and 70% in overseas equities and is 75% 'currency-hedged' to £ Sterling for overseas equities. This aims to reduce the risk (by 75%) that changes in exchange rates will reduce the value of overseas equities when converted into £ Sterling.

The remainder of the self-select range will remain the same as it was. If you are invested in any other fund in the range then no changes will be made to your investments and you do not need to take any action.

The full range that will be available to you going forwards is shown in the following table.

Fund type	Fund name	Active/passive	Member charge (per year)
Global equity	L&G Global Equity Market Weights 30:70 Index Fund	Passive	0.44%
Diversified growth	Standard Life Global Absolute Return Strategies Fund	Active	1.16%
Multi-asset	L&G Multi-Asset Fund	Passive	0.43%
UK index-linked government bond	L&G Over 5 Year Index-Linked Gilts Index Fund	Passive	0.38%
UK fixed interest government bond	L&G Over 15 Year Gilts Index Fund	Passive	0.38%
UK corporate bond	L&G AAA-AA-A Corporate Bond (Over 15 Years) Fund	Passive	0.42%
Ethical equity	L&G Ethical Global Equity Index Fund	Passive	0.60%
Islamic equity	HSBC Islamic Global Equity Index Fund	Passive	0.65%
Cash	L&G Cash Fund	Passive	0.40%

QUESTION AND ANSWERS

WHAT IS THE DIFFERENCE BETWEEN A PASSIVE FUND AND AN ACTIVE FUND?

Passive funds try to replicate a particular benchmark or index, aiming to achieve the same return. Active funds are managed with the aim of outperforming passive funds by investing in particular assets the active manager believes will perform better than the market. Active management usually comes with a higher fee than a passive approach.

WHAT IS THE NEW L&G MULTI-ASSET FUND?

The L&G Multi-Asset Fund is being introduced into all three lifestyles and into the self-select range as a replacement for the Passive Multi-Asset Fund. The Passive Multi-Asset Fund is a blend of underlying passively managed funds, and the split between these funds was the responsibility of the ITB Trustees. In a similar way the L&G Multi-Asset Fund blends together underlying passively managed funds. However, the split between the funds is the responsibility of L&G; L&G reviews the asset allocation each quarter and provides ongoing governance of the fund. The L&G Multi-Asset Fund also represents a material fee saving relative to the Passive Multi-Asset Fund.

WHY HAS THE NEWTON FUND BEEN REMOVED?

The Trustees have taken the decision to remove the Newton fund as its performance has been below expectations, and it charges relatively high fees. The Trustees believe that the L&G Multi-Asset Fund offers better value for members.

WHY HAS THE EQUITY FUND BEEN CHANGED?

The Trustees have removed the L&G Global Equity Fixed Weights 50:50 Index Fund and replaced it with the L&G Global Equity Market Weights 30:70 Index Fund as the new fund is more diversified by equity region. As previously explained, the new fund also aims to remove 75% of the risk associated with overseas currency exposure.

Whilst the fees on the new equity fund are slightly higher the Trustees believe this is a beneficial change to deliver a more diversified exposure and to incorporate additional currency risk management.

IS THERE A COST FOR THESE CHANGES?

You will not incur any explicit costs for the changes being made, and no deductions will appear on your benefit statement. However, there may be some implicit transaction costs associated with buying and selling of funds, which will be reflected in the unit price of the funds. The exact amount of these will depend on market conditions on the day of the change, and the exact mix of funds you are invested in.

With regard to the changes to the lifestyle strategies, the implicit transition cost is not expected to be any more than about 0.44% for members more than 15 years to retirement and should be progressively less than this for members that are closer to retirement. If you have self-selected the L&G Global Equity Fixed Weights 50:50 Index Fund, the transaction costs for these assets being switched to the L&G Global Equity Market Weights 30:70 Index Fund are not likely to be any more than 0.35%. Transaction costs for assets switched from the Passive Multi-Asset Fund to the L&G Multi-Asset Fund may be in the region of 0.46% and assets switched from Newton to the L&G Multi-Asset Fund may be in the region of 0.33%.

WHEN ARE THE CHANGES TAKING PLACE?

L&G will be carrying out all of the investment changes described in this newsletter on 9 April 2018.

The Funds will enter a "blackout period" on 30 March 2018. This is a period during which you will not be able to make any changes to your investments, and will not have full access to your L&G online account. The blackout period will end on 11 April 2018. After this time your full online account access will be restored, and you can make any changes you wish to your investments.

WHAT DO I NEED TO DO?

All of the changes described in this newsletter will be taking place automatically, so there is no action you need to take. However, given that changes are being made, this is a good opportunity for you to review your investment choices. You have the opportunity to log on to your online account either side of the blackout period to review the options available to you and make any selection you wish.

It is important to remember that choosing how to invest your pension account is a big decision. Any decisions you make could have a significant impact on the level of your retirement income, and you should note that the value of your account can go up or down. The value of your account at retirement will directly affect the level of income you will receive when you retire. It is important to review the investment options for your account regularly to ensure that it continues to be right for your personal circumstances.

It is also important to review your target retirement age, as this will affect your position within a lifestyle strategy if you are invested in one. If your target pension age does not match the age you will actually access your pension savings then your lifestyle strategy may not be achieving what it is meant to do.

If you need help when making an investment choice, you should consider speaking to a financial adviser.
To learn more about finding a financial adviser you can visit **www.moneyadviceservice.org.uk**. The ITB Trustees are not able to provide you with financial or tax advice.

ANY QUESTIONS?

If you have any questions about the changes set out in this newsletter or wish to change your investment choice please contact:

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

Email: pensions@itbpen.com

Phone: 01923 226264

The Funds are governed by a Trust Deed and Rules. Every attempt has been made to describe accurately the provisions of the Funds as they affect members. If inconsistencies arise between this guide and the Trust Deed and Rules governing the Funds, then the Trust Deed and Rules will prevail. This guide is based on pensions and tax legislation and HMRC practice at the date of printing. This legislation and HMRC practice may change in the future. The Trustees will keep the range of investments described in this guide under review and may make changes to the funds including removing some or all of the options.

The value of your account is always linked to the price of the investment funds which make up your investment choice. This means that the value of your account is not guaranteed and can fall as well as rise. Please note that past investment performance is not a reliable indicator of future results.

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