JANUARY 2021

STATEMENT OF INVESTMENT PRINCIPLES

for the

OPEN FUND OF THE ITB PENSION FUNDS

1. Introduction

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

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

1.2. Who has had input to the SIP?

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

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

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

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

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

The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles.

2. What are the Trustees' overall investment objectives?

The Trustees' objectives are:

- to limit the risk of the assets failing to meet the liabilities over the long term, in particular in relation to the Open Fund's ongoing funding target; and

- to run a "self-sufficient" investment strategy so that there is only a small risk that the Open Fund would require additional contributions as a result of adverse market circumstances or because of better than assumed mortality experience.

- To target a complete buy-in of all the Open Fund's DB liabilities by 2028

In addition to the buy-in exercises undertaken in October 2016, the Trustees undertook further buy-ins in November 2017 and April 2018. The buy-ins aim to reduce risks in the Open Fund including longevity risk in respect of the members covered by the policies, and increase the accuracy in matching the liabilities covered.

As members continue to retire, the Trustees will consider the appropriateness of additional buy-in exercises to provide full protection with regards to the pensioner liabilities, in line with the long term targets of the Open Fund.

2.1. What risks do the Trustees consider and how are these measured and managed?

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

3. Summary of the Open Fund's investment strategy (Defined Benefits Section)

3.1. How was the investment strategy determined?

The Investment Committee, with the help of their advisers, undertook a review of investment strategy in 2018, taking into account the objectives described in Section 2 above.

3.2. What is the investment strategy?

The result of the review and a further update in 2020 was that the Trustees agreed that the investment strategy of the Open Fund should target the benchmark allocation below:

Asset class	**Proposed Allocation**
Global equities	2%
Liability Driven Investment ('LDI')	42%
Investment grade credit	9%
Buy-in policies	47%
Total	**100%**
Interest rate hedge ratio (from LDI and credit assets)	*100.0%*
Inflation hedge ratio (from LDI and credit assets)	*100.0%*

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

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

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

- the best interests of members and beneficiaries;
- the term and nature of the projected liability cash flows;
- a wide range of asset classes;
- the risks and rewards of a number of possible asset allocation options;
- the suitability of each asset class within each strategy, both across asset classes and within asset classes;
- the need for appropriate diversification between different asset classes to ensure that both the Open Fund's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Open Fund;
- the positions of the Participating Employers, including an assessment of the strength of the covenant of the Participating Employers; and

- the Trustees' investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustees' key investment beliefs are set out below.

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity and credit are the primary rewarded risks;
- risks that are typically not rewarded, such as interest rate, inflation and currency, should generally be avoided, hedged, or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

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

The key financial assumptions underlying the model as at 31 December 2020 were as follows:

- average long-term inflation: 3.1%
- average long-term gilt yield: 0.7%
- average long-term return on equities: 5.7%
- average long-term return on corporate bonds: 1.3%

Thus, the model assumes that there is a 50/50 chance that, over the long term, equity-type investments will outperform gilts by at least 5.0% pa.

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

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

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

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

4. Appointment of investment managers and custodian

4.1. How many investment managers and custodians are there?

The Trustees have decided to appoint a range of managers to manage the Open Fund's assets. The manager arrangements are discussed in Appendix B.

The Trustees have a global custodian. The pooled funds used also have underlying custodians.

4.2. What formal agreements are there with investment managers?

The Trustees have signed investment management agreements with some of the investment managers, setting out in detail the terms on which the portfolios are managed, including the need for suitable and appropriately diversified investment. Details of the investment managers and their investment benchmark and guidelines are given in Appendix B.

For some of the investment managers, there is no signed investment management agreement in place, for example where the investment is in a pooled fund and the manager has no discretionary powers in respect of the mandate. In such cases, the pooled fund is governed by a prospectus, setting out the terms for investors. In most of these cases, the Trustees have negotiated specific terms that are set out in a side letter.

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

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

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

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

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

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

4.3. What do the investment managers do?

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

4.4. What do the custodians do?

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

Further details of the custodians are given in Appendix B.

5. Defined Contribution Section

5.1. What is the Trustees' overall investment objective?

The Trustees recognise that members of the Defined Contribution Section may have differing investment needs. These needs may change during the course of a member's working life and members may have differing attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances.

The Trustees' investment objective is, therefore, to make available a range of pooled investment funds which serve to meet in general the varying investment needs and risk tolerances of the members of the Defined Contribution Section.

5.2. What risks do the Trustees consider and how are these measured and managed?

The Trustees have considered risk for the Defined Contribution Section from a number of perspectives, including, but not limited to, those set out in Appendix A. Some of the risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

5.3. What are the investment strategy arrangements?

The Trustees have provided to members a range of investment options, having regard to the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns. Following a review of the strategy in 2017, the Trustees have elected to restructure some of the member options in order to allow them to transfer a number of deferred members into a "Section 32 Buy-out Policy". The Trustees have also made further changes to the options to reflect the latest product developments in the investment market. The range of funds that is available is set out in Appendix B.

It is for each member to decide on their required strategic allocation to each of the available investment funds. The fund range offered also includes three "lifestyle" strategies that automatically combine the investments in proportions that vary according to the proximity to retirement age. Each of the three lifestyle strategies targets a different investment option for members at retirement; income drawdown, a cash lump-sum or the purchase of an annuity. If a member does not choose an investment option, their account will be invested into the default lifestyle option, which targets income drawdown at retirement.

The lifestyle strategy is designed to offer some protection against the risks described in Section A.2 of Appendix A.

5.4. What did the Trustees consider in setting the Open Fund's Defined Contribution Section investment strategy arrangements?

In determining the investment arrangements for the DC Section the Trustees took into account:

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifestyle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken. The main risks considered were inflation risk (the risk that a member's investments fail to keep pace with inflation over the longer term), conversion risk (the risk of a deterioration in the terms available for converting funds into pension at retirement - applicable to the annuity lifestyle) and capital risk (the risk of a fall in the amount of cash available to take at retirement);
- the need for appropriate diversification within the default strategy and other lifestyle options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members;
- the Trustees' investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustees' key investment beliefs are set out below.

- In deciding upon the funds to offer to members, the Trustees' primary asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity and credit are the primary rewarded risks;
- risks that are typically not rewarded should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;

- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive[1] management, where available, is usually better value;

- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact Open Fund's returns; and

- costs have a significant impact on long-term performance.

5.5. Appointment of investment provider

The Trustees have appointed one main provider to provide the funds in which the Defined Contribution Section invests. The provider offers funds managed internally and by third party investment managers.

The provider's primary role is to maintain the funds in which the Defined Contribution Section invests. The provider is authorised under the Financial Services and Markets Act 2000 to carry out such activities.

6. Other matters

6.1. What is the Trustees' policy on the realisation of investments?

The Trustees, together with the ITB Funds' Office, will ensure that they hold sufficient cash to meet the likely benefit outgo from time to time. The Trustees' policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Open Fund's overall investment policy where possible.

The ITB Funds' Office, on behalf of the Trustees, assesses the likely benefit outgo of the Open Fund on a regular basis and ensures that sufficient cash reserves are available to meet the outgo.

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

6.2. What is the Trustees' policy on financially material and non-financial matters?

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

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

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds but expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations) as the managers consider appropriate.

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[1] Passive management includes a range of rules-based portfolio construction strategies

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

6.3. What is the Trustees' policy on the exercise of investment rights?

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attached to investments, protect and enhance the long-term value of investments. The Trustees have delegated to the investment manager the exercise of rights attached to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment manager to exercise ownership rights and undertake monitoring and engagement in line with the manager's general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries. The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustees review how these are implemented in practice.

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

Appendix C contains brief details of the respective responsibilities of the Trustees, the investment adviser, the investment managers and the custodians. Appendix C also contains a description of the basis of remuneration of the investment adviser, the investment managers and the custodians.

6.5. Do the Trustees make any investment selection decisions of their own?

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

6.6. AVC options

The Trustees have made available to members a choice of investment approaches which include:

- members investing their contributions in a variety of Unit Linked funds with Legal & General;

- members investing their contributions in the Prudential with-profits fund (the intention is to transfer these to Legal & General funds in the short term); and

- members investing their contributions in a group life policy with Royal London (formerly known as Scottish Life Assurance Company) under which members contributions are accumulated with interest (the intention is to transfer these to Legal & General funds in the short term);

The funds available are discussed further in Appendix B. The Trustees have agreed to transfer the Royal London and Prudential AVCs to Legal & General in 2019.

7. Review

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

DN McGuiness

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

26 February 2021

Appendix A

The Trustees' policy towards risk, risk measurement and risk management

A.1. Defined Benefits Section

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

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

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

Based on assumptions as at 31 December 2020 and the strategy in section 3.2, the Open Fund's 1 year 90% Value at Risk is around £16m on a Technical Provisions basis. This means that there is a 1 in 10 chance that the Open Fund's assets will fall in value by around £16m or more over a one year period. When deciding on the current investment strategy, the Trustees believed this level of risk to be appropriate given the Trustees' and employer's risk appetite and capacity, given the Open Fund's objectives.

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

A.1.1 Strategic risk

This is the risk that the performance of the Open Fund's assets and liabilities diverge in certain financial and economic conditions. This risk has been taken into account in the Trustees' investment strategy review, and will be monitored by the Trustees on a regular basis.

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

A.1.2. Inadequate long-term returns

A key objective of the Trustees is that, over the long-term, the Open Fund should have adequate resources to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Open Fund to produce an adequate long-term return.

A.1.3. Investment manager risk

This is the risk that the investment managers fail to meet their investment objectives. Prior to appointing the investment managers, the Investment Committee undertook investment manager selection exercises on behalf of the Trustees, to satisfy themselves that the managers could meet these objectives.

The Investment Committee of the Trustees holds regular meetings with the investment managers to satisfy themselves that the managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Open Fund.

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

A.1.4. Risk from lack of diversification

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

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

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

A.1.5. Default of the buy-in providers

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

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

A.1.6. Liquidity/marketability risk

This is the risk that the Open Fund is unable to realise assets to meet benefit cash flows as they fall due. The Trustees are aware of the Open Fund's cash flow requirements and believe that this risk is managed appropriately via the measures described in Section 6.1.

A.1.7. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Open Fund's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices and unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice

A.1.8. Currency risk

This is the risk that the value of the Open Fund's assets is affected by movements in currency exchange rates. Currency risk is managed through the manager guidelines and within the pooled funds that the Trustees have selected.

A.1.9. Custodian risk

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

A.1.10. Inappropriate investments

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

A.1.11. Political risk

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

A.1.12. RPI versus CPI

This is the risk that CPI increases exceed RPI increases. This is relevant given a portion of the buy-in proceeds are linked to RPI while the majority of the Fund's benefits increase with CPI. The Trustees are comfortable to run the Risk given that historically, CPI has been lower than RPI and the buy-in contracts cover a significant portion of the liabilities.

A.1.13. Other risks

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

- mortality risk (the risk that members live, on average, longer than expected). The Trustees have invested in bulk annuity contracts that provide a certain level of protection against longevity risk.; and

- sponsor risk (the risk that, for whatever reason, the Participating Employers are unable to support the Open Fund as anticipated). The Trustees have taken into account the strength of the employers' covenant in setting the Open Fund's investment strategy.

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

The risks A.1.1, A.1.2 and particularly A.1.11 will be monitored through regular actuarial valuations and reports.

A.2. Defined Contribution Section

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

A.2.1. Risk of inadequate long-term returns

As members' benefits are crucially dependent on the investment returns achieved, it is important that investment vehicles are available which can be expected to produce adequate real returns over the longer term.

A.2.2. Risk of deterioration in investment conditions near retirement

For a given amount of money the level of pension secured for a member will depend upon investment conditions at retirement. A sharp deterioration in these conditions in the period just prior to retirement will have a substantial impact in the benefits provided. To protect against this, the Trustees have made a lifestyle strategy, the ITB Drawdown, which targets drawdown at retirement.

A.2.3. Risk of lack of diversification and unsuitable investments

Within each fund available to members the holdings should be adequately diversified. To achieve this, the Trustees have selected funds which invest in a suitable diversified range of holdings. The Trustees' policy is to make available to members funds which, in normal circumstances, should prove easy to buy and sell.

A.2.4. Risk from excessive charges

If the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive then the value of members' accounts will be reduced unnecessarily. The Trustees have, therefore, looked closely at the terms and conditions of the investment manager and are comfortable that the charges applicable to the Open Fund are in line with market practice and assess regularly whether these represent good value for members.

A.2.5. Investment manager risk

This is the risk that the investment manager fails to meet its investment objective. The Trustees monitor the investment manager on a regular basis.

A.2.6. Other risks

The Trustees recognise that there are other, non-investment, risks within the Defined Contribution Section. Unlike the Defined Benefit Section, these risks fall generally on the individual Defined Contribution Section members rather than on the membership generally and/or the sponsoring employer. Examples of these risks include longevity risk (the risk that insurers expect members to live longer, which increases the cost of securing a pension), and knowledge/understanding risk (the risk that members make inappropriate investment choices, given their circumstances).

B.1. Defined Benefits Section

The Trustees have decided to appoint a range of managers to manage the Open Fund's defined benefit assets.

Some of the managers have objectives which relate to performance before fees. However, the Trustees have ensured that the objectives are still appropriate given the level of fees paid to the managers. Further details on manager fee structures are given in section C.3.

B.1.1 Liability Driven Investment ('LDI') and Investment Grade credit

The Trustees have selected Insight Investment as the manager of the LDI and credit assets.

Insight will construct and manage an LDI Portfolio that aims to hedge a proportion of the liability cash flows against changes in interest rates and inflation expectations. Alongside the LDI portfolio, Insight will also manage an investment grade credit portfolio to help hedge some of the Open Fund's interest rate exposure while earning a credit premium. The long term target for the LDI and credit Portfolio is to hedge approximately 100% of the interest rate risk (or PV01[2]) and 100% of the inflation risk (or IE01[3]) of the liability cash flows on a low risk basis.

B.1.2 Global equities

The Trustees have selected Allianz Global Investors as the manager of the global equity portfolio.

Allianz Global Investors' objective is to outperform the total return of the MSCI World by 1%-2% pa before the deduction of investment management fees.

B.1.3. Property

The Trustees previously selected Fletcher King and Schroders Investment Management ("Schroders") as the managers of the UK property and European property portfolios respectively. While the Open Fund currently holds an allocation to these funds, it is the Trustees' expectation that each will be fully disinvested over the short term, to target the benchmark detailed in section 3.2.

B.1.4. The bulk annuity contracts

The Trustees have invested a proportion of the Fund's assets in bulk annuity contracts ("buy-ins") with two insurers; Pensions Insurance Corporation ("PIC") and Just Group (formerly known as Just Retirement Limited) to cover all of the Fund's current pensioner liabilities at outset. The buy-ins afford a higher level of accuracy to matching the liabilities

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[2] The change net present value of a series of future cash flows resulting from a 0.01% shift in the relevant zero-coupon interest rate curve.

[3] The change in net present value of a series of future cash flows resulting from a 0.01% shift in the relevant spot inflation expectation rate.

covered whilst also protecting against the longevity risk in respect of members covered by the policies.

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

B.1.5. Custodians

The Trustees have appointed JP Morgan Chase as the global custodian.

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

B.1.6. Additional Voluntary Contributions ("AVCs")

The Trustees have selected Prudential, Legal & General and Royal London (formerly known as Scottish Life Assurance) as the Open Fund's money purchase AVC providers. The funds available to members are set out below. The default strategy for AVC members is the ITB Cash Strategy. The Trustees have decided to transfer the Royal London and Prudential AVCs to Legal & General to be completed in 2019.

Prudential

- Prudential With Profits Fund;

Legal & General

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

Royal London

- Royal London Crest Money Purchase;

Detailed information on these funds is provided to members on the ITB Pension Funds website www.itb-online.co.uk.

B.2. Defined Contribution Section

The Trustees have selected Legal & General as the investment platform for the Defined Contribution Section.

B.2.1. Current fund range

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

Manager	Fund name	Benchmark	Target
L&G	Global Equity Market Weights (30:70) Index Fund – 75% GBP Currency Hedged	Composite of 30/70 distribution between UK and overseas, 75% GBP Hedged	To track the benchmark
L&G	Ethical Global Equity Index Fund	FTSE4Good Global Equity Index	To track the benchmark to within +/- 0.50% pa for two years in three
HSBC	Islamic Global Equity Index Fund	Dow Jones Islamic Titans 100 Index	To track the benchmark
L&G	Multi Asset Fund	ABI UK – Mixed Investment 40%-85% Shares Pension Sector	To provide long-term investment growth through exposure to a diversified range of asset classes
L&G	AAA-AA-A Corporate Bond (Over 15 Years) Fund	iBoxx £ Non Gilts (ex BBB) Over 15 year Index	To track the benchmark to within +/- 0.50% pa for two years in three
L&G	Over 5 Year Index-Linked Gilts Index Fund	FT A Index-linked gilts (Over 5 year) Index	To track the benchmark to within +/- 0.25% pa for two years in three
L&G	Over 15 Year Gilts Index Fund	FT A gilts (Over 15 year) Index	To track the benchmark to within +/- 0.25% pa for two years in three
L&G	Cash Fund	7 Day LIBID	To match the CAPS Pooled Pension Fund median.

B.2.2. Default option

The Open Fund also has three lifestyle strategies and the default investment option is a lifestyle strategy which targets income drawdown at retirement. The default option provides an automated investment switching facility, following a pre-selected investment strategy, which will move the funds into lower risk investments as retirement approaches.

Until 15 years prior to each member's selected retirement age, the lifestyle strategy invests in:

- 70% in L&G's Global Equity Fixed Weights 30:70 Index Fund - 75% GBP Currency Hedged; and
- 30% in L&G's Multi Asset Fund.

Fifteen years prior to each member's selected retirement age, automatic monthly switches commence.

The investment split at each member's target retirement age would be as follows:

- 75% in the Multi Asset Fund; and
- 25% in the L&G Cash fund.

The table below outlines how the proportion of portfolio holdings changes in the 15 years up to retirement under the strategy.

Years to Retirement	**Global Equities (%)**	**Multi-Asset (%)**	**Cash (%)**
15 or more	70.00	30.00	0.00
14	65.50	34.50	0.00
13	61.00	39.00	0.00
12	56.50	43.50	0.00
11	52.00	48.00	0.00
10	47.50	52.50	0.00
9	43.00	57.00	0.00
8	38.50	61.50	0.00
7	34.00	66.00	0.00
6	29.50	70.50	0.00
5	25.00	75.00	0.00
4	20.00	75.00	5.00
3	15.00	75.00	10.00
2	10.00	75.00	15.00
1	5.00	75.00	20.00
0	0.00	75.00	25.00

Responsibilities and fees

C.1. Responsibilities and investment decision-making structure

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

C.1.1. Trustees

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

In broad terms, the Trustees are responsible in respect of investment matters for:

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

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

C.1.2. Investment Committee

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

- establishing general guidelines and policies on investment matters including revising from time to time the Statement of Investment Principles (after having consulted the employers in accordance with section 35 of the Pensions Act 1995);
- appointing and dismissing Fund Managers, AVC Providers, Custodians, performance measurement service providers and investment service providers;
- establishing overall investment objectives and strategic asset allocations;
- making investment decisions in accordance with the investment objectives and strategic asset allocations but not those which are required to be taken by an authorised person under section 191 of the Financial Services Act 1986;

- approving transfers of assets between Fund Managers and/or Custodians; and
- setting the policy for rebalancing between asset classes.

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

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

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

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

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

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

C.1.3 Buy-in providers

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

C.1.4. Investment managers

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

- for active managers at their discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting securities within each asset class;

- providing the Trustees with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the investment processes applied to their portfolios;

- informing the Trustees of any material changes in the internal objectives and guidelines of any pooled funds used by the Fund and managed by the investment manager or an associate company; and

- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

C.1.5. Custodians

The Fund invests using both directly owned, segregated assets which are in the custody of a global custodian appointed by the Trustees and in a range of pooled funds, each of which has its own custodian. The custodians' responsibilities include:

- the safekeeping of all the assets of the Open Fund;

- processing the settlement of all transactions;

- providing the Trustees with statements of the assets and the cash flows;

- undertaking all appropriate administration relating to the Open Fund's assets;

- processing all dividends and tax reclaims in a timely manner; and

- dealing with corporate actions.

C.1.6. Investment consultant

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

- advising on how material changes within the Open Fund's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;

- advising on a suitable fund range and default strategy for the Defined Contribution section of the Open Fund, and how material changes to legislation or within the Open Fund's benefits and membership may impact this;

- advising on the regular updating of the Statement of Investment Principles;

- advising on the development of a clear investment strategy for the Open Fund and on the construction of a strategic asset allocation benchmark, given the liabilities of the Open Fund and the risk and return objectives of the Trustees;

- advising on an overall investment management structure that meets the objectives of the Trustees;

- advising on the selection and appointment of appropriate investment management organisations, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations);

- providing the consultant's current views of the investment managers employed by the Open Fund, as requested;
- advising on potential new areas or tools of investment such as hedge funds, currency hedging, interest rate swaps etc;
- providing trustee education, as requested; and
- providing general advice in respect of the Open Fund's investment activities, as requested.

C.1.7 Scheme Actuary

The Scheme Actuary's responsibilities include:

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

C.2. Mandates given to advisers, investment managers and custodian

The Trustees have in place signed agreements with each of the Open Fund's advisers, most of the Open Fund's investment managers and the custodians. These provide details of the specific arrangements agreed by the Trustees with each party.

For some of the investment managers, there is no signed investment management agreement in place, for example where the investment is in a pooled fund and the manager has no discretionary powers in respect of the mandate. In such cases, the pooled fund is governed by a prospectus, setting out the terms for investors. In most of these cases, the Trustee has negotiated specific terms that are set out in a side letter.

C.3. Fee structures

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

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

The investment managers receive base fees calculated with reference to the market value of assets under management. Fletcher King is paid an annual retainer fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The custodian fees are calculated on a per transaction basis and by reference to the market value of assets under custody. The fee rates are believed to be consistent with the custodian's general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

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

C.4. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

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

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

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