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PENSION FUNDS

Scottish Life AVC

Performance Update

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ITB PENSION FUNDS – AVC UPDATE – ACTIVE MEMBER
Prepared by YIG Consulting Ltd, part of Yorkshire Investment Group

How important are your Additional Voluntary Contributions to your pension planning?

Please read and take action on the following information.

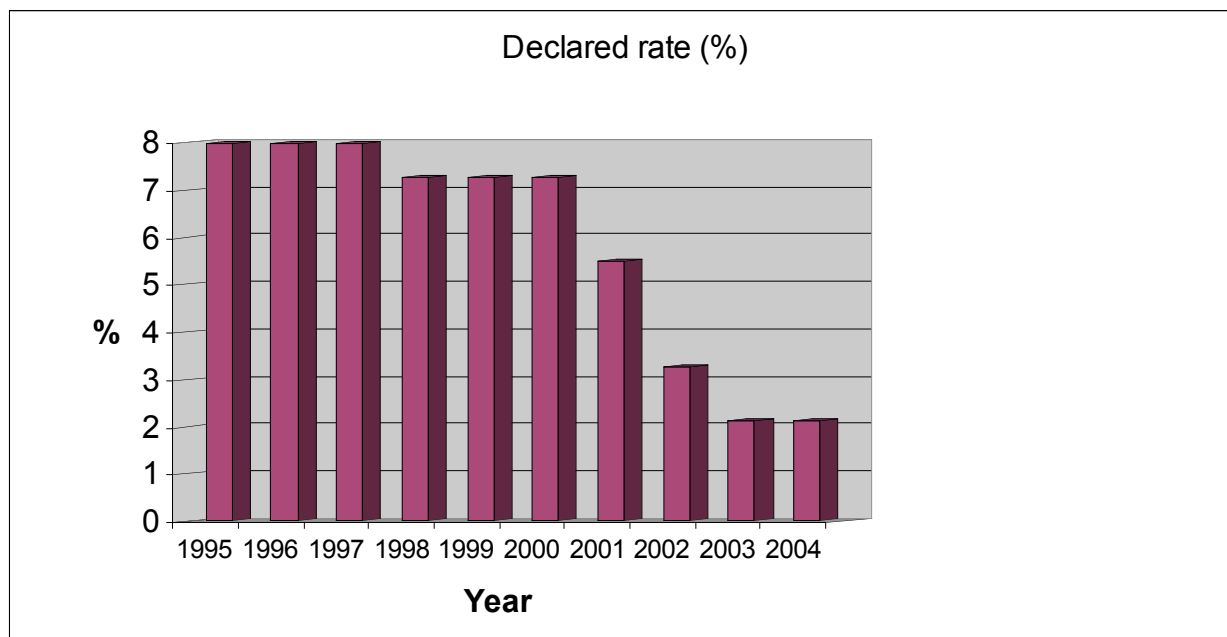
This announcement is for current members who are paying, or have paid, Additional Voluntary Contributions (AVCs) to the Scottish Life Crest Secure Fund. It follows on from the announcement headed “A Guide to AVC Investments” dated January 2005, also prepared by YIG Consulting Ltd, and should be read in conjunction with that announcement. This can be found on the ITB Pension Funds internet site (<http://www.itb-online.co.uk>).

Scottish Life Crest Secure Deposit Administration Fund

This is just one of nine funds available to members wishing to pay AVCs, and until 2002 was the only AVC fund available. In many ways Deposit Administration is similar to With Profits in that the fund invests across a mix of assets and bonuses are declared. The capital value, and bonuses once declared, are guaranteed. Bonuses are added in such a way as to smooth out investment returns over the long term. However, a key difference, compared to With Profits is that the underlying assets are such that the actual investment of the fund is inherently less volatile with less invested in equities and correspondingly higher proportion in bond type assets.

The performance of the Crest Secure Fund has declined markedly over the last ten years, as shown in the chart below. This is perhaps not surprising in itself given the stock market returns as a whole over that period. However, the asset allocation has also become increasingly defensive over recent years as Scottish Life need to protect the guarantees for policyholders and cannot risk investing a significant proportion of the fund in equities, which could potentially fall (as well as rise) significantly. At present 85% of the fund is invested in bonds, with only 11% in equities and the balance (4%) in property. In other words, if equity markets do perform well over the next few years the fund will not benefit significantly from this.

Historic performance of Scottish Life Crest Secure Fund



Source: Scottish Life – December 2005. The Fund currently receives an additional 1% bonus allocation, included in the chart, over and above Scottish Life’s standard bonus allocation which is passed onto the ITB Scheme members who have AVCs invested in the Scottish Life Crest Secure Fund. This additional allocation could be withdrawn by Scottish Life in future years.

The risk profile of this fund is low and it may suit cautious investors and particularly those who are close to retirement. However, there are other funds available to members, which also have a low investment risk profile, such as the Prudential Deposit Fund. This fund similarly has capital guarantees and rates of interest which are comparable to those offered by building societies. The rates of return in recent years have been greater than the Scottish Life Crest Secure Fund and, in the opinion of YIG Consulting Ltd, is likely to remain so in the next few years.

Please note this guide is for information purposes. The Trustees do not know of your personal circumstances and are not authorised to give financial advice. The Trustees cannot, and are not, recommending that you transfer your Crest Secure Fund, but wish to make you aware of the situation should you wish to investigate this further.

Can I contribute future AVCs to a different fund and/or transfer my existing Crest Secure Fund to one of the other funds available to me?

If you wish to stop contributing to the Crest Secure Fund and start contributing to one, or more, of the other funds available we do not expect you to be penalised. You can choose any of the funds available and should refer to the published brochures or the ITB Pension Funds internet site for further details (<http://www.itb-online.co.uk>).

The Trustees have also been advised by Scottish Life that individual members who wants to transfer their accumulated Crest Secure Fund will not be charged a penalty for the transfer. In other words, the full face value of your Crest Secure Fund can be transferred to one, or more, of the other available funds. However Scottish Life's contract terms include a clause which means that if more than 25% of the membership elects to transfer in any 12 month period then subsequent transfers will suffer a penalty (currently calculated to be 2.2% of your fund value, but subject to periodic review).

The Trustees propose to action any requests for transfer on a first come basis. If a member requests a transfer which would suffer a penalty (because more than 25% of the membership have already requested transfers within the last 12 months) then you will be informed of this and given the option whether you still wish to proceed with a transfer. If, in that event, you choose not to transfer at that time you will be entitled to request one transfer value each year to see if the situation has changed.

As already mentioned there is a range of funds available to you in respect of future contributions and also in respect of any funds transferred. The Trustees cannot advise you on this and recommend that you seek financial advice. However, the Trustees are specifying a Default fund for those members who elect to transfer and/or switch future contributions, and who do not specify a fund choice.

The Default Fund

The Default fund is the Prudential Deposit Fund. This is a low risk fund suitable for low risk investors, but is not a recommendation. The Trustees would encourage you to make a positive decision and the only purpose of the Default fund is so that the Trustees can effect any transfer requests where a member does not specify a fund choice.

Next Step

If, having read this announcement and the other supporting material available in connection with AVCs, you do wish to make future contributions to one, or more, of the available funds (if applicable), or transfer your existing AVC fund, then you should complete the attached form.

Please note that no changes will be made without your consent, so if you decide to do nothing or it is not in your interests to make any changes, your existing funds, and future contributions, if applicable, will remain in the Crest Secure Fund.

This Guide has been prepared for the Trustees of the ITB Pension Funds to assist in the understanding of those ITB Pension Fund members paying AVCs. Generic guidance should not be taken as specific advice as to a particular course of action.

March 2006