

SEPTEMBER 2011

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 believes 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 was consulted on the SIP. The current investment managers of the Open Fund were given the opportunity to comment on a draft of the SIP and their comments have been incorporated into this 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") and the Occupational Pension Schemes (Investment) Regulations 2005 ("the Regulations").

The Open Fund's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in Clause 17 of the ITB Trust Deed dated 2nd March 2006.

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:

- the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with ongoing contributions from members and the employers, the cost of current and future benefits which the Open Fund provides;
- 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 minimise the long-term costs of the Open Fund by maximising the return on the assets whilst having regard to the objective shown in the previous point.

The Investment Committee undertook a review of investment strategy in 2011. As part of this review, the Investment Committee agreed that their objectives for the Open Fund were as follows:

- to broadly maintain the level of expected return of at least 2.3% in excess of gilts, until the funding level improves significantly;
- to reduce the risk (on a one-year 90% Value at Risk basis¹) of deterioration in the Open Fund's ongoing funding position to a target level of approximately £62m. This figure is based on LCP's assumptions as at 30 June 2011. This means that it is estimated that there is a 1 in 10 chance of a deterioration of more than £62m in any one year; and
- to reduce risk further if the position of the Open Fund improves significantly.

The Open Fund underwent an actuarial valuation under the Occupational Pension Schemes (Scheme Funding) Regulations 2005 (the valuation as at 31st March 2010). The Trustees have taken into account the results of this valuation in setting the investment policy for the Open Fund.

3. 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.

4. Summary of the Open Fund's investment strategy

4.1. How was the investment strategy determined?

The Investment Committee, with the help of their advisers, undertook a review of investment strategy in 2011, taking into account the objectives described in Section 2 above.

¹ The one-year 90% Value at Risk ("VaR") is a measure of risk. A VaR of £Xm means that there is a one-in-ten chance of a loss of at least £Xm over the year due to investment underperformance.

4.2. What is the investment strategy?

The result of the 2011 review was that the Trustees agreed that the investment strategy of the Open Fund (with the exception of assets relating to departing employers – discussed in Section 4.5) should be based on the Benchmark allocation below:

Asset class	Allocation
Global equities	28%
Property	13%
Fund of hedge funds	6%
Tactical asset allocation	5%
Diversified growth fund	10%
Emerging multi-asset fund	5%
Bonds / LDI mandate	30%
Cash	<u>3%</u>
Total	<u>100%</u>
<i>Hedging proportion (from LDI assets)</i>	80%

4.3. 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 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; and
- the positions of the Participating Employers, including an assessment of the strength of the covenant of the Participating Employers.

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

The key financial assumptions underlying the model as at 30 June 2011 were as follows:

- average long-term inflation: 3.8%
- average long-term gilt yield: 4.3%
- average long-term return on equities: 7.8%

Thus, the model assumes that there is a 50/50 chance that, over the long term, equity-type investment will outperform gilts by at least 3.5% pa.

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

4.5. 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 that, going forward, for any departing employers the assets backing these orphan liabilities should be invested using a “matching” approach (ie in index-linked gilts of suitable duration), rather than in line with the rest of the assets. This should mean that investment risk does not increase significantly for the remaining employers when an employer leaves. As at 30 June 2011, the assets backing the orphan liabilities totalled around £47m.

The matching approach adopted is set out in more detail in Appendix B.

5. Appointment of investment managers and custodian

5.1. 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.

5.2. 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 Trustee has negotiated specific terms that are set out in a side letter.

5.3. 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.

5.4. 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.

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 social, environmental and ethical factors?

Selection, retention and realisation of the Open Fund's investments are delegated to the investment managers under the terms of written agreements. The Trustees' policy is that the extent to which social, environmental or ethical considerations are taken into account in these decisions is left to the discretion of the investment managers.

However, the Trustees expect that, to the extent to which social, environmental or ethical issues may have a financial impact on the portfolio, they will be taken into account by the investment managers in the exercise of their delegated duties.

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

The Trustees have examined how rights, including voting rights, attached to investments should be exercised. In doing so, the Trustees have considered the UK Stewardship Code (the "Code") issued by the Financial Reporting Council. The Trustees are supportive of the Code, and the Trustees have informed the investment managers of their support for the Code.

Matters of corporate governance in general and voting in particular are integral parts of the delegation of duties to the investment managers. Nevertheless, the Trustees recognise the responsibilities of shareholders as owners of capital. Accordingly, the Trustees' objective as shareholders is to achieve a high long-term return on the Open Fund's investments by the preservation and enhancement of shareholder value, which they believe good corporate governance promotes.

The Trustees have instructed, where possible, the investment managers to vote the Open Fund's shares in line with the policies set out by the National Association of Pension Funds ("NAPF") in respect of all resolutions at annual and extraordinary general meetings of companies. In cases where the investment manager feels it is not appropriate to vote in line

with NAPF guidance, a case should be made to the Investment Committee for approval. Where there are votes on issues not covered by the NAPF's policy, the Trustees expect the investment managers to exercise their judgement and vote in the best interest of the Open Fund. Voting actions are reported to the Trustees on a regular basis.

In some cases (eg where the Open Fund's assets are held in pooled funds), investment managers cannot comply with the policy set out above.

The Trustees cannot usually directly influence the managers' policies on the exercise of investment rights where the Trustees hold assets in pooled funds. This is due to the nature of these investments. The Trustees understand that investment rights will be exercised by the investment managers in line with the investment managers' general policies on corporate governance, which are provided to the Trustees from time to time, taking into account the financial interests of the beneficiaries. Voting actions are reported to the Trustees on a regular basis.

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 in With Profits and Unit Linked options currently provided by Prudential Assurance Company; and
- members investing their contributions in a group life policy with Scottish Life Assurance Company under which members contributions are accumulated with interest;
- the option (no longer available to new contributors) to invest in an Added Years AVC facility.

The funds available are discussed further in Appendix B.

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.

A handwritten signature in black ink, appearing to read "Peter J. ...", with a long horizontal line extending to the right from the end of the signature.

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

Date 25.11.2011

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

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. 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.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.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.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.

The Trustees believe that the need for 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 4.2 and by the guidelines agreed with the investment managers.

A.5. 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.6. 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 investment in a specialist currency hedging fund.

A.7. 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.8. 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.9. 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.10. 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); 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, A.2 and particularly A.10 will be monitored through regular actuarial valuations and reports.

Investment manager arrangements

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

The Trustees have selected Insight Investment as the manager of the LDI assets. The mandate has two parts: the Active Bond Sub-Portfolio and the Swap Overlay Sub-Portfolio.

The Active Bond Sub-Portfolio has a benchmark of:

- 50% FTSE-A Over 5 Years Index-Linked Gilts Index; and
- 50% iBoxx Sterling Non-Gilts All Stocks Index.

The objective of the Active Bond Sub-Portfolio is to outperform this benchmark by 0.75% pa after the deduction of investment management fees, over rolling three-year periods.

The Swap Overlay Sub-Portfolio has a benchmark of 80% of the present value of the projected liability cash flows, less the cash flows arising through the Active Bond Sub-Portfolio's benchmark. The target of 80% is subject to market level triggers and the target will only be achieved if market movements are sufficient to pass all the triggers. Currently around 60% of the liability is hedged.

The objective of the Swap Overlay Sub-Portfolio is to match the return on this benchmark, and by incorporating active views to a limited extent, to outperform it.

B.2. Global equities

B.2.1. UK equities

The Trustees have selected BlackRock Advisors (UK) Limited ("BlackRock") as the manager of a passive UK equities mandate. Its objective is to track the total return of the FTSE All-Share before the deduction of investment management fees over rolling three-year periods.

B.2.2. Overseas equities and currency hedging

The Trustees have selected BlackRock as the manager of a passive overseas equities mandate. BlackRock's objective is to track the total return of the respective indices set out in the table below before the deduction of investment management fees over rolling three-year periods. It manages the portfolio to the asset allocation benchmark set out below. BlackRock has no obligation to rebalance this portfolio.

Asset class	Benchmark allocation (%)	Benchmark index
European equities	35	FTSE All-World Europe Ex-UK
Japanese equities	25	FTSE All-World Japan
Pacific Rim equities	25	FTSE All-World Developed Asia-Pacific Ex-Japan
North America allocation:	<u>15</u>	
US equities		FTSE All-World USA
BlackRock Sterling Currency Hedging Fund ("SCHF")		S&P 500, adjusted for the impact of currency hedging
Total	<u>100</u>	

As highlighted in the table above, the Trustees have appointed BlackRock as the manager of a currency hedging mandate which forms part of the overseas equity portfolio. The objective of this is to maintain a hedge ratio of 60% of the value of the overseas and global equity portfolios (together referred to here as the "Total Overseas Equity Portfolio").

The currency hedging is managed in the Sterling Currency Hedging Portfolio via the BlackRock Sterling Currency Hedging Fund ("SCHF"). The SCHF targets an allocation of approximately 15% of the Total Overseas Equity Portfolio.

B.2.3. Global equities

The Trustees have selected two global equity managers:

- Investec Asset Management's objective is to outperform the total return of the MSCI World Gross by 3%-5% pa before the deduction of investment management fees, over rolling three-year periods.
- Longview Partners' objective is to produce a positive absolute return of 8-10% pa after the deduction of investment management fees, over a typical three- to five-year investment cycle.

B.2.4. Emerging market equities

The Trustees have selected BlackRock as the manager of a passive emerging market equities mandate. Their objective is to track the total return of the S&P / IFC Investable Composite Ex-Malaysia Index before the deduction of investment management fees, over rolling three-year periods.

B.3. Property

The Trustees have selected Fletcher King as the manager of the UK property portfolio. Fletcher King's objective is to outperform the IPD Property Index after the deduction of investment management fees.

The Trustees have selected Schroder Investment Management (“Schroder”) as the manager of the European property portfolio. Schroders’ objective is to generate an internal rate of return of 8-10% pa after the deduction of investment management fees over the 12 year life of the fund.

B.4. Fund of hedge funds

The Trustees have selected two fund of hedge fund managers:

- Liongate’s formal investment objective is “to achieve long-term capital growth while seeking to minimise the risk of loss by strategically allocating its capital to investment funds which employ a variety of investment strategies and hedging techniques”. However, to provide the Trustees with an indication of the level of performance that can be expected (which may change over time), Liongate has agreed to the following objective: “to deliver a consistent annual return to investors of 12-18% with a volatility target of 4-6%”.
- Stenham’s objective is to outperform three-month Sterling LIBOR by 4% pa after the deduction of fees over rolling five-year periods. This is to be achieved with a low correlation to equities and bonds and a rolling five-year standard deviation below 4%.

B.5. Tactical asset allocation

The Trustees have also appointed BlackRock as manager of a TAA mandate. BlackRock’s performance objective is to outperform three-month Sterling LIBOR by 15% pa before the deduction of investment management fees, over rolling three-year periods.

B.6. Diversified growth funds

The Trustees have selected two diversified growth fund managers:

- Ruffer’s objective is to achieve a consistent return significantly greater than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable United Kingdom bank (after the deduction of fees) and to preserve capital over rolling 12-month periods.
- Baring Asset Management’s objective is to outperform three-month Sterling LIBOR by 4.0% pa after fees.

B.7. Emerging market multi-asset fund

The Trustees have appointed Capital International as manager of an emerging market multi-asset fund. Capital International manages the fund on an absolute return basis, aiming to achieve a return of 10% pa, gross of fees in dollar terms, and volatility of 12% pa over a full market cycle.

B.8. Departing employers

The Trustees have decided that the assets backing the orphan liabilities should be invested using a “matching” approach, rather than in line with the rest of the assets.

The Trustees have selected BlackRock to manage the matching portfolio. To date, an approximate approach has been adopted, whereby a combination of pooled funds of index-linked gilts of suitable duration has been selected to broadly match the liabilities.

B.9. 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.10. Additional Voluntary Contributions (“AVCs”)

The Trustees have selected Prudential and Scottish Life Assurance as the Open Fund’s money purchase AVC providers. The funds available to members are set out below.

- Prudential Deposit Fund;
- Prudential M&G Retirement Protection;
- Scottish Life Crest Secure Deposit Administration;
- Prudential M&G Fixed Interest;
- Prudential With Profits;
- Prudential Aberdeen Life Balanced Fund;
- Prudential M&G Socially Responsible;
- Prudential M&G UK Equity Passive;
- Prudential M&G Overseas Equity Passive; and
- Prudential Lifestyle Investment Fund.

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

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; and
- consulting with the Participating Employers when reviewing investment policy issues.

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; and
- approving transfers of assets between Fund Managers and/or Custodians.

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.

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. Investment manager

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;
- for the passive manager, tracking the relevant benchmark return within an appropriate tracking error;
- 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.1.3. 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.1.4. Investment consultant

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

- advising on the formulation of an efficient governance structure, particularly in the light of the Myners Report;
- 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;
- 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.1.5 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 custodian. 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 sideletter.

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 by reference to the market value of assets under management. Some of the managers also have performance-related fees, and 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.