

Chair's Statement



The Chair, Lynda Howe, is an elected member of the Trustee Board and became Chair in March 2009. She has been a Board Member since 2004 and has served as Deputy Chair of the Audit and Compliance Committee. Before retirement, Lynda was Finance and IT Director at York Housing Association and is currently a member of the Committee of Management of Kingdom Housing Association.

I am pleased to present this Annual Report for The Pensions Trust.

In his final Chair's statement last year my predecessor, John Alleston, commented that we live in 'turbulent and troubled times.' The economic turmoil of the past year has proved how right he was.

The theme of this year's Annual Report is 'Committed, United, Innovative', which has been translated into the 'Winning Teams' imagery illustrated throughout this Report. At The Pensions Trust we believe effective teamwork is critical to us delivering a quality service to our customers. We aim to create an environment where everyone has the opportunity to contribute towards the success of the Trust. An example of this is the development of our new Business Plan, covered in more detail in the Chief Executive's Review, which included input from the whole team, not just the Board and the Senior Management Team.

The challenges of the past year have proved how important it is for us to work together in order to achieve the best results.

Data Security

In May 2009 we advised all our members and employers that a laptop containing the personal data of the majority of The Pensions Trust's members had been

stolen from the offices of NorthgateArinso, the suppliers of our computerised pensions administration system. Understandably, this announcement created a great deal of anguish amongst some of our members who were naturally concerned about the possibility of identity theft. We sincerely regret the distress and inconvenience caused to all concerned.

We engaged the services of CIFAS, which is a not-for-profit fraud prevention association, to protect all affected members. Fortunately, to date there has been no report of any member suffering identity theft as a result of the data loss and CIFAS has confirmed that there is no evidence of the data being compromised. Whilst it is not possible to guarantee that there is no risk of identity theft we maintain that the risk of identity theft is low and that all of the evidence points to the fact that it was the laptop itself that was the thief's target rather than the data it contained.

Whilst the laptop was stolen from the offices of a supplier and not from The Pensions Trust itself, as data controller, Verity Trustees Limited is ultimately responsible for the security of member data. We therefore made a voluntary notification of the data breach to the Information Commissioner. The Information Commissioner concluded that NorthgateArinso had a legitimate reason to have the data and that the remedial action taken by the Trust should minimise the chance of a recurrence of a similar data security incident.



Overcoming significant obstacles and demonstrating remarkable determination, wheelchair basketball players work together as a synchronised and supportive team, with their eye always on the ball.

However, the Information Commissioner identified failures in controls, in particular the fact that the laptop was not encrypted and there was a need to strengthen our supplier contracts regarding data security. We fully accept the Information Commissioner's findings and have signed an Undertaking agreeing to implement a number of changes.

Since the theft of the laptop we have reviewed the data security arrangements that we have in place and implemented the following changes:

- We have introduced a new email system for securely sending files to third parties.
- We are in the process of reviewing all of the contracts we have in place with our suppliers regarding data security.
- We continue to work towards obtaining certification under ISO27001 – The Standard for Management of Information Security. As part of this process we have carried out an assessment of the risk to our information assets. Work is ongoing to put in place controls to mitigate these risks.

Investment

Notwithstanding the extreme economic conditions over the past year, the performance of our investment managers has been disappointing. For the third consecutive year, our Main Investment Portfolio underperformed its benchmark. A detailed commentary on our investment performance can be found in the Trustee Investment Report.

The Investment Committee monitors the performance of managers closely. However, it must be remembered that pension schemes are a long-term investment and therefore a long-term view must be taken. That said, the Investment Committee is prepared to act decisively and terminate a manager's mandate if there is a loss of confidence.

During the past year the Investment Committee established a working party to review the fund structure within the Trust, to see how it might take advantage of new investment opportunities that arise in the market and to investigate the characteristics and opportunities offered by various alternative asset classes. As a result of this review the Investment Committee will be appointing two managers to manage distressed opportunities mandates and one manager to manage an absolute return fund.

Socially Responsible Investment is a priority for many of our members and employers. We do offer a limited range of ethical and Socially Responsible Investment options but are investigating how we can improve our offering to customers. This involves investigating the socially responsible and ethical investment options available in the market and carrying out market research into the type of ethical investment product required by employers and members. The results of this research will hopefully lead to the development of an innovative addition to our product range that meets the needs of our customers.

Governance

We reported last year that the Board had decided to introduce a power to co-opt up to two people to the Board, and that co-opted Directors will be selected by the elected Directors on the basis of their ability to fill any identified skills gaps. I am pleased to advise that the Board appointed its first co-optee Director, Mike Boag, in March 2009. Mike's wealth of experience as a trustee of a number of occupational pension schemes has strengthened the overall knowledge and understanding of the Trustee Board and his contribution over the past year has proved invaluable.

I took over as Chair in March 2009 following the retirement of John Alleston. Whilst I have enjoyed this challenging and interesting role my intention has always been to step down at the end of this year to make way for an Independent Chair. Following much discussion, the Board has agreed that the governance of the Trust would be improved by the appointment of an Independent Chair with wide and varied experience of the pensions industry, who will be able to lead The Pensions Trust through the challenging times ahead. The process of selecting a suitable candidate is ongoing and we aim to have made an appointment by April 2010.

The appointment of an Independent Chair is just one aspect of our mission to continually improve the governance of the Trust. During the year the Board has been reviewing its whole structure, including the delegations to sub-committees and officers with an aim of making the Trustee Board a more efficient decision making body that is more accountable to both our members and employers.

We are also redefining the Investment Service that we offer to employers with a view to increasing employer involvement, improving communication and allowing us to become more 'nimble' in order to react more quickly to take advantage of opportunities that only exist for a short time. Employers will be advised of changes to our Investment Service in due course.

Last year we advised that the Board had decided to reduce the number of elected Directors to ten with effect from 1 March 2010. However, in view of the ongoing review of its governance structure, the Board has decided to defer the decision to reduce the number of elected Directors until this review is complete.

Therefore, from 1 March 2010 there will continue to be six Directors elected by employers and six elected by members.

2012 and all that

The arrangements for a new obligation on employers to automatically enrol employees into a minimum standard pension scheme continue to gather pace. During the past year the Department of Work and Pensions has consulted on draft regulations that, if implemented, will lead to auto-enrolment being phased in over a three year period starting in 2012. A key focus of our work over the next few years will be how we support our employers in complying with their new obligations. In addition, we will continue to contribute to the ongoing consultation process in order to make sure the opinions and needs of our employers are highlighted to the decision makers.



Modern competitive cyclists both on the track and the road work as teams, alternately leading and supporting one another as they propel their hi-tech cycles towards the finish line with seemingly superhuman stamina.

Investors in People Standard

Investors in People is the UK's leading people management business improvement standard. At the end of 2009 the Trust was reassessed against this standard having held it since 2004. The new Investors in People standard has a basic level achievement and additional levels of bronze, silver and gold. We were delighted to learn that the Trust has achieved the Gold Investors in People standard. This tells our workforce, customers and business partners that we take people management seriously and that we are committed to continuously improving our business performance and driving our success through our people. The Investors in People Gold standard is limited to around 1% of existing Investors in People accredited organisations, only nine of which are in the Yorkshire and Humber region, and is a credit to the Trust's management and workforce.

People Matters

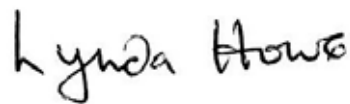
As previously mentioned, John Alleston retired from the Board in February 2009. He had been a member of the Board since 1999 and before becoming Chair of the Trust in 2004 acted as Chair of both the Investment and Audit and Compliance Committees. As Chair, John steered the Trust through turbulent times, seeing it through two far reaching Pensions Acts in 2004 and 2008 along with a change in Chief Executive, charting us into safe territory ready to start a new era with a new Independent Chair. On behalf of the Board and the Trust I would like to thank him for his leadership and unstinting service to the Trust over the past years.

At the same time in February, Clive Unitt, the Deputy Chair, also decided to retire from the Board because of pressure of work. Clive was elected to the Board in 2003 and became Deputy Chair in 2006. During this time he was also Chair of the Audit and Compliance Committee. Once again on behalf of the Board I would like to thank him for his service to the Trust.

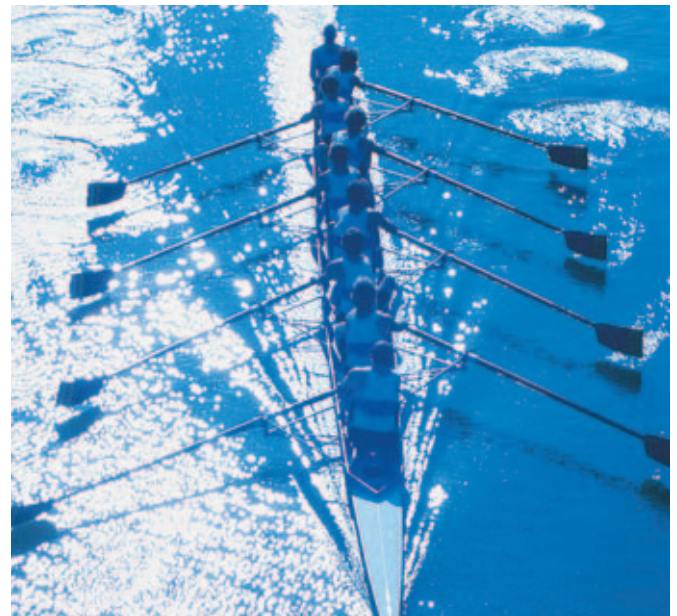
I would like to thank all members of the Board, especially Keith Nunn, Deputy Chair and Chair of the Investment Committee, and Joe Robertson, Chair of the Audit and Compliance Committee, for their work during the year. I would like to extend a special thank you to Douglas Keir who has stepped in and acted as Chair of the Audit and Compliance Committee for the past few months due to the absence of the Chair because of ill-health.

For the 2010 elections, Kevin McNerney will be standing down in the Member Nominated Category and will not be seeking re-election. In the Employer Nominated Category, Stephen Duckworth will be standing for re-election in 2010.

Finally, on behalf of the Board I would like to thank and congratulate all the staff of the Trust for the very real progress made during the year and for their hard work, commitment and enthusiasm in tackling the challenges we face.



Lynda Howe
Chair, Verity Trustees Limited
19 January 2010



Cutting through the water we see all the physicality and grace of a highly trained rowing crew – eight rowers synchronised to perfection, plus their cox, ensuring that everyone works as a unit. What we don't see, of course, are the expert coaches, the support teams and the years of training that make such racing prowess possible.