

Defined Contribution Chair’s Statement 2021

This statement explains how the Trustee Board has met the legal requirements for running the Industry-Wide Defined Contribution Section of the Railways Pension Scheme (the “IWDC Section”) in the following areas in the year from 1 January 2021 to 31 December 2021 (“the Scheme Year”):

- Funds for members who don’t choose their investments (the “default” investment arrangement);
- Reviewing the default investment arrangements;
- Return on investments;
- Charges and transaction costs paid by members;
- Good value for members;
- Processing core financial transactions;
- Trustee knowledge and understanding;
- Additional governance requirements for multi-employer schemes; and
- Contacting the Trustee Board.

During 2021 we continued the remote working arrangements put in place during the preceding year and successfully operated at near to normal capacity. In the second half of the year we put in place permanent hybrid working arrangements with teams using a mix of in office and remote working arrangements effective for each individual team, reflecting the particular requirements of their function. The Trustee has continued to adapt well to working remotely to carry out its duties effectively and has ensured, through Railpen, that the high standard service levels to scheme members and employers have been maintained throughout the year.

Funds for members who don’t choose their investments (the “default” investment arrangements)

The Trustee has selected a default investment arrangement for members who do not choose their own investments. Members can also make an active choice to invest in the default investment arrangement, an alternative lifestyle arrangement or the self-select investment funds offered.

The Trustee has adopted the following aims and objectives for the default arrangement:

- To generate long-term growth in excess of inflation over members’ working lifetimes. The IWDC Section may be a member’s main form of retirement saving and so the default investment arrangement aims to seek growth, with some volatility mitigation through diversification, by investing in the Long-Term Growth Fund during the earlier years.
- To reduce investment risk for members as they approach retirement by switching to less volatile funds. This is achieved by switching from return seeking assets, which aim for long-term growth in excess of inflation, to lower risk assets as a member approaches their nominated target retirement age. The “at retirement” portfolio has been constructed on the basis that members will take 25% of their funds as a tax-free lump sum and buy an annuity with the rest.

The default arrangement for the IWDC Section is shown below:

| DC Arrangement | Growth Portfolio | Portfolio at Target Retirement Age | Length of switching period |
|----------------|----------------------------|---|----------------------------|
| IWDC Section | 100% Long-Term Growth Fund | 25% Deposit Fund 75% Aggregate Bond Fund | 10 Years |

There is more information about aims and objectives in the Trustee's Statement of Investment Principles, which is included as appendix 7.

Reviewing the default investment arrangements

A formal, in-depth review of the default investment arrangement is required under legislation at least every three years or immediately following any significant change in investment policy or the membership profile.

No review was conducted during the Scheme Year. The last formal investment strategy review was completed in March 2020, having been considered by the Trustee's Defined Contribution Committee (DCC) on 18 March 2020 and the full Trustee Board on 19 March 2020. That was a comprehensive review, covering the default investment arrangement, alternative lifestyle arrangements and the self-select fund range.

Following that review, the Trustee intends to make some changes to the investment options in Q2 2022, albeit the Sharia fund described below will be implemented at a later date. Within the self-select fund range, the Aggregate Bond Fund is to be replaced by a new UK government fixed-interest bond fund, while the Index-Linked and Global Bond Fund is to be replaced by a new UK government index-linked bond fund.

Three further self-select funds are to be offered as well: a corporate bond fund, a sharia-compliant equity fund (to be implemented at a future date) and a socially-responsible equity fund. In addition, the Trustee intends to make changes to the default investment arrangement to reflect that members are expected to draw from their pension pots more flexibly in the future. Two further lifestyle arrangements, in addition to the default investment arrangement, will also be made available to members.

Relevant communications regarding the implementation of these changes will be provided to members at the appropriate time. In the meantime, the Trustee is comfortable with the performance of the existing investment funds and believes that the default investment arrangement's performance is consistent with the aims and objectives set out in the Trustee's Statement of Investment Principles. The next formal investment strategy review will take place no later than March 2023.

During the Scheme Year, the DCC monitored the performance of the investment funds offered, including those comprising the default investment arrangement, at each of its quarterly meetings (23 March 2021, 23 June 2021, 21 September 2021 and 2 December 2021). This monitoring considered each fund's performance against its aims and objectives over various time periods to the previous quarter end. No issues were identified by the DCC as a result of this regular monitoring of performance.

Return on investments

The Trustee has taken account of statutory guidance and as required report the net investment returns for the default arrangement and for each fund which scheme members were able to invest in during the Scheme Year ending 31 December 2021.

The return for the Scheme Year is reported to enable employers and members to spot immediate trends. Returns over longer periods, dating back to the funds' inceptions, are included to reflect the investment strategy's performance through different market conditions.

The below table sets out the return on investments (net of charges and transaction costs) for each fund:

| DC fund | Annualised Returns % | | |
|-----------------------------------|--|---------------------------|------------------|
| | Since Inception (May 2013 to 2021) | 5 years (2016 to 2021) | 1 year (2021) |
| Long-Term Growth Fund | 9.1 | 9.5 | 16.1 |
| Global Equity Fund | 10.5 | 13.3 | 22.9 |
| Deposit Fund | 0.3 | 0.3 | -0.1 |
| Aggregate Bond Fund | 4.9 | 4.0 | -3.9 |
| Index Linked and Global Bond Fund | 6.0 | 4.7 | 1.7 |

The Long-Term Growth Fund (highlighted in bold) is the default fund for members who are 10 or more years from their Target Retirement Age. The Deposit Fund and the Aggregate Bond Fund form part of the default arrangement for members within 10 years of their Target Retirement Age.

Charges and transaction costs paid by members

The Trustee has taken account of statutory guidance when preparing this statement about charges and transaction costs. The annual management charge (“AMC”) covers all costs and charges relating to general scheme administration and investment administration. Costs incurred as a result of holding or maintaining property are listed separately. Transaction costs are excluded. This is also known as the total expense ratio (“TER”). The TER is paid by the members and is reflected in the unit price of the funds.

During the Scheme Year ending 31 December 2021 the level of charges applicable to the funds in the IWDC Section, including the funds which are part of the default lifestyle strategy, were:

| DC fund | AMC % | Property costs % | TER % |
|-----------------------------------|-------|------------------|-------|
| Long-Term Growth Fund | 0.46 | 0.08 | 0.54 |
| Global Equity Fund | 0.21 | N/A | 0.21 |
| Deposit Fund | 0.22 | N/A | 0.22 |
| Aggregate Bond Fund | 0.28 | N/A | 0.28 |
| Index Linked and Global Bond Fund | 0.33 | N/A | 0.33 |

Railpen, which manages the Scheme’s investments, gives full transparency to the DCC on the underlying costs making up the annual management charges, such as investment management costs, legal costs, and IT costs. Railpen is also at the forefront in the pensions industry of obtaining full transparency from investment managers about costs in underlying investment funds (indirect costs) that the IWDC Section funds may invest in.

The IWDC Section funds are invested alongside the Scheme’s defined benefit arrangements, using the same underlying pooled funds where possible. This means that IWDC Section members benefit from many of the same investment opportunities and economies of scale as members of the defined benefit arrangements.

The Trustee is also required to separately disclose transaction cost figures that are borne by members. In the context of this statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds.

Such costs include broker commissions, commissions of futures, transfer taxes, and other fees such as bank fees, search fees, legal fees, and stamp duty.

Transaction cost information has been requested from the fund managers before their accounts are published but not all the managers have been able to supply the information by the date of signing this statement.

The table below shows the transaction costs obtained for each fund, along with the percentage of the fund by asset value for which we have managed to obtain transaction cost information.

| DC fund | Average 2021 asset value £m | 2021 transaction costs % of asset value | Cost info available % of asset value |
|-----------------------------------|--|--|---|
| Long-Term Growth Fund | 93.2 | 0.04 | 98 |
| Global Equity Fund | 78.5 | 0.04 | 100 |
| Deposit Fund | 5.8 | N/A | N/A |
| Aggregate Bond Fund | 25.4 | 0.02 | 100 |
| Index Linked and Global Bond Fund | 3.0 | N/A | N/A |

At the time of writing, February 2022, it is not possible to obtain complete audited cost information for the year ended December 2021. This is a timing issue as many fund managers are unable to provide finalised cost information until months following their year-end. Railpen begin an annual exercise of collating this data in the second quarter of each year.

The primary method adopted is using the PLSA Cost Transparency Initiative's templates, which are distributed to managers for completion. If managers do not engage, steps are taken to escalate the issue higher within the organisation. As a contingency method Railpen will source this information from annual reports and audited accounts of the underlying funds, which again will become available as reports are published over the coming months.

The Trustee minimises transaction costs arising from buying and selling assets, as far as possible, through the pooling arrangements within the Railways Pension Scheme. Where it can, it matches members and sections that wish to sell units in a particular fund with those who wish to buy them, so it is not necessary to trade assets in the markets. There are strict policies and procedures in place to ensure that any trading costs are spread fairly between all IWDC Section members.

The default arrangement has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested.

For the period covered by this statement, annualised charges and transaction costs are set out in the table below. The member borne charges for the Scheme’s default arrangement complied with the charge cap.

| Time to retirement | Fund mix | TER | Transaction costs |
|--------------------|--|------|-------------------|
| Years | | % | % |
| 10 | 100% Long-Term Growth Fund | 0.54 | 0.04 |
| 5 | 60% Long-Term Growth Fund | 0.44 | 0.03 |
| | 40% Aggregate Bond Fund | | |
| 1 | 10% Long-Term Growth Fund 70% Aggregate Bond Fund 20% Deposit Fund | 0.29 | 0.02 |

Railpen continues to make improvements to ensure that IWDC Section members get the best possible returns from their investments after all fees and transaction costs have been accounted for. The Trustee will continue to monitor the funds’ costs and charges closely.

The Trustee is required to illustrate the cumulative effect of costs and charges on the value of members’ fund values over time. There is a prescribed method for doing this, based on a ‘representative’ member of the IWDC Section. This illustration is included at Appendix 2 to this statement.

Good value for members

Each year the DCC undertakes a comprehensive assessment of the extent to which the DC arrangements offer good value for members. This requirement, introduced by legislation in 2015, is designed to give members and employers confidence that the RPS offers high quality DC arrangements.

In 2020 the DCC approved the use of an external provider, Willis Towers Watson (now rebranded as WTW), to ensure the assessment was wholly independent. The assessment for 2020 deemed the overall value for members to be “good”. In particular, WTW highlighted the service performance of the core administration and governance and controls in place as “excellent”.

Their review identified several aspects of the service that required some development in order to improve member value but acknowledged, in the main, these had already been recognised, with enhancements either due to be delivered at the end of the reporting period or planned for implementation in the coming 12-month period.

In terms of improvements, the assessment highlighted a need to broaden the range of fund choices available to members. Member communications, particularly the ‘at-retirement’ support offered to them, was highlighted as another area of improvement. Both services were rated as ‘adequate’.

In response to the improvement areas highlighted in that assessment, Railpen made a number of service enhancing member-focused improvements in 2021, including;

- In April 2021 Railpen launched a high-quality, value for money drawdown vehicle through the Legal & General Investment Management (LGIM) Master Trust, underpinned by robust and affordable advice provided by Liverpool Victoria (LV).

- Member-facing content was overhauled and updated in line with Railpen's new content standard. New detailed content explaining the retirement options available to members was developed and launched in April 2021.
- A range of new videos were also developed and uploaded to the member website, including a dedicated DC retirement options video.
- Several enhancements to the post login area of the member website were made, including the implementation of a DC modeller and the ability to switch investment funds online.
- A new fund range has been approved and is expected to launch in Q2 2022. Changes include, the introduction of three new lifestyle investment strategies (full cash withdrawal, annuity purchase and flexible drawdown) to replace the four existing lifestyle strategies, and the introduction of three further funds.
- New modelling and planning tools have been added to the pre-login area of the member website, including a retirement budgeting calculator built on the PLSA retirement living standards.
- Progress in the guidance space was acknowledged in 2021 by the PLSA, who selected Railpen as the winner of its inaugural saver engagement award.

In September 2021 the DCC approved WTW to undertake the 2021 DC value for member's assessment. Several improvements were identified by them in the previous assessment, which have now been addressed. The DCC therefore agreed it made sense to recommission the same provider.

Wills Towers Watson delivered the assessment on the 17 February, concluding the overall value provided to members to be 'good'.

They once again rated the scheme management as 'excellent'. They stated that the Trustee has a very well-established administration platform and governance framework, and this sets the foundations for a well-run master-trust that offers employers within the railways industry access to a good quality DC arrangement.

Their analysis again demonstrated that the charges continue to compare favourably to the DC provider market, particularly when they are distilled to compare on a 'like for like' investment basis.

The communication component of the assessment showed a tangible improvement, moving from 'adequate' to 'good'. In particular, WTW commented that recent communication, at-retirement and online developments, have enhanced the member value proposition.

In summary, WTW stated that they continue to rate the overall member value as 'good', with the favourable charge structure, improvements in communications and at-retirement support, robust administration and net performance of the Long-Term Growth Fund the key determinants informing their view.

Processing core financial transactions

The Trustee must ensure that core financial transactions are processed both promptly and accurately. These include:

1. investment of contributions;
2. transfer of members' assets to and from the Scheme, and between sections within the Scheme;
3. switching between investments within the Scheme; and
4. payments out of the Scheme to members and beneficiaries.

Service Level Agreements ("SLAs") are in place for all of these core financial transactions. The DCC received quarterly updates on these key process activities throughout the year via Quarterly Administration Reporting. The report features as a standing agenda item for the DCC to

consider the performance, trends and consider any matters arising requiring further attention. The report includes a narrative section to highlight any matters for attention to the Trustee.

During 2021, the average aggregate SLA attained was 96.69%. This reflects the robust controls and oversight placed on the financial transactions to ensure members' benefits are processed accurately and promptly. In reaction to continuing lockdown pressures, acceleration of digital enhancements took place during 2021 resulting in a growing proportion of member self-serve transactions. Coupled with the straight through processing achieved with automation helped in contributing to the high SLA attained.

To ensure day-to-day compliance with the core financial transactions, a number of controls operate including:

1. A Dedicated Operational Performance team to triage and allocate inbound and outbound work
2. Daily unit reconciliations to ensure investments and disinvestments have been completed effectively
3. A dedicated Employer Support team to monitor the timely receipt of Employer Contributions
4. System validations to ensure incoming data from employers meets minimum standards
5. Daily system start-of-day health checks to ensure any system failures or anomalies are identified and rectified immediately
6. Functional segregation of duties between the Finance function dealing with cash and the Administration function who execute member transactions
7. Daily bank reconciliations to support
8. Regular review of the financial suspense account to investigate miscellaneous financial transactions
9. Application role profiles are commensurate to skill levels and ensure segregation of duties with four eye checks employed for payments out. Senior approval is required for transactions over certain amounts

The core financial transactions are overseen by key controls which are annually tested and reported within the AAF 01/20. The testing is carried out by External Auditors. Underpinning this, Business Assurance perform an independent governance role, carrying out internal audits over the financial environment operating. Any improvements to the current environment formulate an action plan which is overseen by the Trustee.

Where necessary ad-hoc reports are commissioned so the DCC can review the progress of any issues raised. The DCC continues to receive additional reports pertaining to the volume of DC contributions held in suspense. This was to provide oversight of the volume of unreconciled accounting transactions. During 2021, volumes within suspense did start to fall as the impact of the prior year system migrations began to wane as items were resolved. The oversight on suspense transactions remains in place as a robust governance measure, with close executive oversight.

In quarter 4, the Pensions Regulator was notified of a pricing error which impacted a minority of members. The error was considered to be a Significant Event under master trust legislation and also impacted the accuracy of some core financial transactions for this minority of members. Following a thorough investigation, impacted members were contacted and rectification measures applied to ensure members were safeguarded. A review of the control environment operating has been carried out and enhanced control measures have been adopted.

Trustee knowledge and understanding (“TKU”)

Railpen runs a comprehensive induction programme for new Trustee Directors which ensures that they have good awareness and understanding of the scheme's governing documentation

(including the trust deed and rules, statements of investment principles and funding principles, and relevant policies), scheme funding and investment, pensions and trust law, and the role of a trustee.

Individuals who have been nominated to become a Trustee Director must complete the Pensions Regulator's Trustee Toolkit before they can be appointed as a Trustee Director of the Railways Pension Trustee Company Limited and this process was completed for three Trustee Directors who were appointed in 2021.

The Trustee Toolkit is an online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes. The Toolkit includes a series of online learning modules and downloadable resources developed to help trustees meet a minimum level of knowledge and understanding introduced by the Pensions Act 2004. There is also a requirement for current Trustee Directors to refresh the Trustee Toolkit every three years, which they evidence by providing copies of their development records.

In addition to all Trustee Directors having completed the Pensions Regulator's Trustee Toolkit, seven out of sixteen Trustee Directors hold the Pensions Management Institute's Award in Pension Trusteeship, providing formal recognition of these Trustee Directors' knowledge and understanding.

Existing Trustee Directors received regular training throughout the year, either at quarterly Trustee/Committee meetings or workshops virtually during 2021. They are also encouraged to attend external online conferences and webinars on specific topics of interest and to increase their general knowledge and understanding.

To further ensure the Trustee Directors meet the required level of knowledge and understanding introduced by the Pensions Act 2004, the Trustee Directors must complete a training needs analysis each year and this was completed in Q1 2021. The analysis is based on the Pensions Regulator's indicative Trustee Knowledge and Understanding syllabus. This is used to assess training needs for the year ahead by identifying particular areas where knowledge is less strong for individuals and for the Board or a Committee as a whole.

Alongside this, the Trustee compiles a skills matrix to detail the relevant skills and experience of each member of the Trustee Board. Together, these demonstrate the strength and depth of expertise that each is able to bring to the role. The annual review of the skills matrix ensures that any gaps are identified and that the necessary additional training and development is undertaken. The particular topics identified for further training are built into the training provided by Railpen and also third parties at the Trustee's meetings and workshops throughout the year.

During the Scheme Year, Railpen provided training for Trustee Directors on:

- Sustainable Ownership Deep Dive
- Trustee Strategic Risks
- Cyber Security and Initiatives in Benefits
- Sustainable Ownership: Climate Changes as an Investment Issue
- Deep Dive on Journey Planning/Investment Risk Governance

In addition to the training provided to the Trustee Board, members of the Trustee's Defined Contribution Committee were provided with Master Trust focused training which covered:

- The Pensions Regulator's Master Trust expectations and supervision; and
- Best practice Master Trust delivery in the area of investment, administration and member engagement.

These topics were identified as appropriate training based on the 2021 training requirements and skills analysis review or were requested on an ad-hoc basis by the Trustee.

The Trustee Board is made up of 16 Trustee Directors who each possess individual skills and experience that are relevant to the role of Trustee of a Master Trust, like the IWDC Scheme. The Trustee Board is diverse in employment experience and history. Many are long standing Trustee Directors and have served on several of the Trustee's committees and subsidiary boards over the years. They therefore have significant experience of all aspects of the Railways Pension Scheme and its corporate management activities, and this is spread across the whole board rather than concentrated in one or two individuals.

The Trustee Directors have a wide range of experience, from working as Pensions Managers for employers in the rail or other large scale industries, to senior financial professionals with large employers. A number of Trustee Directors have a background in trade unions. Many worked on their unions' own schemes and negotiated with employers on pensions and benefits on behalf of their members.

In addition, the Trustee's professional advisors are available to attend Trustee meetings when needed to provide guidance on various scheme matters. With a sufficiently diverse Trustee Board, their broad collective business and senior management experience ensures that they are in a position to challenge robustly the advice they receive. In particular, through the trade union representatives, the Board gains insight into the membership's perspective of how the scheme is run and the benefits it offers.

As a result of the training activities which the Trustee Directors have completed, individually and collectively as a Board, the broad range of experience held by Trustee Directors and the annual training analysis, skills matrix review and regular effectiveness reviews, I am confident that the combined knowledge and understanding of the Board, together with the professional advice available to it, enables it to exercise properly its functions as the Trustee of the IWDC Section and the Railways Pension Scheme generally. The effectiveness and performance of the board as a whole has been measured against the objectives of the scheme's business plan.

Additional governance requirements for multi-employer schemes

The Occupational Pensions Scheme (Scheme Administration) Regulations 1996, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the "Administrative Regulations"), require the Trustee Board of any 'relevant multi-employer scheme' to have a majority of 'non-affiliated trustees', including the Chair.

From April 2016, the Trustee has been required to comply with this additional governance standard, which is designed to offer additional protections for members and ensure that the Trustee acts in their best interests.

The Trustee Board has considered these requirements and determined that all Trustee Directors, including the Chair, can be classed as 'non-affiliated trustees' for the purpose of the legislation. This means that we have considered carefully any links that Trustee Directors may have with companies providing services to the Scheme, and reviewed the procedures in place for managing any conflicts of interest that may arise and concluded that all of the Trustee Directors are independent of any undertaking which provides advisory, administration, investment or other services in respect of the IWDC Section, taking account of the matters set out in Regulation 28(3) of the Administration Regulations.

We have also reviewed our appointment process to ensure that it is open and transparent and allows representation on the Trustee Board from across the rail industry. We will ensure that non-affiliated Trustee Directors, including the Trustee Chair, are always in the majority on the Trustee Board.

Three non-affiliated, Trustee Directors were appointed during the Scheme Year, in accordance with the governing documents of Railtrust Holdings Limited:

- Nominations were sought from Network Rail as part of the Scheme's process for filling an Employer Director vacancy in the Network Rail electoral group. There was only one nomination and Fatima Hassan was appointed to the Trustee Board.
- Nominations were sought from the rail Trade Unions, Pensions and Management Committees, and the British Transport Police Federation as part of the Scheme's process for filling two Employee Director vacancies. There was only one nomination for each vacancy and Michael Cash and Howard Kaye were appointed to the Trustee Board.

The appointments of the Employee Director vacancies is consistent with the requirements of the Pension Act 2004 for the nomination and selection of Member Nominated Directors.

The Trustee Board has been kept informed of developments relating to the Pensions Regulator's authorisation and supervision regime introduced by the Pension Schemes Act 2017 and the Occupational Pension Schemes (Master Trusts) Regulations 2018. The IWDC Section of the Railways Pensions Scheme submitted its application in March 2019 and became an authorised master trust on 2 August 2019.

Contacting the Trustee Board

The Trustee Board encourages Scheme members to share their views about the Scheme, the benefits it offers, the investment options available, and their plans for how they intend to use their funds to provide an income in retirement.

IWDC active and preserved members receive the annual Insight newsletter in May. The newsletter provided to members in 2021 encouraged members to provide feedback via an online survey using a QR code to direct members to the feedback facility. A dedicated online member advisory group has also been established, and promoted through the newsletter and website, giving members the chance to share their views on key topics. This insight is reported to the Trustee and directly shapes the development of member communications, such as investment guides, fund fact sheets and educational video content.

Alternatively, if members prefer they can contact the member Helpline on the free phone number 0800 012 1117 or email csu@railpen.com. The annual newsletter, bulk member communications and the member website have referred to the helpline number and email address as standard throughout the Scheme year. Additionally many Trustee Directors also have regular contact with members through their day-to-day activities, for example as Pensions Managers of participating employers or as Trade Union officials.

The Trustee has considered the size, nature and demographics of the Scheme and by providing multiple channels and media through which members may contact the Scheme, in line with its Communications Strategy, the Trustee is satisfied that all members from all sections of the Scheme are encouraged to share their views, in particular in response to key communications or Scheme events.

24th March 2022

Chris Hannon, Trustee Chair

Appendix 1
Appendix 2

Statement of Investment Principles
Illustration of the cumulative effect of costs and charges on the value of members' fund values over time