Defined Contribution Chair's Statement 2020

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 2020 to 31 December 2020 ("the Scheme Year").

- Funds for members who don't choose their investments (the "default" investment arrangement);
- the requirements for processing financial transactions;
- Charges and transaction costs paid by members;
- Good value for members;
- Processing core financial transactions; and
- Trustee knowledge and understanding.

It has been a challenging year with the ongoing Covid-19 pandemic in 2020. However, with a successful business continuity plan and implementation, RPMI was able to operate at near normal capacity during 2020, with the majority of employees working remotely, adhering to the government Covid-19 guidance. The Trustee has adapted well to working remotely to carry out its duties effectively and has ensured, through RPMI, 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 chosen a default investment arrangement for members who do not choose their own funds. Members can also choose to invest in the default investment arrangement, an alternative lifestyle arrangement or self-select from the 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 migration 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 Scheme	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 1 to this statement.

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.

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. The formal investment strategy review was based on reporting and advice from RPMI Railpen, which built on the findings of the membership review conducted in 2019. The DCC meeting on 18 March 2020 also included an in-depth performance review, involving an assessment of performance against investment objectives as well as against appropriate peers where possible. The investment strategy and performance reviews were comprehensive, covering all of the investment funds offered, including those in the default investment arrangement and the alternative lifestyle arrangement.

Following the investment strategy review, the Trustee intends to make some changes to the investment funds. Within the self-select fund range, the Aggregate Bond Fund is to be replaced by a fixed interest gilts fund, while the Index-Linked and Global Bond Fund is to be replaced by an index-linked gilts fund. Three further self-select funds are to be offered: a corporate bond fund, a sharia fund and an ethical/sustainable fund. Please note that these new fund names are illustrative only at this stage.

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. Investments in the earlier years will continue to be made in the Long-Term Growth Fund, however the "at retirement" portfolio will change to 25% Long-Term Growth Fund, 50% corporate bond fund and 25% fixed interest gilts fund. The switching period will remain at 10 years. There are to be two other lifestyle arrangements made available to members in addition to the default investment arrangement.

The implementation of these investment strategy changes is being worked through and further communications regarding timescales and the associated implications will be provided to members in due course. In the meantime, the Trustee remains 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.

In addition to the in-depth performance review, the DCC monitored the performance of the investment funds offered, including those in the default investment arrangement, at each of its quarterly meetings during the Scheme Year (18 March 2020, 9 June 2020, 22 September 2020 and 9 December 2020). 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.

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 2020 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	Annual management charge %	Property costs %	Total %
Long Term Growth Fund	0.45	0.07	0.52
Global Equity Fund	0.18	N/A	0.18
Deposit Fund	0.19	N/A	0.19
Aggregate Bond Fund	0.24	N/A	0.24
Index Linked and Global Bond Fund	0.27	N/A	0.27

RPMI 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. RPMI 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 of 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 2020 asset value £m	2020 transaction costs % of asset value	Cost info available % of asset value
Long Term Growth Fund	68.6	0.08	82
Global Equity Fund	61.0	0.09	100
Deposit Fund	6.5	N/A	N/A
Aggregate Bond Fund	19.6	0.02	100
Index Linked and Global Bond Fund	2.9	N/A	N/A

At the time of writing, February 2021, it is not possible to obtain complete cost information for the year ended December 2020. This is a timing issue as many fund managers are unable to provide finalised cost information until months following their year-end. RPMI 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 RPMI 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 in years	Fund mix	TER %	Transaction costs %
10	100% Long Term Growth Fund	0.52	0.08
5	60% Long Term Growth Fund 40% Aggregate Bond Fund	0.41	0.05
1	10% Long Term Growth Fund 70% Aggregate Bond Fund 20% Deposit Fund	0.26	0.02

RPMI 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

In order to assess whether the IWDC Section offers good value for members (VFM), a review is performed each year. The annual review described below covers the period from 1 January 2020 to 31 December 2020.

In 2020 the Trustee asked RPMI to consider using an external provider to undertake the DC VFM value for member's assessment. Whilst the Trustee felt the existing process was robust and extremely valuable, the Trustee also felt that an external provider could offer true independence, expertise and market insight. RPMI engaged with the market and provided a recommendation in September 2020, which culminated in the appointment of Willis Towers Watson. Analysis was undertaken by them in late 2020 and early 2021, with the final assessment provided in February 2021.

As part of the assessment, Willis Towers Watson reviewed the Trustee's existing value for member's framework and concluded that it is well structured and aligned with both the Pensions Regulator's guidance and the approach they typically follow when undertaking value for members exercises on behalf of clients. They blended the Trustee's framework with theirs, which focuses on three areas of assessment:

- member need
- scope of services
- performance of services

Willis Towers Watson were of the view that the Trustee had already undertaken a significant amount of work as part of its value for members framework. Their assessment looked to build on it with a particular focus on benchmarking the services members receive under the IWDC Section against their research of the wider market and experience supporting trustees of other DC arrangements. To support the process, Willis Towers Watson provided a breakdown of the information and data items required to undertake the assessment.

In accordance with the Pensions Regulator's expectations, Willis Towers Watson compared the IWDC Section's member borne charges with other scheme charges through benchmarking analysis and industry survey data. Additionally, to get the most accurate assessment of the charges against the master-trust market, they approached the leading master-trust providers on a 'no names' basis to obtain live quotes based on the IWDC Section's characteristics.

For context it is worth noting that the IWDC scheme has been strengthened further throughout 2020, and offers members a number of benefits:

- the range of investment options and strategies, which are currently being refined through the investment strategy review;
- the efficiency of administration processes, strengthened by a new system;
- a wider degree of online functionality for members
- the quality of communications and guidance products delivered to members including modelling tools; and
- the quality of support services and Scheme governance.

Willis Towers Watson concluded that the Trustee has a very well-established administration platform and governance framework and that 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 indicates that the charges compare favourably to the DC provider market, particularly when this is distilled to compare on a 'like for like' investment basis. In particular they highlighted that the current charges for accessing a passive global equity fund are closer to what they would typically expect for an unbundled DC arrangement, where the costs of administration, governance and communication are met by the sponsoring employer. This demonstrates the value offered by the IWDC arrangement.

Their review identified several areas of the current Scheme design that require some development in order to improve member value but acknowledged, in the main, these have already been recognised, with enhancements either having been delivered at the end of the reporting period or on the horizon. From the detail shared with Willis Towers Watson, they envisage that the communication, at-retirement and online developments, when launched, will enhance the member value proposition. The DC modeller and online video content which went live at the end of the reporting period have already begun this process, as can be demonstrated by the increase in online member activity.

Overall, Willis Towers Watson believe the current structure of the Scheme offers adequate value, with service performance offering good value. On balance, they would rate overall member value as 'good', with the favourable charge structure, robust administration and net performance of the Long-term Growth Fund key determinants informing their view. Some areas, including governance and the performance of the administration team, were rated as 'excellent'. Other areas were rated as 'adequate', but it was acknowledged that initiatives are underway to strengthen those areas. In particular, investment fund choices were seen as the area where the scheme was behind other arrangements. It was acknowledged that the in-flight fund review seeks to remedy this.

Willis Towers Watson further felt the Scheme is well placed to deliver improved member value from next year, assuming performance continues at the same level and the planned structural and strategic investment enhancements are successfully implemented.

Processing core financial transactions

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

- investment of contributions;
- transfer of members' assets to and from the Scheme, and between sections within the Scheme;
- switching between investments within the Scheme; and
- 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. Within the administration report there is narrative which highlights any core financial transaction issues to the Trustee. During 2020, a phased approach was applied to the migration of members onto a new platform. During this migration, a freeze on certain transactions was placed to best prepare the data for the migration. Members were financially compensated where a delay of investment resulted in a loss as a result of the freeze period.

Subsequent to the migrations, the quarterly administration report setting out delivery of core transactions against agreed service levels has been issued for quarter 4 activity. The aggregate service level for Q4 was met, attaining 97.6%.

New robust controls were employed over core transaction processing including:-

- A dedicated Employer Support function to monitor the receipt of Employer contributions and provide support and escalation of errors and late / missing contribution
- Daily reconciliation reports to ensure investment units held in the Administration system agrees to the Investment trading platform
- Daily system start-of-day health checks to ensure any system failures or anomalies are identified and rectified immediately
- Functional segregation of duties between the Finance function dealing with cash and the Administration function who execute member transactions
- 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
- Utilisation of an external agency for member and beneficiary identification verification checks
- The core financial transactions are overseen by key controls which are annually tested and reported within the AAF. The testing is carried out by External Auditors.

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 during 2020. This was to provide oversight of the volume of unreconciled accounting transactions. Following the migration of employers to the new BaNCS administration system during Q1 and Q2 2020, there was an increase in the volume of transactions in the suspense account primarily as a result of the adopted migration strategy. However, during

Q3 and Q4 2020, there was a fall in the number of non-reconciling suspense items to what was considered long-run volume.

Additionally the DCC monitors RPMI's performance and ensures that improvements to processes and controls are implemented where necessary. The DCC monitors this through the provision of the annual Internal Control Assurance Report issued by RPMI, which is available on their website. This report outlines specific control procedures and independently demonstrates the strength of these controls.

The Trustee is satisfied that over the period covered by this statement:

- the administrator was operating appropriate procedures, checks and controls;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed during the Scheme year

Trustee knowledge and understanding ("TKU")

RPMI 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 Toolkit before they can be appointed as a Trustee Director of the Railways Pension Scheme and this process was completed for two Trustee Directors who were appointed in 2020. 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 downloaded 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.

In addition to all Trustee Directors having completed the Pensions Regulator's Trustee Toolkit, ten 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 2020. 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 meets 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 2020. 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 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 by the relevant Trustee Director. The particular topics identified for further training are built into the training provided by RPMI and also third parties at the Trustee's meetings and workshops throughout the year.

The Trustee Directors all have working knowledge of the Scheme's trust documentation, the latest Statement of Investment Principles which has been reviewed and updated in 2020 in line with the new requirements of the Occupational Pension Scheme Investment and Disclosure) (Amendment) Regulations 2019, pensions and trust law, and the principles of pension funding and investment. This is evidenced by the latest completed training needs analysis and supplemented by training for Trustee Directors.

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

- Trustee strategic risks
- Settling the 2019 actuarial valuations
- Investment Risk Governance
- Cyber Security Awareness
- Employer Covenant Training Session – Contingent Assets
- DC investment Training
- Looking to the future of Railpen – Strategy
- Getting to know Railpen Investments

In addition to this, members of the DCC attended seminars on:

- Master Trust and risk management; and
- Member communication

These topics were identified as appropriate training based on the 2020 training requirements and skills analysis review or were requested on an ad-hoc basis by the Trustee.

The Trustee Directors completed meeting effectiveness questionnaires after selected Trustee Board or Trustee Committee meetings in 2020. Members of the in-house Trustee Governance team discuss the responses with the relevant Chair to seek to improve the operation and running of Trustee meetings.

The Trustee Board is made up of a wide range of 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, including Integrated Funding, Investment, Defined Contribution, Audit & Risk, Railpen and RPMI. 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 advisors are available to attend the 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 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 of the Railways Pensions Scheme 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. This additional governance standard 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.

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

- Nominations were sought from all the relevant organisations (including Trade Unions and Pensions Committees as appropriate) as part of the Scheme's process for appointing an Employee Director vacancy in the Pensioner electoral group. There was only one nomination and so Richard Goldson was appointed to the Trustee Board.
- Nominations were sought from all the Passenger Train Operating Companies as part of the Scheme's process for appointing an Employer Director vacancy in the Passenger Train Operating Companies electoral group. Following a ballot exercise Adam Golton was appointed to the Trustee Board.

The appointment of the Employee Director vacancy met 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 each year. The newsletter provided to members in 2019 encourages 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 periodic newsletters 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 and fund fact sheets.

Alternatively, if members prefer they can contact the member Helpline on the free phone number 0800 012 1117 or email csu@rpmi.co.uk. The annual newsletter and bulk member communications refer to the helpline number and email address as standard.

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.

Chris Hannon, Trustee Chair
11 May 2021

Appendix 1	Statement of Investment Principles
Appendix 2	Illustration of the cumulative effect of costs and charges on the value of members' fund values over time

Railways Pension Trustee Company Limited (“The Trustee”) Statement of Investment Principles (“SIP”)

Introduction

1. Railways Pension Trustee Company Limited is the trustee body (the “Trustee”) for the railway pension schemes listed in Schedule 1 (the “Schemes”) and for each separate Section within the Railways Pension Scheme (a “Section”). The Trustee notes that it is required to produce and maintain a SIP to outline its investment principles and policies (“investment policy”) for each Scheme under law – the Trustee considers each Scheme individually and collectively and this document represents the combined SIP for the Schemes.

2. The Schemes are occupational pension schemes providing defined benefit ("DB") and defined contribution ("DC") benefits. The main body of the SIP relates to DB and DC elements of the Schemes (unless otherwise stated), whereas Schedules 2 and 3 apply to the DC elements only.

3. The Trustee has, following consultation with the employers, drawn up this SIP to comply with the requirements of the Pensions Act 1995 (as amended) and subsequent legislation, including The Occupational Pension Schemes (Investment) Regulations 2005 (the “Investment Regulations”). The Trustee has received written advice from the Trustee’s wholly owned subsidiary RPMI Railpen before adopting this SIP. The Trustee has two wholly-owned operating subsidiaries, RPMI and RPMI Railpen, to which it delegates the day-to-day operation of the Schemes.

Responsibilities and Process

4. The Trustee is responsible under the Pensions Act 1995 for determining the overarching investment principles used across the Schemes. These are outlined in this document and supporting documents which can be found at: https://www.rpmirailpen.co.uk/investment/. Investment strategy for the DB elements of each Scheme and/or Section is set taking account of, amongst other factors, the specific liability profile of that Scheme and/or Section. The Trustee has a sub- committee, the Integrated Funding Committee (“IFC”), responsible for carrying out this work. The performance objectives and asset allocation strategies for each Scheme and/or Section are included in their respective individual Investment Policy Document. See Schedules 2 and 3 for details of the Trustee’s investment strategy in respect of the Schemes’ DC elements.

5. In the case of Sections where the employer has elected to establish a “Pensions Committee”, and those Schemes where a Management Committee has been established, the power to set investment strategy lies with the committees (with the exception at the time of adoption of this SIP, of the British Transport Police Force Superannuation Fund, RPS Govia Thameslink Railway Section and RPS London Overground Section). In the case of these committees, the Trustee retains legal responsibility for implementation of investment policy and ensuring that any policy adopted and set out in the relevant Investment Policy Document complies with the statutory requirements. This function has been delegated in turn by the Trustee to RPMI Railpen.

6. The SIP is reviewed following each triennial actuarial valuation and following any significant change in investment policy. The Trustee will consult with the relevant employers about any changes to the SIP. However, the employers have agreed that where changes are

proposed to any specific Investment Policy Document, the Trustee only needs to consult with the employers which participate in the Scheme and/or Section to which that Document relates.

Investment Beliefs

7. The Trustee has agreed core beliefs that set out a clear view on investment philosophy and Scheme governance. These beliefs are used to inform the investment process used across the Schemes. The Trustee reviews the Investment Beliefs annually and they are available to view online at https://www.rpmirailpen.co.uk/trustees-beliefs/.

Investment Objectives

8. The Trustee's mission is to pay members' pensions securely, affordably and sustainably. It achieves this through investing the assets of each Scheme and each Section in a way that enables them to be used to pay the benefits promised when they fall due, whilst balancing this against the cost that must be met by the employers and members.

9. To facilitate achieving this objective, the Trustee adopts an integrated approach to covenant, funding and investment policy in respect of the DB elements. Due to the different maturity profiles of the liabilities of the individual Schemes and Sections, along with the strength of covenant of each sponsoring employer and any other specific characteristics, investment strategies and therefore expected investment returns will vary widely. Investment objectives therefore have to be set separately for each Scheme and/or Section, with a consistent framework used for evaluation. The agreed approach takes account of return, risk and liquidity requirements (within a "RRL framework"), to enable suitable investment strategies to be adopted for each Scheme and/or Section.

10. The RRL framework outlines the expected investment strategy for each Scheme and broad Section groupings (effectively grouped by covenant strength and maturity profile). The individual components of the RRL framework are considered as follows:

    10.1. Expected investment return is considered taking into account risk and affordability, making use of the Pooled Fund range to accommodate individual Scheme and/or Section requirements. The expected return of the proposed investment strategy is judged over the long-term and evaluated with reference to the financial assumptions adopted by the Trustee. The technical provisions funding basis used in triennial valuations is considered with reference to these expected returns;

    10.2. Investment risk is considered using several measures with a focus on downside risk, consistent with the Trustee's that investment risk is multi-faceted. The level of investment risk will take account of the strength of covenant;

    10.3. Liquidity requirements are evaluated with reference to maturity, the strength of covenant of the sponsoring employer and whether the Scheme and/or Section is deemed open or closed to new members.

11. The resultant portfolios and investment strategy for each Scheme and/or Section are expressed as a mix of return-seeking, defensive and matching assets. Each of these portfolios, in aggregate, is expected to generate a long-term return that will match or exceed the discount rates used in the funding assumptions for the respective Scheme and/or Section.

Management of Pooled Funds

12. The Trustee is responsible for investing the Scheme's assets in the best interests of members and beneficiaries and it exercises its powers of investment in accordance with the trust deed and rules of each Scheme and applicable law.

13. The Schemes and Sections invest in a number of HMRC approved pooled funds (the "Pooled Funds") operated by RPMI Railpen on behalf of the Trustee. These funds are used to construct each investment portfolio agreed under the RRL framework and are intended to accommodate the differing investment requirements of the Schemes and Sections.

14. As such, each Pooled Fund has distinct return, risk and liquidity characteristics and is either multi-asset or single-asset class by design. The Trustee recognises that the use of a range of traditional and alternative asset classes with distinct return drivers may offer diversifying characteristics. Accordingly, the default offering is to use predominantly multi-asset Pooled Funds which invest in a wide range of assets and strategies. However, Pensions Committees and/or employers can request to make use of other Pooled Funds offered by the Trustee consistent with the agreed investment strategy. The investment performance of each Pooled Fund is measured against an agreed objective and the objective and investment guidelines for each Pooled Fund are set out in the individual fund product particulars.

15. Under the RRL framework, the proportion of the Scheme and/or Section assets to be held in a particular Pooled Fund is not fixed and may, therefore, be changed from time to time by the Trustee (or RPMI Railpen under delegated authority) in order to comply with the RRL framework in the manner the Trustee considers appropriate. Where the rules of a Scheme or a Section require the investment policy to establish the proportion of Scheme and/or Section assets to be held in each of the Pooled Funds, that policy will be recorded in the relevant Investment Policy Document.

16. The Trustee regularly reviews the Pooled Fund range and is free to change the range of Pooled Funds, the associated objectives and investment guidelines from time to time, as it considers appropriate, in accordance with the rules of the Schemes.

17. The investment of the assets within each Pooled Fund, including day-to-day investment decisions, are delegated under an Investment Management Agreement to RPMI Railpen, the internal manager for the railway pension schemes, or to fund managers appointed by RPMI Railpen (together the "Fund Managers"). The investment arrangements are overseen by the Railpen Investments Board ("RIB") who ensure adherence to the Trustees' investment policy. More information on the delegated structure can be found in the annual report and accounts under https://www.rpmirailpen.co.uk/report-accounts/.

18. The Trustee delegates investment powers to RPMI Railpen under the terms of the Investment Management Agreement which sets out the parameters and policies within which RPMI Railpen operates. The Trustee reviews and monitors performance (and fees) to ensure that the activities of RPMI Railpen continue to be aligned with the Trustee's investment policy. More information on RPMI Railpen's obligations to disclose information to the Trustee under the Shareholder Rights Directive (SRD II) can be found on the RPMI Railpen website under https://www.rpmirailpen.co.uk/shareholder-rights-directive-ii/.

19. In turn, RPMI Railpen is responsible for ensuring that the Fund Managers invest scheme assets in line with the Trustee's investment policy and that the Fund Managers stewardship, ESG (including climate change) and responsible investment policies (where relevant) align

with the Trustee's own policies – this includes assessing how the relevant Fund Manager makes investment decisions based on the medium to long-term financial and non-financial performance of investee companies and engages with investee companies to improve their performance.

20. RPMI Railpen reviews and monitors the contractual arrangements with Fund Managers, including their remuneration and length of appointment, on at least an annual basis through relationship meetings and investment reporting to ensure that they are consistent with the Trustee’s investment policy and that Fund Managers' investment decisions and approach are aligned with the Trustee's investment policy and role as a responsible investor. More information on how RPMI Railpen ensures that remuneration structures are aligned with the long-term perspective of beneficiaries can be found on the RPMI Railpen website under https://www.rpmirailpen.co.uk/shareholder-rights-directive-ii/.

21. The Trustee is satisfied that RPMI Railpen has the appropriate knowledge and experience for managing the investments of the Schemes and it carries out its role in accordance with the criteria for investment set out in “Investment Regulations”, the principles contained in the this SIP, the Trustee’s investment policy and any applicable investment guidelines and restrictions agreed with the Trustee.

22. The multi-asset Pooled Funds are managed within a strategic framework, agreed on a regular basis with the RIB. The single-asset Pooled Funds are managed to specific objectives with permitted tolerances. Where relevant, RPMI Railpen and the Fund Managers are responsible for deviations from agreed asset allocations within delegated authority limits. Active management is not used by default but will be considered when it is judged to be the most efficient implementation of a given strategy.

23. RPMI Railpen and the Fund Managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and product particulars. This includes the power to rebalance funds from available cash or make transfers in order to keep within stipulated asset allocations or restrictions.

24. In addition to the Pooled Funds, the Schemes and Sections may invest assets with an insurance company regulated by the Prudential Regulation Authority in order to accomplish a transfer of risk.

Performance Measurement

25. The performance of each Scheme and/or Section, and the investment performance of the portfolios of RPMI Railpen and the Fund Managers, are measured for the Trustee. Also, investment performance of each Scheme and/or Section are monitored by RPMI Railpen and reported to the IFC, the Pensions Committees (where appropriate) and the relevant employers. RIB monitors the performance of RPMI Railpen against long- term performance objectives and compliance with operating parameters to ensure the investment approach aligns with the Trustee’s investment policy and beliefs. RPMI Railpen is responsible for monitoring the performance of the Fund Managers against long-term performance objectives and compliance with operating parameters to ensure alignment with the Trustee’s investment policy and beliefs. For further information on how RPMI Railpen ensures that Fund Managers’ remuneration structures are aligned with the Trustee’s investment policy, see https://www.rpmirailpen.co.uk/shareholder-rights-directive-ii/.

Risk Management

26. The Trustee recognises that there are various investment and operational risks to which any pension scheme is exposed, and gives qualitative and quantitative consideration to such risks. A number of steps are taken to manage such risks including:

    26.1. an Integrated Funding Committee with specific responsibilities including agreeing integrated funding plans for each Scheme and/or Section, using the RRL framework (as described in paragraphs 9, 10 and 15), and monitoring performance against their agreed funding plans;

    26.2. an Audit and Risk Committee with specific responsibilities including review of financial control and risk management systems;

    26.3. appointing a global custodian to hold assets and RPMI Railpen monitoring the custodian's service provision and credit-worthiness;

    26.4. appointing the Railpen Investments Board (RIB) with specific responsibilities including oversight of the management of the Pooled Funds;

    26.5. the establishment of the Investment Risk Committee and Operational Risk Committee to oversee monitoring of investment and operational risks.

Defined Contribution Assets

27. The Schemes provide DC benefits in the form of additional voluntary contributions ("AVCs"), commonly known as BRASS, in the defined benefit Sections and the Industry-Wide Defined Contribution Section ("IWDC"), a standalone DC Section of the Railways Pension Scheme. The IWDC Section is the authorised master trust within the Railways Pension Scheme. The Trustee is responsible for investing DC assets in the best interests of members and beneficiaries, providing appropriate fund choices and ensuring good value for members. The Trustee's strategy and approach to the DC elements are set out in Schedules 2 and 3, to the extent they differ to the DB elements.

28. The range of funds made available for the DC fund arrangements is reviewed regularly and may be changed by the Trustee from time to time in accordance with applicable rules of the Schemes. The intention is to ensure an investment philosophy consistent across both defined benefit and defined contribution arrangements to the extent possible.

29. Further information on AVC Funds can be found in Schedule 2 and further information on the IWDC Section can be found in Schedule 3.

Costs

30. The Trustee recognises that strict control of costs is important in contributing to good investment returns. As such, RPMI and RPMI Railpen are asked to ensure that all aspects of cost from the responsibilities and mandates exercised by those involved in the investment process, both internal and external, are kept under regular review. The aim is to implement Scheme and/or Section strategy in the most efficient manner possible, using internal resources wherever appropriate. Investments within the Pooled Funds are considered in terms of the most efficient way to access desired return drivers. As part of this process, fees payable to external Fund Managers and costs relating to the investment, management, custody and realisation of Pooled Fund assets are kept under regular review.

31. RPMI and RPMI Railpen give full transparency to the Trustee on the underlying costs making up the annual management charges including, but not limited to, investment management costs, internal staff costs, legal costs and IT costs. The Trustee also monitors the level of transaction costs incurred by the funds on a yearly basis. These costs include, but are not limited to, broker commissions, commissions of futures, transfer taxes, and other fees such as bank fees, search fees, legal fees, and stamp duty. More information on the breakdown of costs can be found in the annual report and accounts published on the RPMI Railpen website https://www.rpmirailpen.co.uk/report-accounts/.

32. The Trustee does not have a target portfolio turnover range but instead reviews costs in conjunction with net of fees performance figures for the Pooled Funds and Fund Managers are encouraged to take a long-term approach to investing in order to align with the Trustees' investment beliefs and investment policy.

Environmental, social and governance considerations

33. The Trustee recognises its legal duty to consider factors that are likely to have a financially material impact on investment returns over the period during which benefits will need to be funded by the Schemes' investments.

34. These factors include, but are not limited to, environmental, social and governance (ESG) factors, including, but not limited to climate change.

35. The Trustee expects RPMI Railpen and Fund Managers to take account of ESG factors in the selection, retention and realisation of investments. In addition, RPMI Railpen takes into account the Fund Managers' policies in relation to ESG factors when selecting Fund Managers and also monitors Fund Managers' compliance with such policies.

36. The Trustee will continue to monitor and assess ESG factors and the risks and opportunities arising from them, as follows:

    36.1. the Trustee will undertake annual training on ESG considerations in order to understand fully how ESG factors including climate change could impact investments;

    36.2. the Trustee will require RPMI Railpen and Fund Managers to provide information annually about their ESG policies and how they integrate ESG into their investment processes.

Non-financial matters

37. The Trustee will consider factors that are expected to have a material financial impact on investments. Non-financial matters may be considered on a case-by-case basis in relation to the selection, retention and realisation of investments where the Trustee has reasonable cause to believe that scheme members would share concerns that such matters would have a materially detrimental impact on the good reputation of the Schemes and potentially lead to a material risk of financial detriment to the Schemes.

38. The Trustee will review its policy on non-financial matters in conjunction with its regular review of the SIP.

Voting and Engagement Policy

39. The Trustee believes that companies with robust corporate governance structures are more likely to achieve superior long-term financial performance and will manage their risks and opportunities effectively. It signals its expectations to companies through RPMI Railpen's voting and engagement activities.

40. RPMI Railpen's global voting policy sets out expectations for issuers, and may be read in conjunction with RPMI Railpen's engagement policy and other market specific guidance, which can be found on RPMI Railpen's website under https://www.rpmirailpen.co.uk/active-ownership/. Thoughtful voting alongside constructive engagement with portfolio companies supports the Trustee's investment objectives.

41. RPMI Railpen, on behalf of the Trustee, is a signatory to the UK Stewardship Code, and engages with its external Fund Managers to encourage them to adopt practices in line with the spirit of this Code as appropriate. Compliance with the UK Stewardship Code can be found on the RPMI Railpen website at https://www.rpmirailpen.co.uk/active-ownership/.

42. The Trustee expects RPMI Railpen to:

    42.1. exercise rights attaching to investments and to undertake engagement activities in accordance with RPMI Railpen's global voting policy and current best practice, including the UK Stewardship Code;

    42.2. select Fund Managers which have appropriate ESG policies and to monitor their compliance with those policies;

    42.3. evaluate all financially material considerations, including ESG factors (including, but not limited to, climate change) as part of the decision-making process around its stewardship activities;

    42.4. provide, at least annually, details of its ESG policies and stewardship activities and those of Fund Managers.

43. The Trustee's delegation to RPMI Railpen of the exercise of rights attaching to investments and engagement activities includes the delegation of the functions of engaging with and the monitoring of "relevant persons", including (but not limited to) the Fund Managers and, if applicable, investee companies and other stakeholders about "relevant matters", including (but not limited to) matters concerning investee companies, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. RPMI Railpen exercises these functions in line with RPMI Railpen's global voting policy and current best practice, including the UK Stewardship Code.

44. The Trustee expects RPMI Railpen to update the Trustee periodically (and at least annually) on its ESG policies and its stewardship activities and on those of Fund Managers.

Adopted by the Trustee on 17 September 2020

Schedule 1

Railways Pension Schemes

This Schedule lists the Schemes for which the Railways Pension Trustee Company Ltd (RPTCL) is “The Trustee”:

- Railways Pension Scheme (“RPS”)
- British Railways Superannuation Fund (“BRSF”)
- British Transport Police Force Superannuation Fund (“BTPFSF”)
- BR (1974) Fund

Schedule 2

Additional Voluntary Contribution ("AVC") funds

1. Introduction

This Schedule is appended to and should be read in conjunction with the Statement of Investment Principles ("SIP") adopted by the Railways Pension Trustee Company Limited ("the Trustee") for the railway pension schemes (the "Schemes"), as amended from time to time. Items in the SIP which also apply to the AVC funds include the majority of the requirements of section 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005. This Schedule covers any additional requirements of the Investment Regulations in respect of the AVC funds which are not covered in the main body of the SIP.

The main AVC arrangement is open to all contributing members of the defined benefit Sections of the Railways Pension Scheme and is known as BRASS. It is also open to members of the British Transport Police Force Superannuation Fund who joined before 1st April 2007 and eligible members of the British Railways Superannuation Fund.

AVC Extra is the second contribution top-up arrangement for contributing members of the defined benefits Sections (other than the Network Rail Section) of the Railways Pension Scheme and members of the British Transport Police Force Superannuation Fund who joined before 1st April 2007.

2. Objective

The Trustee recognises that individual members have differing investment needs and these may change during the course of their working lives. It also recognises members have differing attitudes to risk.

The overall objective of the Trustee is to provide a range of funds suitable for members to invest their AVC contributions. For members who do not wish to make their own investment choice, the Trustee makes available a default option.

In setting the range of investment options, the Trustee considered member's objectives as being defined by the expected:

- Level of outcome (long-term return)
- Variability of outcome (long-term risk)
- Volatility of journey, in particular as the member's target retirement age approaches (short-term risk)

3. Investment strategy

The Trustee considered a range of asset classes and associated expected returns and volatility of returns, the suitability of styles of investment management, and the need for diversification. The suitability of various lifestyle arrangements was also taken into account in setting the lifestyle and default strategies.

After taking advice, the Trustee has made lifestyle options available to members, matching various degrees of risk. These options offer a changing investment programme designed to meet a typical member's perceived changing financial needs as they move through their working life and approach retirement. 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.

One of the lifestyle options operates as a default vehicle, should a member not wish to make their own selection from the available fund range. The default lifestyle option is designed to be appropriate for a typical member with a predictable target retirement age.

The Defined Contribution Committee ("DCC") of the Trustee Board was established to ensure appropriate management and governance of the BRASS, AVC Extra, and Industry-Wide Defined Contribution Section arrangements. Specific responsibilities of the Committee include oversight of investment performance and reviewing communications and investment options as appropriate.

4. Fund choices

The following "self-select" funds are available to all BRASS and AVC Extra members:

- Long Term Growth Fund
- Global Equity Fund
- Aggregate Bond Fund
- Index-Linked and Global Bond Fund
- Deposit Fund

The BRASS and AVC Extra arrangements also offer two lifestyle options:

- Long Term Growth Lifestyle (the default option for BRASS)
- Global Equity Lifestyle (the default option for AVC Extra)

The fund range is provided through a "white-labelled" framework to help accommodate underlying manager changes and future enhancements without undue disruption. Within this structure the Trustee considers suitable pooled funds managed by RPMI Railpen where possible.

BRASS members may also have holdings in the Pension Assured Fund ("PAF"). However, it is noted that this Fund is not accepting new contributions.

The Trustee expects the long-term return on the Long Term Growth Fund and Global Equity Fund to exceed price inflation. The long-term returns on the bond and deposit funds are expected to be lower. However, the bond funds are expected to more closely match the price for annuities, giving some protection in the amount of secured pension for members closer to retirement. The Deposit Fund is expected to provide protection against changes in short-term nominal capital values, and may be appropriate for members close to their target retirement age that plan to receive part of their retirement benefits in the form of tax-free cash.

5. Default arrangements

The aim of the default arrangements for each of the BRASS and AVC Extra arrangements is to generate long-term growth in excess of inflation over members' working lifetimes.
The BRASS arrangement is a "top-up" or additional benefit to the main Scheme DB benefit, and as such the default aims to seek growth with some volatility mitigation due to diversification by investing in the Long-Term Growth Fund during the earlier years. The "at retirement" portfolio has been constructed on the basis that BRASS members will draw 100% of their benefits as

cash. The asset allocation therefore de-risks to the Deposit Fund over the five years prior to target retirement age. This default strategy is intended to ensure that assets are invested in the best interests of relevant members and beneficiaries in BRASS.

The AVC Extra arrangement is a further “top-up” arrangement, and as such the default invests in the Global Equity Fund in the earlier years. The “at retirement” portfolio has been constructed on the basis that AVC Extra members will take 25% of their funds as a tax-free lump sum and buy an annuity with the rest. The asset allocation therefore de-risks to 25% in the Deposit Fund and 75% in the Aggregate Bond fund over the ten years prior to target retirement. This default strategy is intended to ensure that assets are invested in the best interests of members and beneficiaries in AVC Extra.

The DCC reviews the default investment strategy and the performance of the default arrangement (including investment return net of costs) of BRASS and AVC Extra at least every three years and without delay after any significant change in investment policy or the demographic profile of relevant members. This review is carried out in conjunction with a review of the IWDC Section.

6. Fund annual charges

The Fund Managers, RPMI Railpen and RPMI levy a charge on each fund, calculated by reference to the market value of assets under management. These charges are levied on each member’s investments and the members incur these fees. They may vary depending on the fund chosen and manager performance, however they are considered by the Trustee to be reasonable.

7. Risks

There are a number of risks within the BRASS and AVC Extra arrangements including:

- Risk of inadequate long-term returns, in particular that fund values don’t increase with inflation. To manage this, the Trustee includes funds that have an expected long-term return above inflation although this is not guaranteed over any given period;

- Risk of deterioration in investment conditions near retirement. To address this the Trustee has made available lower estimated risk funds and lifestyle options that default into lower estimated risk funds as members approach target retirement age;

- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;

- Risk of underlying Fund Managers and/or RPMI Railpen not meeting their objectives. The Defined Contribution Committee provides oversight to the performance of the funds. The Railpen Investments Board oversees the performance of RPMI Railpen and the Fund Managers on a regular basis; and

- Risk of inappropriate member decisions. This is addressed by making a default option available which the Trustee believes appropriate for the majority of members.

The Trustee also reviews these risks as part of each formal strategy review (to coincide with review of the default strategies and arrangements). These take place at least every 3 years or more frequently if appropriate, and without delay after any significant change in investment policy.

Appendix 1

Note: Further information and factsheets for the BRASS and AVC Extra funds (including their asset allocation, risks, expected return and diversification) can be found on the Railway Pensions website www.railwayspensions.co.uk/in-the-scheme/brass-section/my-fund-choices.

Schedule 3

Industry-Wide Defined Contribution Section

1. Introduction

This Schedule is appended to and should be read in conjunction with the Statement of Investment Principles ("SIP") adopted by the Railways Pension Trustee Company Limited ("the Trustee") for the railway pension schemes (the "Schemes"), as amended from time to time. Items in the SIP which also apply to the AVC funds include the majority of the requirements of section 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005. This Schedule covers any additional requirements of the Investment Regulations in respect of the Industry Wide Defined Contribution Section ("IWDC Section") which are not covered in the main body of the SIP.

The IWDC Section is the authorised DC master trust of the Railways Pension Scheme for rail industry employees and, other than AVCs, it is the only Section in the Scheme which provides money purchase benefits.

2. Objective

The Trustee recognises that individual members have differing investment needs and these may change during the course of their working lives. It also recognises members have differing attitudes to risk.

The overall objective of the Trustee is to provide a range of funds suitable for members to invest their contributions. For members who do not wish to make their own investment choice, the Trustee makes available a default option.

In setting the range of investment options, the Trustee considered member's objectives as being defined by the expected:

- Level of outcome (long-term return)
- Variability of outcome (long-term risk)
- Volatility of journey, in particular as the member's target retirement age approaches (short-term risk)

3. Investment strategy

The Trustee considered a range of asset classes and associated expected returns and volatility of returns, the suitability of styles of investment management, and the need for diversification.

The suitability of various lifestyle arrangements was also taken into account in setting the lifestyle and default strategies.

After taking advice, the Trustee has made lifestyle options available to members, matching various degrees of risk. These options offer a changing investment programme designed to meet a typical member's perceived changing financial needs as they move through their working life and approach retirement. 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.

One of the lifestyle options operates as a default vehicle, should a member not wish to make their own selection from the available fund range. The default lifestyle option is designed to be appropriate for a typical member with a predictable target retirement age.

The Defined Contribution Committee ("DCC") of the Trustee Board was established to ensure appropriate management and governance of the DC Schemes' arrangements. Specific responsibilities of the Committee include oversight of investment performance and reviewing communications and investment options as appropriate.

4. Fund choices

The following "self-select" funds are available to all members of IWDC Section:

- Long Term Growth Fund
- Global Equity Fund
- Aggregate Bond Fund
- Index-Linked and Global Bond Fund
- Deposit Fund

The IWDC Section also offers two lifestyle options:

- Long Term Growth Lifestyle (the default option)
- Global Equity Lifestyle

The fund range is provided through a "white-labelled" framework to help accommodate underlying manager changes and future enhancements without undue disruption. Within this structure the Trustee considers suitable pooled funds managed by RPMI Railpen where possible.

The Trustee expects the long-term return on the Long Term Growth Fund and Global Equity Fund to exceed price inflation. The long-term returns on the bond and deposit funds are expected to be lower. However, the bond funds are expected to more closely match the price for annuities, giving some protection in the amount of secured pension for members closer to retirement. The Deposit Fund is expected to provide protection against changes in short-term nominal capital values, and may be appropriate for members close to their target retirement age that plan to receive part of their retirement benefits in the form of tax-free cash.

5. Default arrangement

The aim of the default arrangement is to generate long-term growth in excess of inflation over members' working lifetimes. The IWDC Section may be a members' main form of retirement saving and so the Long Term Growth Lifestyle as the "default arrangement" aims to seek growth with some volatility mitigation due to diversification by investing in the Long-Term Growth Fund during the earlier years. The "at retirement" portfolio has been constructed on the basis that DC members will take 25% of their funds as a tax-free lump sum and buy an annuity with the rest, and the asset allocation therefore de-risks to 25% in the Deposit Fund and 75% in the Aggregate Bond fund over the ten years prior to target retirement. This default strategy is intended to ensure that assets are invested in the best interests of members and beneficiaries.

The DCC reviews the default investment strategy and the performance of the default arrangement (including investment return net of costs) at least every three years and without delay after any significant change in investment policy or the demographic profile of relevant members. This review is carried out in conjunction with a review of the AVC funds.

6. Fund annual charges

The Fund Managers, RPMI Railpen and RPMI levy a charge on each fund, calculated by reference to the market value of assets under management. These charges are levied on each member's investments and the members incur these fees. They may vary depending on the fund chosen and manager performance, however they are considered by the Trustee to be reasonable.

7. Risks

There are a number of risks within the IWDC Section including:

- Risk of inadequate long-term returns, in particular that fund values don't increase with inflation. To manage this, the Trustee includes funds that have an expected long-term return above inflation, although this is not guaranteed over any given period;

- Risk of deterioration in investment conditions near retirement. To address this the Trustee has made available lower estimated risk funds and lifestyle options that default into lower estimated risk funds as members approach target retirement age;

- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;

- Risk of underlying Fund Managers and/or RPMI Railpen not meeting their objectives. The Defined Contribution Committee provides oversight to the performance of the funds. The Railpen Investments Board oversees the performance of RPMI Railpen and the Fund Managers on a regular basis; and

- Risk of inappropriate member decisions. This is addressed by making a default option available which the Trustee believes appropriate for the majority of members.

The Trustee also reviews these risks as part of each formal strategy review (to coincide with review of the default strategies and arrangements). These take place at least every 3 years or more frequently if appropriate, and without delay after any significant change in investment policy.

Note: Further information and factsheets for the IWDC Section funds (including their asset allocation, risks, expected return and diversification) can be found on the Railway Pensions website www.railwayspensions.co.uk/in-the-scheme/iwdc/all-about-iwdc-investments.

Appendix 2

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

The effect of costs and charges for each of the funds is provided in the table below:

	Long Term Growth Fund		Global Equity Fund		Aggregate Bond Fund		Index-Linked and Global Bond Fund		Deposit Fund	
Years	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£7,588	£7,552	£7,557	£7,543	£7,342	£7,323	£7,276	£7,276	£7,266	£7,253
3	£13,140	£12,985	£13,006	£12,942	£12,097	£12,019	£11,909	£11,827	£11,785	£11,733
5	£19,225	£18,878	£18,925	£18,783	£16,948	£16,783	£16,551	£16,379	£16,291	£16,183
10	£37,053	£35,837	£36,002	£35,510	£29,517	£29,010	£28,307	£27,793	£27,533	£27,214
15	£59,219	£56,417	£56,794	£55,672	£42,761	£41,732	£40,324	£39,307	£38,795	£38,174
20	£86,596	£81,244	£81,958	£79,838	£56,736	£55,003	£52,658	£50,983	£50,148	£49,139
25	£120,225	£111,043	£112,258	£108,662	£71,504	£68,880	£65,368	£62,889	£61,660	£60,186
30	£161,342	£146,659	£148,585	£142,898	£87,131	£83,424	£78,516	£75,088	£73,402	£71,390
35	£211,418	£189,066	£191,972	£183,416	£103,689	£98,699	£92,165	£87,650	£85,443	£82,824
40	£272,197	£239,397	£243,624	£231,213	£121,252	£114,776	£106,382	£100,641	£97,855	£94,563
45	£345,755	£298,962	£304,937	£287,439	£139,904	£131,729	£121,237	£114,134	£110,708	£106,679

The effect of costs and charges for the default arrangement is also provided:

	DC Long Term Growth Lifestyle	
Years	Before charges	After all costs and charges
1	£7,588	£7,552
3	£13,140	£12,985
5	£19,225	£18,878
10	£37,053	£35,837
15	£59,219	£56,417
20	£86,596	£81,244
25	£120,225	£111,043
30	£161,342	£146,659
35	£211,418	£189,066
40	£268,257	£236,217
45	£303,815	£265,286

NOTES:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of inflation.
2. The starting pot size is assumed to be £5,000.
3. Inflation is assumed to be 2.5% each year.
4. Member is assumed to be aged 20, with a target retirement age of 65.
5. Monthly contributions are assumed to start at £200, increasing at 4% (assumed earnings inflation of 1.5%) each year until target retirement age.
6. The assumed growth rates for each fund are as follows (costs and charges shown in brackets):
   - Long Term Growth Fund: 6.00% (0.58%)
   - Global Equity Fund: 5.50% (0.24%)
   - Aggregate Bond Fund 2.00% (0.31%)
   - Index-Linked and Global Bond Fund: 1.25% (0.33%)
   - Deposit Fund: 0.75% (0.21%)
7. The assumed growth rates, costs and charges for the default arrangements reflect those of the underlying funds that are held at each point in time.
8. Costs and charges include property expenses and transaction costs.
9. Transaction costs are based on an average of the last 5 years, all other costs and charges are forward-looking estimates.
10. Values shown are estimates and are not guaranteed.