



**2016 Annual Report and
Audited Financial Statements**



Chairman's introduction	03
The Railways Pension Scheme	05
Key statistics	08
Audited financial statements	10
Independent Auditor's report	23
Statement of Trustee responsibilities in relation to audited financial statements	25
The Trustee Company annual report	27
The Trustee's investment report	42
Report on actuarial liabilities	47
Appendices	50

Chairman's introduction



On behalf of your Trustee Board, I would like to introduce the Annual Report and Audited Financial Statements of the Railways Pension Scheme ('the Scheme') for the year ended 31 December 2016.

The year was a very strong one for investment returns, especially for the Growth Pooled Fund in which the majority of the Scheme's assets are invested.

Returns on the legacy Private Equity Pooled Fund and the newly-launched Long Term Income Pooled Fund fell short of their benchmarks; however all other asset classes achieved returns above, and in some cases well above, benchmarks. The Growth Pooled Fund recorded absolute gains of 17.3% against a benchmark of 2.5% and a target of 6.5%.

Although the Scheme's second largest pooled fund investment, the Private Equity Pooled Fund, failed to reach its benchmark, it still managed to return a strong 23.1% and the Scheme's other two large pooled funds, the Government Bond Pooled Fund and Infrastructure Pooled Fund, recorded annual gains of 5.8% and 24.1% respectively, both comfortably exceeding their benchmarks of 4.5% and 2.5%.

In 2013, the Trustee initiated a wide-ranging review of its investment governance, covering investment beliefs, structure, and a root-and-branch review of the investment processes underlying the pooled funds.

2016 saw the continued implementation of many of the initiatives begun in the previous years, as we increased our in-house trading capability. During 2016, significant progress was made in reducing the numbers and scope of external firms managing the Scheme's money, with an associated reduction in cost. Equity investment was increasingly carried out through Alternative Risk Premia ('ARP') Strategies, which identify underlying drivers of return and build portfolios cost effectively and

systematically. Property is the next asset class to be transitioned to in-house management, and this will take place during 2017.

Our simple range of multi-asset pooled funds ensures that the needs of individual sections are met, whilst also allowing assets to be invested, as far as possible, as if the RPS were a single, undivided scheme. The legacy Private Equity Pooled Fund is being wound down, although due to the illiquid nature of the investments in this pooled fund, this will take several years.

New investments in private markets and other illiquid return seeking assets are made through the Illiquid Growth Pooled Fund, launched in 2015, and the Long Term Income Pooled Fund, launched in 2016. These new funds provide the opportunity for the Trustee to invest more directly in private markets, and have the benefit of reduced costs and increased control over our investments. We have also been able to invest in some new and non-traditional asset classes such as royalties, solar panels and residential properties.

As stated in the 2015 annual report, we are also implementing a change programme for administration and trustee services, 'Chrysalis'. This programme will include the replacement of the current pension administration system, but is intended to deliver much more than that. As the name suggests, this will transform the way in which RPMI, our administration business, operates.

2016 saw an increase in Chrysalis activity at RPMI. We launched the first phase of the programme in July, and all members retiring after this date are now being administered and paid on the new system. Work continues on the remaining two phases of the programme, with the second phase scheduled for launch in the last quarter of 2017.

We are making a significant investment in RPMI to ensure that we maintain a service for our members that not only demonstrates excellent value for money, but represents a quality service that meets the needs of the modern world.

As part of Chrysalis we have spoken with our many stakeholders, a process that will continue during the implementation, and we will be working to deliver a range of services that meets as many of those needs as possible.

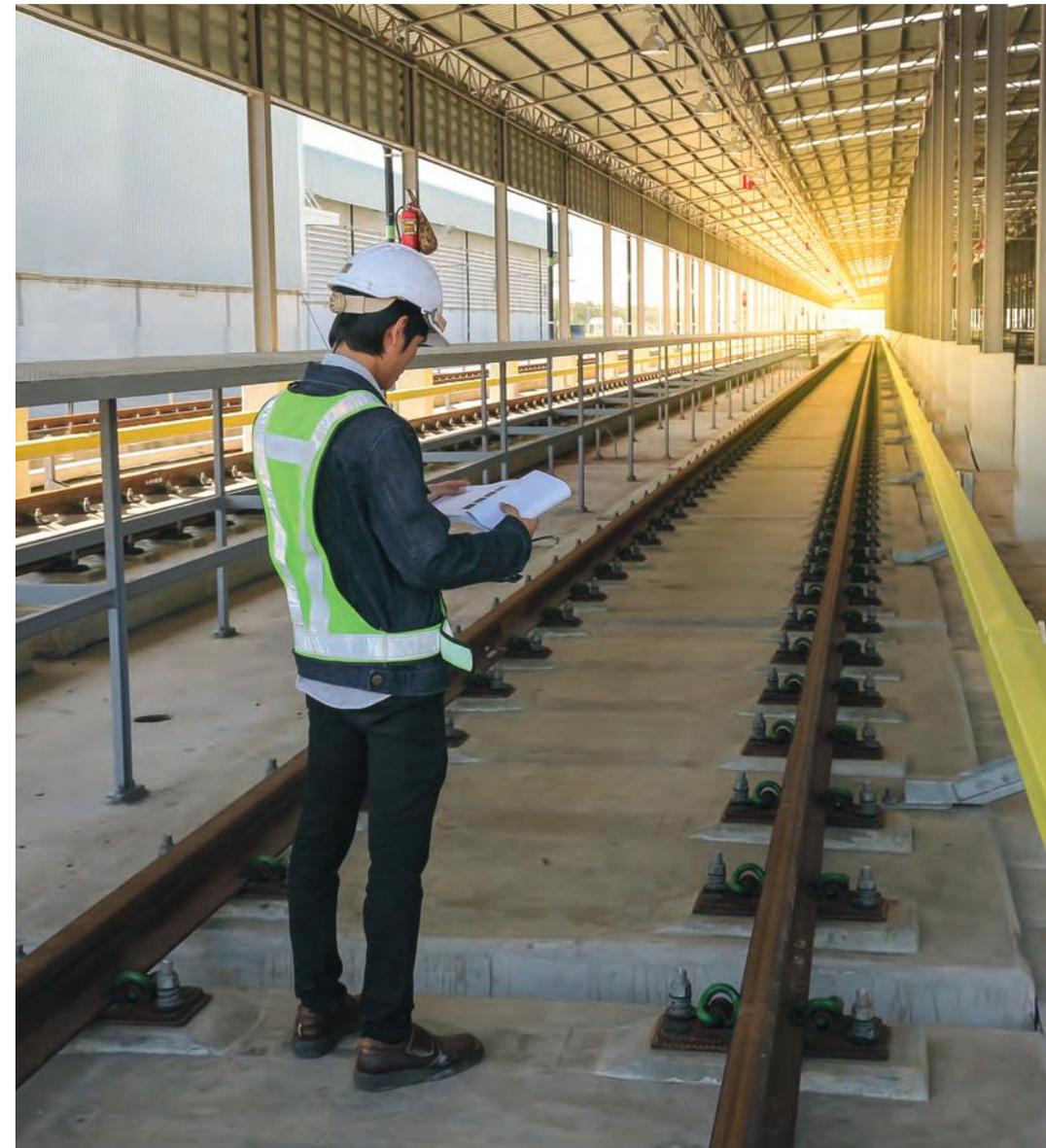
We always remain aware that the Scheme covers a wide variety of organisations, from the very large, to those with only a handful of members, so the Trustee's role is to ensure that a high-quality and cost-effective service is delivered for all sponsoring employers.

I would like to take this opportunity to record my gratitude to all who have served as Trustee Directors during the year. It has been good to welcome some new faces to the Trustee, who often provide a fresh challenge and approach, but this has also meant we have also had to say goodbye to some Trustee Directors who have added value over many years.

The wide range of individual Trustee Directors' knowledge and expertise is invaluable in ensuring that your Trustee continues to have a broad understanding of the railway industry and that it represents effectively the interests of the many stakeholders.

The UK pension landscape continues to be varied and changeable, not just for the shared cost sections, but increasingly in the defined contribution sections of the Scheme. I look forward to working with my fellow directors and the staff at RPMI in meeting these and the other challenges ahead.

John Chilman,
Chairman of the Trustee Company

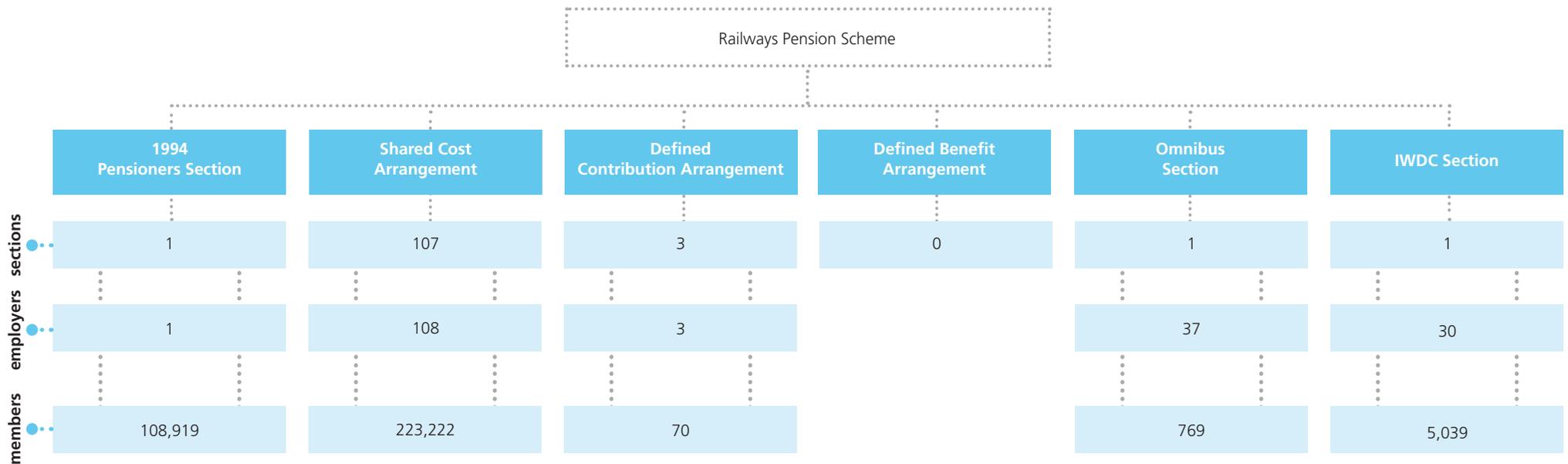


**The Railways
Pension Scheme**



The Railways Pension Scheme ('RPS') was created in 1994 after the privatisation of the railway industry and reorganisation of the British Rail Pension Scheme. It is the largest of the four pension schemes managed by the Trustee Company ('Trustee') and one of the largest schemes in the UK, and provides pensions for 156 (2015: 157) companies operating within the privatised railway industry.

The RPS comprises six parts: the 1994 Pensioners Section, the Shared Cost Arrangement, the Defined Contribution Arrangement, the Defined Benefit Arrangement, the Omnibus Section and the Industry-Wide Defined Contribution ('IWDC') Section. Employers may participate in more than one arrangement and in more than one section of the Shared Cost Arrangement. There are 113 sections (2015: 113 sections) across the six parts of the RPS, as illustrated below:



Advantages of an industry-wide scheme

The industry-wide structure allows the assets to be combined into 'pooled funds'. These investment funds are significantly larger than would be possible were sections to invest their assets separately, resulting in several advantages for the schemes and sections.

For example, the asset allocation needs of sections can be considered separately from the appointment and monitoring of individual investment managers. The size of the pooled funds also allows all sections to benefit from economies of scale in investment management costs and access to a wide range of investments. Sections wishing to invest in pooled funds in the first instance, where possible, buy pooled fund units from sections wishing to sell, thus avoiding some of the external investment transaction costs.

The industry-wide nature of the Scheme can simplify the movement of employees between railway companies, allowing them to change employers while remaining in the same pension scheme.

The Trustee provides high-quality pensions services through its experienced administration, investment, secretariat, pensions policy, communications and finance teams, benchmarked in terms of quality standards against other providers.

A summary of the main provisions of the Scheme is shown in Appendix G.

The 1994 Pensioners Section

Pensioners and preserved pensioners in the BR Pension Scheme on 30 September 1994 were transferred into a separate Section of the RPS – the 1994 Pensioners Section. Later, on 30 December 2000, pensioners and preserved pensioners of the BR Section were also transferred to the 1994 Pensioners Section. The assets and liabilities of another six closed railway pension schemes were also transferred to the 1994 Pensioners Section in 2007, after agreement between the Trustee and the Department for Transport.

The Secretary of State guarantees all past service liabilities and pensions in payment of the 1994 Pensioners Section at 1 August 2007, plus any future annual pension increases awarded to Section members.

The Shared Cost Arrangement

All active members of the BR Pension Scheme were transferred into the Shared Cost Arrangement on 1 October 1994. Transferred members with protected rights under the Railways Act 1993 have a statutory right to remain in the RPS while they continue to be employed in the railway industry.

A separate section within the Shared Cost Arrangement may be created for each designated employer. Originally, as each BR business was franchised or sold, a proportionate share of RPS assets was transferred to the new section of the Scheme. Subsequent sales and transfers of parts of businesses can now result in the creation or mergers of sections.

As at 31 December 2016, 91 of the 107 shared cost sections had active members and 49 of these shared cost sections remain open to new members. For open sections, employees of the participating

employer who are employed in the railway industry may join the Scheme. New members are not protected under the Railways Act 1993, however, so their pension rights may differ from those who have protected rights. A full list of sections and participating employers is given in Note 11 to the Audited Financial Statements.

The Omnibus Section

Employers with fewer than 50 members are eligible to combine in a multi-employer Omnibus Section. Employers may remain in the arrangement if their membership increases above 50. At the end of 2016, 37 employers (2015: 38 employers) were part of the Omnibus Section. A full list of participating employers is given in Note 11 to the Audited Financial Statements.

Defined Contribution Sections, other Defined Benefit Arrangements and IWDC Section

As with the Shared Cost Arrangement, the Defined Contribution Arrangement and Defined Benefit Arrangements are part of the framework of the RPS and exist as possible alternatives to a section on the Shared Cost Arrangement basis. A handful of defined contribution ('DC') sections were set up by employers, but these moved into the IWDC Section when it was created. No employers have set up sections adopting the provisions of the Defined Benefit Arrangement.

The IWDC Section of the RPS exists for rail employers who want to provide benefits on a DC basis.

The IWDC Arrangement was established on 1 November 2001. The Arrangement aims to provide employers with a flexible defined contribution scheme. At the end of 2016, 30 employers were part of this Arrangement (2015: 27 employers).

At 31 December 2016, there were three defined contribution sections (2015: three sections).

Reporting

There are separate records for each section and each section receives quarterly reports including accounts, investment and administration performance. Each section is independently valued by the Scheme Actuary.

Pensions Committees

The designated employer of each shared cost section may establish a Pensions Committee to which the Trustee will delegate certain of its powers and duties under Appendix 5 of the Pension Trust, which includes responsibilities such as the determination of incapacity and discretionary benefits. Setting investment strategy can also be vested in the committees under Clause 5G of the Pension Trust, subject to the Trustee's approval.

All Pensions Committees have an equal number of employer and member nominees. The chairmanship alternates annually between the employer and member nominees. The Trustee, however, retains responsibility for supervising how the committees exercise their powers and monitors necessary training undertaken by committee members.

Key statistics



Five-year summary of RPS participation

	2016	2015	2014	2013	2012
Sections	113	113	110	111	112
Employers	179	186	178	197	199
Active membership	93,938	90,574	89,336	87,528	85,321
Preserved membership	105,350	106,793	107,714	108,440	109,219
Pensioners	138,731	140,366	139,998	141,472	143,668
Total membership	338,019	337,733	337,048	337,440	338,208

Five-year summary of net assets of RPS

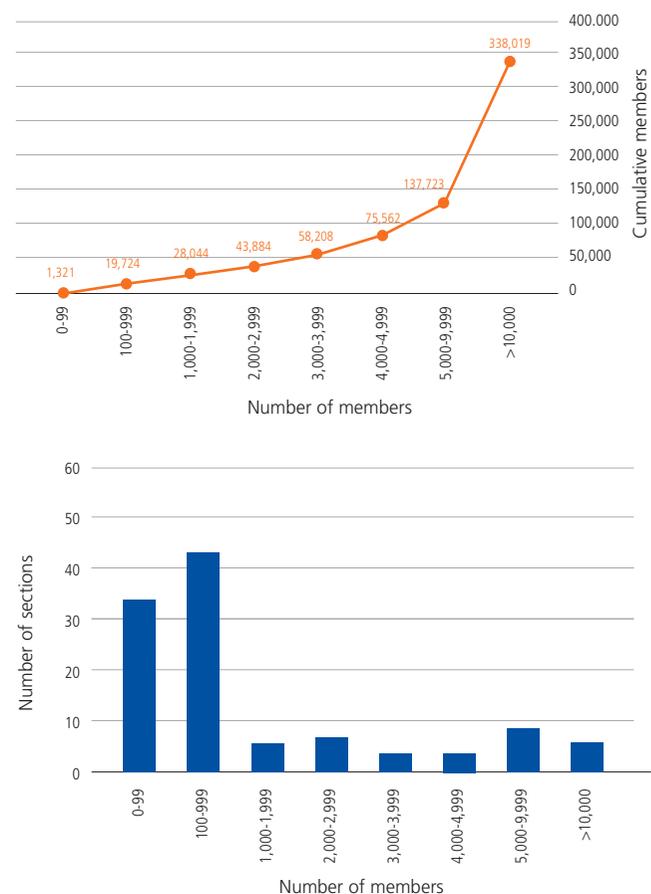


Five-year summary of financial statements of RPS

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Scheme benefits					
Pensions	775	776	742	725	710
Lump sums*	204	181	182	132	133
Death benefits	23	26	19	22	21
Total benefits	1,002	983	943	879	864
Scheme income					
Employees contributions	288	292	288	270	263
Employers contributions	382	402	377	366	364
Government support	19	18	21	23	25
Total contributions	689	712	686	659	652
Net transfer values	(54)	(13)	(215)	(220)	19
Admin expenses	(20)	(18)	(18)	(20)	(18)
PPF levies	(34)	(27)	(28)	(30)	(29)
Net investment income	319	241	331	320	265
Change in market values & interest	3,206	877	1,734	1,377	1,165
Net increase in the Scheme	3,104	789	1,547	1,207	1,190
Net assets of the Scheme	25,545	22,441	21,652	20,105	18,898

* Lump sums include any taxation where lifetime or annual allowance exceeded.

Comparison of membership of sections



Key statistics for 2016

Total Membership	338,019
Net increase in the Scheme	£3,104m
Net assets of Scheme	£25,545m

**Audited
financial statements**



Fund account for the year ended 31 December 2016

	Note	2016 DB £m	2016 DC £m	2016 Total £m	2015 Total £m
Contributions and benefits					
Member's contributions	3	286	2	288	292
Employer's contributions	3	394	7	401	420
Individual transfers in		13	-	13	11
		693	9	702	723
Pensions		(775)	-	(775)	(776)
Group transfers out	4	(51)	-	(51)	(6)
Lump-sum retirement benefits		(204)	-	(204)	(180)
Death benefits		(22)	(1)	(23)	(26)
Individual transfers out		(15)	-	(15)	(18)
Taxation where lifetime or annual allowance exceeded		(1)	-	(1)	(1)
		(1,068)	(1)	(1,069)	(1,007)
Administrative expenses	5	(20)	-	(20)	(18)
PPF levies		(34)	-	(34)	(27)
Total withdrawals		(1,122)	(1)	(1,123)	(1,052)
Net (withdrawals)/additions from dealings with members		(429)	8	(421)	(329)
Returns on investments					
Change in market value	6	3,519	6	3,525	1,118
Net returns on investments		3,519	6	3,525	1,118
Net increase in the Scheme during the year		3,090	14	3,104	789
Net assets at the start of the year		22,390	51	22,441	21,652
Net assets at the end of the year		25,480	65	25,545	22,441

The notes numbered 1 to 11 on pages 12 to 22 form an integral part of these audited financial statements.

Statement of net assets (available for benefits) as at 31 December 2016

	Note	2016 DB £m	2016 DC £m	2016 Total £m	2015 Total £m
Pooled fund investments	6	23,291	63	23,354	20,348
Directly held securities	6	2,149	-	2,149	2,037
Other cash and cash instruments	6	59	2	61	89
Current assets	7	33	-	33	19
Current liabilities	8	(52)	-	(52)	(52)
Net assets at the end of the year	11	25,480	65	25,545	22,441

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee on an aggregate basis as this is a multi-employer scheme with financially ring-fenced sections.

They do not take account of the obligations to pay pensions and benefits which fall due at the end of the Scheme year. The actuarial position of the Scheme which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities, which is summarised on pages 47 to 49 and should be read in conjunction with these financial statements. Benefits payable for the 1994 Pensioners Section and the BR Section are backed by Crown Guarantees.

Approved by the Directors of the Trustee Company on 5 June 2017.

John Chilman
Chairman, Trustee Board

John Mayfield
Director and Chairman, Audit and Risk Committee

Notes to the audited financial statements for the year ended 31 December 2016

1. Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014), with the exception of the disclosures regarding the fair value hierarchy of financial instruments.

The fair value hierarchy disclosures have been prepared in accordance with the amendments made to FRS 102 in March 2016. The amendments are required to be adopted for accounting periods beginning on or after 1 January 2017, with early adoption permitted. The Scheme has chosen to adopt the amendments early from the accounting periods ending 31 December 2015 onwards.

2. Accounting policies

The financial statements have been prepared on an accruals basis. The principal accounting policies of the Scheme are as follows:

Investments

Investments are included in the financial statements at the year-end using the following valuation bases:

- a. The majority of the assets of the Scheme are invested in a portfolio of pooled funds, which operate as internal unit trusts for those railway pension schemes under the control of the Trustee. Pooled fund unit holdings are valued

on the basis of the unit prices of the units held by the Scheme in each pooled fund at the year-end. Unit prices reflect the fair valuations of the underlying assets held by the pooled funds and include income receivable on investments held. Further details of the pooled fund investment accounting policies are set out in the extracts from the pooled fund accounts in Appendix J.

The assets are held in a portfolio of pooled funds valued at their bid price or last traded price at the year-end date, as advised by the investment manager.

- b. The Trustee holds assets invested separately from the main Scheme to secure additional benefits on a defined contribution ('DC') basis. Members participating in these DC arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

Additional Voluntary Contribution investments ('BRASS AVC') in pooled investment vehicles are stated at fair value at the year-end date as advised by the manager. The Pension Assured Fund ('PAF') is valued as a whole by reference to the fair value of assets within the fund as advised by the provider, Aviva. Members holding units in the PAF aged 55 or more are, however, guaranteed by Aviva to receive at least £1 per unit upon retirement or on earlier death. Members leaving before age 55 may receive a discounted value depending on their age.

- c. Substitution orders refer to deferred payments due under the Transport Act 1980, and are valued as certified by the Scheme Actuary. The Scheme Actuary is James Wintle, of Willis Towers Watson Limited. The Government Actuary, Martin Clarke, is joint Actuary for the 1994 Pensioners Section and the BR Section.

- d. Loans and deposits and current assets and liabilities are included at book cost, which the Trustee considers to be a reasonable estimate of accounting fair value.

Change in market value

Change in market value mainly comprises gains and/or losses on investments arising in the year and reinvested investment income.

Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled funds, reflected in the unit prices and reported within change in fair values.

Realised and unrealised gains and losses on underlying investments, including income receivable, are dealt with in the pooled fund accounts in the year in which they arise and are reflected in the pooled fund unit prices.

Contributions and benefits

Contributions are expressed as a rate of salary. Employee and employer normal contributions are accounted for when deducted from pay.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are being paid.

Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedules of Contributions and Recovery Plan under which they are being paid.

Employer s75 debt contributions are accounted for when a reasonable estimate of the amount due can be determined.

Payments under the Transport Act 1980 are accounted for as they become payable. Amounts receivable to extinguish future liabilities under the

Transport Act 1980 are accounted for when the future liability is discharged.

Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving.

Under auto-enrolment, employers auto-enrol eligible employees into the pension scheme. The employees can then opt out of the Scheme if they wish within one month of being auto-enrolled. Opt-outs are accounted for when the Scheme is notified of the opt-out.

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

Administrative expenses

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration. Direct costs are charged to the section to which they relate. Indirect costs are allocated between sections based on an allocation methodology agreed by the Trustee.

Pension Protection Fund ('PPF') levies

PPF levies are accounted for in the year in which they fall due.

Tax

The Railways Pension Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate.

Transfer values

Transfer values, including PPF transfers, are determined on the advice of the Scheme Actuary and, where applicable, the PPF. Individual transfers in or out are accounted for when received or paid, which is normally when member liability is accepted or discharged. Group transfers are accounted for in accordance with the terms of the transfer agreement. Transfer of undertakings (protection of employment) ('TUPE') and other intra-RPS transfers are settled by a mixture of pooled fund units and cash pro rata to the asset mix of the transferring section.

3. Contributions receivable

	2016 DB £m	2016 DC £m	2016 Total £m
Members' contributions			
Normal	210	2	212
Additional Voluntary Contributions	62	-	62
Deficit funding	14	-	14
Employers' contributions			
Normal	305	7	312
Deficit funding	55	-	55
Government support	19	-	19
BRASS matching	12	-	12
Augmentation	3	-	3
	680	9	689

	2015 DB £m	2015 DC £m	2015 Total £m
Members' contributions			
Normal	209	2	211
Additional Voluntary Contributions	58	1	59
Deficit funding	22	-	22
Employers' contributions			
Normal	317	4	321
Deficit funding	65	-	65
Government support	18	-	18
BRASS matching	13	-	13
Augmentation	3	-	3
	705	7	712

Deficit funding contributions are being paid into the Scheme by both employees and employers, in accordance with recovery plans to improve the funding position of sections of the Scheme.

Further information on contribution rates can be found in the Report on Actuarial Liabilities on pages 47 to 49. Information on late payments during the year can be found on pages 54 to 55. Further information on government support can be found on page 45.

4. Group transfers out

Group transfers out of £51m in 2016 related to transfers of cash following liquidation of RPS assets to the PPF in relation to members of the Jarvis Facilities, Fastline, Relayfast and Railcare Sections, as well as the Catalis Ltd, Western Track Engineering Ltd, Bridgen Holdings Ltd and Vital Rail Limited employers within the Omnibus Section.

5. Administrative expenses

	2016 £m	2015 £m
Pensions administration	10	10
Actuarial fees	3	2
Trustee governance	2	2
Other overheads	2	1
Other professional fees	1	1
Legal fees	1	1
Communications	1	1
	20	18

Pensions administration charges cover the processing of member transactions and preparation of financial statements and other reports. These activities are carried out by RPMI Limited ('RPMI') and are allocated according to the membership of each section.

Administration and trustee governance expenses do not include investment management fees and costs, which are deducted from the unit prices of pooled fund investments and disclosed separately in the pooled fund accounts in Appendix J.

6. Investments

(a) Value of investments

DB Section	Value at 31 December 2015 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 December 2016 £m
Pooled fund investments					
Growth	13,012	229	(156)	2,238	15,323
Private Equity	2,176	47	(372)	538	2,389
Government Bond	1,676	108	(56)	97	1,825
Infrastructure	905	-	(249)	210	866
Global Equity	787	-	(186)	112	713
Passive Equity	691	17	-	73	781
Non Government Bond	580	2	(29)	34	587
Cash	267	40	(20)	1	288
Index Linked	156	-	(26)	50	180
Illiquid Growth	30	197	-	22	249
Property	19	-	(19)	-	-
Long Term Income	-	90	-	-	90
	20,299	730	(1,113)	3,375	23,291
Directly held securities					
BRASS and other AVCs	1,370	133	(175)	130	1,458
Substitution orders	667	10	-	14	691
	22,336	873	(1,288)	3,519	25,440
Other cash and cash instruments	87				59
	22,423				25,499

BRASS investments include 178,975,211 units in the PAF (2015: 193,129,074 units). Further information on the PAF can be found on page 46.

DC Section	Value at 31 December 2015 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 December 2016 £m
DC Pooled Fund	49	11	(3)	6	63
Other cash and cash instruments	2				2
	51				65

Income from pooled fund investments is capitalised within the price of the pooled fund units and, therefore, reflected within the fair values of investments. Although income is not distributed, the pooled fund regulations allow the Scheme to extract its share of pooled fund income at no cost, by selling units at zero spread. The income withdrawn from the pooled funds in this way can then be used to pay benefits.

Investment administration includes the cost of selecting and monitoring the investment managers and custodians and the preparation of pooled fund accounts. These activities are carried out by RPMI and RPMI Railpen Investments Limited ('RPMI Railpen').

Further analysis of investments, charges and fees for each pooled fund is provided in the pooled fund accounts in Appendix J. The percentages of the pooled funds' assets that relate to RPS investments are shown in the table, right.

	% of pooled fund owned by the RPS 31.12.16	% of pooled fund owned by the RPS 31.12.15
Pooled Funds		
Passive Equity	100.0	100.0
Non Government Bond	96.8	96.8
Private Equity	96.0	96.0
Infrastructure	95.3	95.3
Growth	94.5	94.2
Global Equity	94.2	95.2
Cash	89.8	92.3
Government Bond	88.6	87.5
Long Term Income*	88.2	-
Illiquid Growth	88.1	88.1
Index Linked	84.3	84.7
Property**	-	100.0

*The Long Term Income Pooled Fund was launched on 6 January 2016.

**From 21 January 2016, the Property pooled fund has been wholly owned by the Growth Pooled Fund.

(b) Investment risks

The total value of the pooled funds used in the percentage calculations only includes scheme investments in the pooled funds and so excludes cross-held investments owned by the Growth and DC pooled funds.

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

■ **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

■ **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

■ **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee through regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set in Appendix J.

(c) Investments fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets and liabilities that the entity can access at the measurement date.

Level 2: Inputs other than the quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable for the asset or liability).

The Scheme's investment assets and liabilities fall within hierarchy categories as follows (opposite):

DB Section At 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Pooled funds				
Growth	-	15,323	-	15,323
Private Equity	-	-	2,389	2,389
Government Bond	-	1,825	-	1,825
Infrastructure	-	-	866	866
Global Equity	-	713	-	713
Passive Equity	-	781	-	781
Non Government Bond	-	587	-	587
Cash	-	288	-	288
Index Linked	-	180	-	180
Illiquid Growth	-	-	249	249
Long Term Income	-	90	-	90
	-	19,787	3,504	23,291
Directly held securities				
BRASS and other AVCs	-	1,458	-	1,458
Substitution orders	-	-	691	691
Other cash and cash instruments	59	-	-	59
	59	21,245	4,195	25,499
DC Section At 31 December 2016				
DC Pooled Fund	-	63	-	63

DB Section At 31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Pooled funds				
Growth	-	13,012	-	13,012
Private Equity	-	-	2,176	2,176
Government Bond	-	1,676	-	1,676
Infrastructure	-	-	905	905
Global Equity	-	787	-	787
Passive Equity	-	691	-	691
Non Government Bond	-	580	-	580
Cash	-	267	-	267
Index Linked	-	156	-	156
Illiquid Growth	-	-	30	30
Property	-	19	-	19
	-	17,188	3,111	20,299
Directly held securities				
BRASS and other AVCs	-	1,370	-	1,370
Substitution orders	-	-	667	667
Other cash and cash instruments	87	-	-	87
	87	18,558	3,778	22,423
DC Section At 31 December 2015				
DC Pooled Fund	-	49	-	49

The above analysis has been performed by reference to the legal nature of the pooled funds invested in (i.e. unauthorised, unquoted unit trusts) and not by reference to the underlying investments in the pooled funds. Details of the underlying pooled funds' assets and liabilities are provided in Appendix J.



7. Current assets

	2016 £m	2015 £m
Contributions due from employers	28	12
PPF levies	5	7
	33	19

At the year-end £720,000 of contributions on the schedules of contributions were not paid by their due date. Of this amount, £596,000 has since been paid and £124,000 remains outstanding as at the date of approving these financial statements.

8. Current liabilities

	2016 £m	2015 £m
Administration expenses	(2)	(2)
Benefits payable	(4)	(4)
Taxation and social security	(8)	(8)
Assets payable to the PPF	(38)	(38)
	(52)	(52)

9. Related party transactions

The Trustee and its subsidiaries, RPMI and RPMI Railpen, provide services to the Scheme (explained on pages 28 to 30). The charges payable, and those of external service providers, are detailed in note 5. At 31 December 2016, current liabilities included a liability of £2.5m in respect of these charges (2015: a liability of £2.3m).

At 31 December 2016, eight directors of the Trustee were members of the Scheme and two of these directors were also Non-Executive Directors of RPMI and RPMI Railpen. All Executive Directors of RPMI and RPMI Railpen are also members of the Scheme. Contributions received in respect of Trustee directors who are members of the Scheme have been made in accordance with the Trust Deed and Rules. All directors receive benefits on the same basis as other members of the Scheme. Certain directors of the Trustee and its subsidiaries receive remuneration, which is disclosed in the financial statements of those companies. The Scheme bears its share of this remuneration through recharges.

10. Employer-related investments

As at 31 December 2016, investments in employers amounted to no greater than 5% of the assets of the Scheme, and, for any single section, the investment in its sponsoring company was not greater than 5% of the assets of the section.

Investment securities issued by HM Government are excluded from the definition of employer-related investments for the purposes of these audited financial statements.

11. Net assets at the end of the year

The net assets of each section of the Scheme at 31 December 2016 are shown below:

Section	Employer	Total membership as at 31 December 2016	Net assets as at 31 December 2016 £m
Shared Cost Arrangement			
*1994 Pensioners	The Secretary of State for Transport	108,919	3,517
Abellio	Abellio Transport Holdings Ltd	44	7
Abellio Scotrail	Abellio ScotRail Limited	8,401	700
AECOM	AECOM Infrastructure & Environment UK Ltd	210	51
Alpha Trains	Alpha Trains (UK) Ltd	27	8
ALSTOM Railways	ALSTOM Transport UK Ltd	2,296	167
ALSTOM Signalling	ALSTOM Transport UK Ltd	84	22
AMCO	Amalgamated Construction Ltd	17	2
Amey Rail	Amey Services Ltd	2,431	205
Angel Trains	Angel Trains Ltd	238	58
Anglia Railways	Abellio East Anglia Ltd	948	104
Arriva Trains Wales	Arriva Trains Wales/Trenau Arriva Cymru Ltd	3,763	333
Atkins	Atkins Ltd	861	235
ATOC Ltd	ATOC Ltd	509	56
Atos	ATOS IT Services UK Ltd Atos UK International IT Services Ltd	1,099	215
Babcock Rail Ltd	Babcock Rail First Engineering Holdings Ltd First Projects Ltd	2,304	254
Balfour Beatty	Balfour Beatty Group Employment Ltd	3,091	319
BAM Nuttall	BAM Nuttall Ltd	11	2

Section	Employer	Total membership as at 31 December 2016	Net assets as at 31 December 2016 £m
Bombardier Transportation (Signal) UK	Bombardier Transportation UK Ltd	371	47
Bombardier Transportation UK	Bombardier Transportation UK Ltd	1,182	119
Bombardier Transportation c2c	Bombardier Transportation UK Ltd	165	8
*BR	The Secretary of State for Transport BRB (Residuary) Ltd Channel Tunnel Rail Link Ltd London & Continental Railways Ltd London Underground Ltd Scottish Ministers	882	140
British Transport Police	British Transport Police Authority	4,359	137
BT	British Telecommunications plc	312	18
BUPA Occupational Health	Occupational Health Care Ltd	96	11
Caledonian Sleepers Ltd	Serco Caledonian Sleepers Ltd	113	6
Carillion Rail (Centrac)	Carillion Construction Ltd	366	37
Carillion Rail (GTRM)	Carillion Construction Ltd	3,973	275
Carlisle Cleaning Services Ltd	Carlisle Cleaning Services Ltd	63	2
Chiltern Railway Co. Ltd (Maintenance)	The Chiltern Railway Company Ltd	283	23
Clientlogic	Clientlogic (UK) Ltd	62	4
Colas Rail	Colas Rail Ltd	2,214	185
COMATEC	** COMATEC UK Ltd	29	2
Crossrail	Crossrail Ltd	964	61
CSC Computer Sciences	CSC Computer Sciences Ltd	11	1
DB Cargo (UK) Ltd	DB Cargo Rail (UK) Ltd DB Cargo Rail Services Ltd DB Cargo Rail (UK) Holdings Ltd	10,544	1,204

Section	Employer	Total membership as at 31 December 2016	Net assets as at 31 December 2016 £m	Section	Employer	Total membership as at 31 December 2016	Net assets as at 31 December 2016 £m
DB Cargo (UK) Ltd continued	Engineering Support Group Ltd DB Cargo International Ltd			London & South Eastern Railway Ltd	London & South Eastern Railway Ltd	9,762	737
East Coast Main Line	East Coast Main Line Company Ltd	7,960	541	London and North Western Railway Company Ltd	London and North Western Railway Company Ltd	65	10
East Midlands	East Midlands Trains Ltd	4,439	351	London Eastern Railway (West Anglia)	Abellio East Anglia Ltd	944	100
Environmental Scientifics	Environmental Scientifics Group Ltd ESG Asbestos Ltd	291	29	London Midland	London & Birmingham Railway Ltd	6,042	463
Eurostar	Eurostar International Ltd	4,373	411	London Overground	Arriva Rail London Ltd	2,053	153
Eversholt Rail (UK) Ltd	Eversholt Rail (UK) Ltd	116	41	London Underground	London Underground Ltd	45	2
First Great Western	First Greater Western Ltd	12,509	895	Merseyrail	Merseyrail Electrics 2002 Ltd	2,462	192
Freightliner	Freightliner Ltd Freightliner Heavy Haul Ltd Freightliner Maintenance Ltd Management Consortium Bid Ltd	3,497	396	MITIE Facilities Services	MITIE Facilities Services Ltd	42	1
GB Railfreight	GB Railfreight Ltd	393	62	Mouchel Parkman Rail Ltd	Kier Rail Limited	5	1
Global Crossing	Level 3 Communications UK Ltd	231	45	MTR Crossrail	MTR Corporation (Crossrail) Limited	461	42
Govia Thameslink Railway (Southern & Gatwick Express)	Govia Thameslink Railway Limited	10,560	631	National Express Services Ltd	**National Express Services Ltd	143	3
Govia Thameslink Railway	Govia Thameslink Railway Limited	6,106	403	Network Rail	Network Rail Infrastructure Ltd	46,094	6,339
Great Eastern Railway	Abellio East Anglia Ltd	2,080	213	New Cross Country	XC Trains Ltd	4,183	376
Halcrow Rail	Halcrow Group Ltd	238	50	Northern (ex North East)	Arriva Rail North Ltd	5,607	491
HS1	HS1 Ltd	35	9	Northern (ex North West)	Arriva Rail North Ltd	5,322	416
Hull Trains	Hull Trains Company Ltd	93	8	NXET Trains	NXET Trains Limited	1,627	111
Intelenet Global BPO (UK) Limited	Intelenet Global BPO (UK) Ltd	6	-	Omnibus	2E2 UK Ltd	769	103
Island Line	Stagecoach South Western Trains Limited	89	8		Aggregate Industries UK Ltd		
ISS Transport Services	ISS Facility Services Ltd	202	7		Belmond (UK) Limited		
Knorr-Bremse RailServices	Knorr-Bremse RailServices (UK) Ltd	66	1		Bombardier Transportation UK Ltd		
Lionverge	***Lionverge Civils Ltd	104	6		CapGemini UK plc		
					Carnforth Railway Restoration & Engineering Services Ltd		
					Cats Solutions Ltd		
					Colas Rail Ltd		

Section	Employer	Total membership as at 31 December 2016	Net assets as at 31 December 2016 £m
	Computacenter (UK) Ltd		
	CSC Computer Sciences Ltd		
	Daisy IT Services Ltd		
	DHL Services Ltd		
	EB Central Services Ltd		
	Forth and Oban Ltd		
	Harsco Rail Ltd		
	Interserve (Facilities Management) Ltd		
	Interserve FS (UK) Ltd		
	Keolis (UK) Ltd		
	Loram UK Ltd		
	Lorne Stewart Plc		
	Manpower UK Ltd		
	MITIE Technician Facilities Management Ltd		
	NG Bailey Facilities Maintenance Ltd		
	**North South Communications Limited		
	O2 Unify Limited		
	Rail Management Services Ltd		
	Railways Vehicle Engineering Ltd		
	Signet Solutions Ltd		
	Sodexo Ltd		
	Stagecoach Supertram Maintenance Ltd		

Section	Employer	Total membership as at 31 December 2016	Net assets as at 31 December 2016 £m
	Staveley Industries plc T/A Integral		
	Telent Technology Services Ltd		
	TeleTech UK Ltd		
	Voestalpine VAE UK Ltd		
	VolkerRail Specialist Businesses Ltd		
	Vossloh Cogifer UK Ltd		
	Weedfree Ltd		
	Wetton Cleaning Services Ltd		
Owen Williams Railways	Amey Services Ltd	313	67
Porterbrook	Porterbrook Leasing Company Ltd Porterbrook Maintenance Ltd	173	44
Qjump	Qjump Ltd	126	5
Rail Gourmet UK Ltd	Rail Gourmet UK Ltd Rail Gourmet International Ltd	428	33
Resonate Group (Link)	Resonate Group Ltd	200	37
Resonate Group (Rail)	Resonate Group Ltd	272	79
Resonate Group (TCI)	Resonate Group Ltd	123	30
RPMI	RPMI Ltd	711	77
RSSB	Rail Safety and Standards Board Ltd	582	89
Serco	SERCO Limited	560	66
Siemens	Siemens plc	89	10
SNC-Lavalin Rail & Transit	SNC-Lavalin Rail & Transit Ltd	333	57
South West Trains	Stagecoach South Western Trains Ltd	11,670	840
Specialist Computer Centres	Specialist Computer Centres plc	30	3
Swirl Service Group	ISS Facility Services Ltd	8	-
Tata Steel UK Ltd	Tata Steel UK Rail Consultancy Ltd	546	54
Thales Information Systems	Thales UK Ltd	21	5

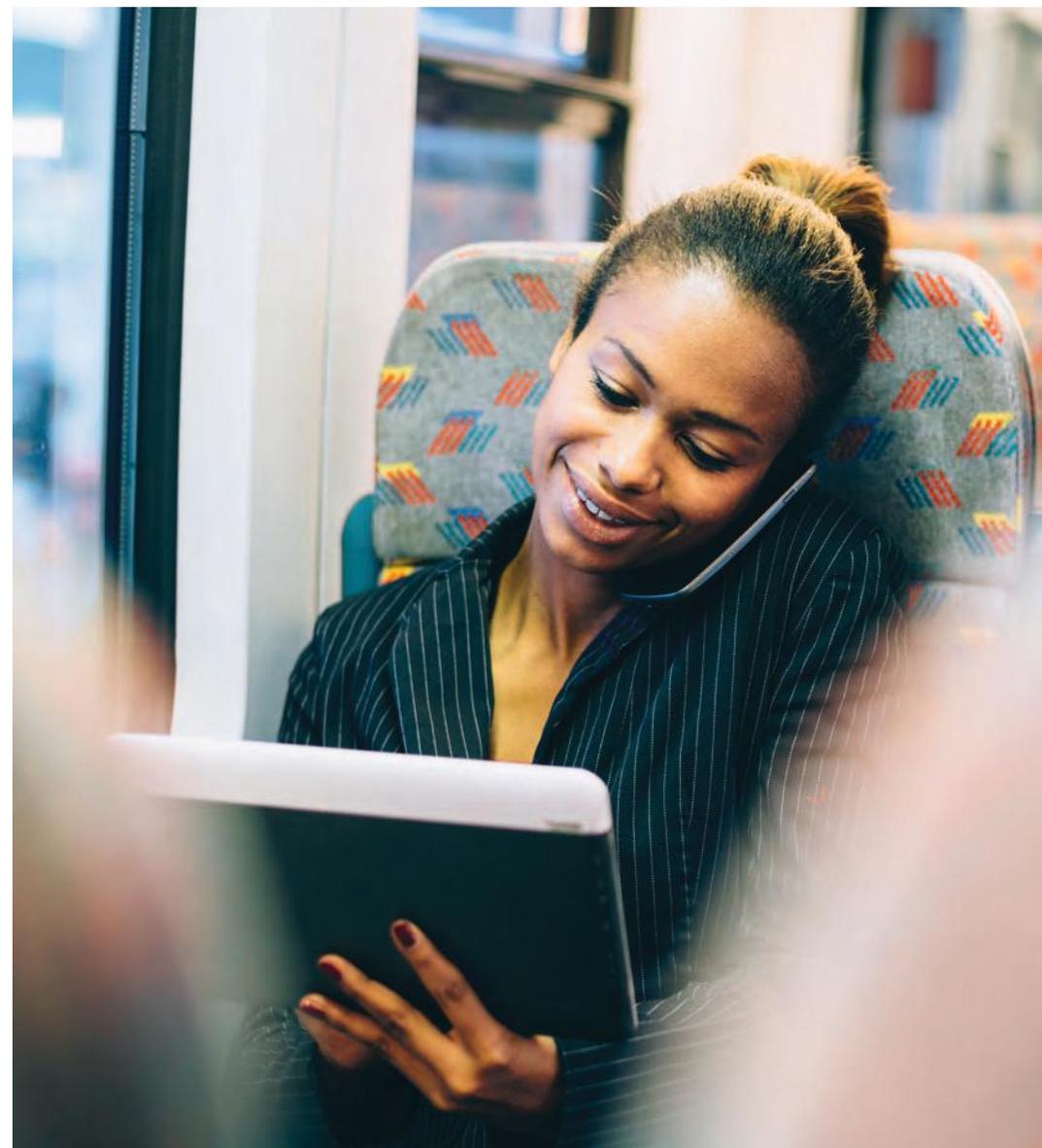
Section	Employer	Total membership as at 31 December 2016	Net assets as at 31 December 2016 £m
Thales Transport and Security	Thales Transport and Security Ltd Thales UK Ltd Thales Ground Transportation Systems UK Ltd Thales Rail Signalling Solutions	1,951	300
The Chiltern Railway Company	The Chiltern Railway Company Ltd	1,433	131
The QSS Group Ltd	The QSS Group Ltd RIQC Ltd	74	10
Torrent Trackside Ltd	Torrent Trackside Ltd	9	1
TransPennine Express (Former Arriva Trains Northern)	First Transpennine Express Ltd	977	98
TransPennine Express (Former North Western Trains)	First Transpennine Express Ltd	599	54
Unify Enterprise Communications Ltd	Unify Enterprise Communications Ltd	5	1
Unipart Rail - NRS	Unipart Rail Ltd	598	66
Unipart Rail - Railpart	Unipart Rail Ltd	348	53
Unisys	Unisys Ltd	30	3
UPS	UPS Ltd	340	46
Voith	Voith Industrial Services Ltd	21	2
Voyages-sncf UK Ltd	Voyages-sncf UK Ltd	38	10
Wabtec Rail Ltd	Wabtec Rail Ltd	10	2
West Coast Traincare	ALSTOM Transport UK Limited	1,028	121
West Coast Trains Ltd	West Coast Trains Ltd	7,922	639
Westinghouse Rail Systems	Siemens Rail Automation Holdings Ltd	896	207
Worldline IT Services UK Ltd	Worldline IT Services UK Ltd	164	57
Wrexham, Shropshire & Marylebone Railway Company	**Wrexham, Shropshire & Marylebone Railway Company Ltd	26	1
Shared Cost Arrangement Total		332,910	25,480

Section	Employer	Total membership as at 31 December 2016	Net assets as at 31 December 2016 £m
Defined contribution arrangement	c2c Rail Ltd****	18	-
	Wales and West Passenger Trains Ltd****	2	-
	West Anglia Great Northern Railway****	50	-
Industry-Wide Defined Contribution Section	Abellio Greater Anglia Ltd	5,039	65
	Babcock Rail Ltd		
	East Coast Main Line Company Ltd		
	East Midlands Trains Ltd		
	Eversholt Rail (UK) Ltd		
	First/Keolis Transpennine Ltd		
	Freightliner Ltd		
	GB Railfreight Ltd		
	Global Travel Ventures Ltd		
	Hull Trains Company Ltd		
	London Eastern Railway Ltd		
	MTR Corporation (Crossrail) Ltd		
	Northern Rail Ltd		
	Porterbrook Leasing Company Ltd		
	Qjump Ltd		
Rail Gourmet UK Ltd			
Rail Gourmet Waterloo International Ltd			
RPMI Ltd			

Section	Employer	Total membership as at 31 December 2016	Net assets as at 31 December 2016 £m
	Southern Railway Ltd		
	Swietelsky Construction Company Ltd		
	Stagecoach South Western Trains Ltd		
	Tata Steel UK Ltd		
	Tedipay (UK) Ltd		
	The Chiltern Railway Company Ltd		
	Tram Operations Ltd		
	Unipart Rail Ltd		
	VolkerRail Limited		
	Total	338,019	25,545

For those Sections that have more than one participating employer, the designated employer is shown in bold.

- * Denotes Sections with a Crown Guarantee
- ** Denotes employers that were in administration or no longer trading at 31 December 2016
- *** Denotes sections/employers that were in a PPF assessment period at 31 December 2016
- **** Denotes assets less than £0.5m





**Independent
Auditor's report**

Independent Auditor's report to the Trustee of the Railways Pension Scheme

We have audited the financial statements of the Railways Pension Scheme for the year ended 31 December 2016 set out on pages 10 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's responsibilities set out on page 26, the Trustee is responsible for supervising the preparation of financial statements which show a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 December 2016, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Fangfang Zhou

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London, E14 5GL

5 June 2017



**Statement of Trustee
responsibilities**

...in relation to audited financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'), including FRS 102 *The Financial Reporting Standards Applicable in the UK and Republic of Ireland* are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year, and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for making available each year, commonly in the form of a trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

Approval of the accounts

The financial statements have been prepared and audited in accordance with regulations made under Sections 41 (1) and (6) of the Pensions Act 1995. The directors of the Trustee Company approved this report on 5 June 2017.



The Trustee Company
annual report

Railways Pension Trustee Company Limited

The Railways Pension Trustee Company Limited (the 'Trustee') is the Trustee of four railway industry pension schemes. Two of these schemes are open to new members: the Railways Pension Scheme and the British Transport Police Force Superannuation Fund. All the pension schemes participate in the pooled fund structure.

Trust law, the Pensions Acts and the Companies Acts govern the activities of the Trustee as a corporate trustee. The Trustee has overall fiduciary responsibility for the effective operation of the schemes, including administration of benefits, collection of contributions, payment of pensions and the investment and safe custody of assets. It must act fairly in the interests of active members, deferred pensioners, pensioners and employers.



Railtrust Holdings Limited

The Trustee is owned by Railtrust Holdings Limited ('RHL'), a company limited by guarantee. Designated employers of sections in the RPS, Omnibus employers in the RPS, Industry-Wide DC employers in the RPS and the principal employers of the other schemes of which the Trustee is a trustee are all encouraged to become a member of RHL. The company is owned equally by its guarantor members, irrespective of size. Each member of RHL is committed to contribute a maximum of £1 to its liabilities if it is wound up.

The primary purpose of RHL is to provide governance controls and appoint the directors of the Trustee. The Articles of Association set out the procedure for the appointment of directors. The aim is to achieve a balanced representation of the different employers and the members (or their representatives) of the schemes. The directors of RHL and the Trustee are the same.

Total membership at 31.12.16

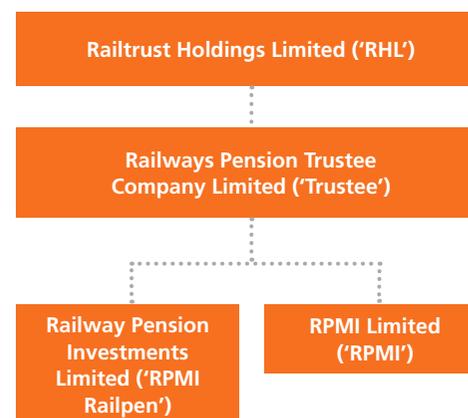
Railways Pension Scheme	338,019
British Transport Police Force Superannuation Fund	6,477
British Railways Superannuation Fund	2,823
BR (1974) Fund	1,847

Total 349,166

There are 16 directors in total, eight elected by the members of RHL ('employer directors') and eight on behalf of the members of the railway pension schemes ('employee directors'). Six of the employee directors are nominated on behalf of the employee members and two on behalf of the pensioner members (including deferred pensioners). Roughly a third of the directors retire by rotation every two years. The term of office is six years.

Trustee directors are non-executive and are entitled to emoluments which are disclosed in the financial statements of RHL.

The structure of the Trustee group as at 31 December 2016



Operating companies

The Trustee has two wholly-owned operating subsidiaries, RPMI and RPMI Railpen, to which it delegates the day-to-day operation of the railway pension schemes. Investment management of scheme assets is carried out by RPMI Railpen, which is regulated by the Financial Conduct Authority (FCA). All other activities are carried out by RPMI.

A brief description of the governance arrangements for each of the two operating subsidiaries and their activities during 2016 are set out below:

RPMI

RPMI employs around 300 staff across three offices, in Coventry, Darlington and London.

RPMI carries out activities on behalf of the Trustee including:

- Administration and payment of pensions
- Advisory and support services for the Trustee Board, its committees and Pensions and Management Committees
- Commission and oversight of the work of external advisors such as actuaries and lawyers
- Preparation of and maintenance of accounts for schemes, pooled funds and sections, and
- Arrangement of safe custody of assets

RPMI also supplies personnel and infrastructure to RPMI Railpen to enable it to manage the Scheme's assets.

RPMI Board

RPMI's activities are overseen by the RPMI Board, whose membership in 2016 was as follows:

	Name	Position
	Babloo Ramamurthy (Chair)	Independent Director
	John Hamilton ²	Trustee Director
	Chris Hannon ¹	Trustee Director
	Chris Hitchen	Chief Executive
	David Maddison	Deputy Chief Executive
	Simon Richards ³	Executive Director
	Gary Towse	Trustee Director
	Dave Tyson	Trustee Director

Notes

1. Chris Hannon appointed to the RPMI Board on 1 January 2016.
2. John Hamilton resigned from the RPMI Board on 31 December 2016.
3. Simon Richards resigned from the RPMI Board on 31 December 2016.

The RPMI Board has two formal sub-committees: a Mutual Committee, which oversees the correct allocation of costs, revenues and distributions between Trustee business and non-Trustee business; and a Remuneration Committee, which oversees pay and reward issues in RPMI and sets pay for Executive Directors and senior officers.

RPMI activities

A significant priority for the RPMI Board in 2016 was a programme, Project Chrysalis ('Chrysalis'), to replace the pensions administration system it uses for the railways schemes and to completely modernise the way it delivers its services through multi-channel distribution. During the year, the programme passed a major milestone with the administration of new pensions in payment moving on to the new system. At year-end over 1,000 pensions were being administered on the new platform. Nevertheless, it became apparent during the year that completion of the programme would be subject to delay. Whilst such delays are not uncommon in large IT projects, the RPMI Board was far from complacent, taking a keen interest in progress and holding officers and suppliers to account. Tata Consulting Services, the main supplier, retains the confidence of the Board, and the programme is expected to complete in 2018, at which point it will result in an enhanced range of services becoming available, as well as an opportunity to realise operating efficiencies. Significant RPMI resources are required to manage Chrysalis. The RPMI Board spent considerable time

therefore ensuring that regular business continued to be concluded satisfactorily. In practice service standards were maintained and RPMI's financial performance, excluding the Chrysalis project, was ahead of targets for the year.

The RPMI Board increased the resource it supplied to RPMI Railpen during the year in order to facilitate selective in-sourcing of investment management, saving overall costs for the Trustee. For more information, see under the RPMI Railpen section.

During the year, RPMI substantially completed the refurbishment of its Stoooperdale office in Darlington, providing a functional, pleasant environment for its staff and helping to preserve a piece of Railways history. The building was originally the office of the Chief Mechanical Engineer of the North Eastern Railway but has housed pensions administration for over 50 years.

RPMI Railpen

RPMI Railpen is authorised by the Financial Conduct Authority ('FCA') to carry out investment management and related activities on behalf of its client, the Trustee. An Investment Management Agreement between the Trustee and RPMI Railpen sets out the terms of the Trustee's delegation to RPMI Railpen.

RPMI Railpen does not employ its own staff. Rather, staff and other resources are procured from RPMI. RPMI Railpen's access to these resources is set out in secondment letters for key individuals and in a service agreement between the two companies.

During 2016, the membership of the Railpen Investment Board ('RIB') was as follows:

	Name	Position
	Paul Trickett (Chair)	Independent Director
	Richard Goldson ¹	Trustee Director
	Chris Hitchen	Chief Executive
	Angelen Kemna	Independent Director
	John Mayfield	Trustee Director
	Karl Sternberg	Independent Director

Notes

1. Richard Goldson resigned from RIB with effect from 31 December 2016.

Activity of RPMI Railpen

Under its Investment Management Agreement with the Trustee, RPMI Railpen is responsible for managing the investments of the pooled funds into which Scheme assets are grouped. RIB is responsible to the Trustee Board for the investment performance of the pooled funds, with appropriate emphasis on achieving long-term objectives consistent with actuarial funding requirements. The Growth Pooled Fund, which represents approximately two-thirds of Scheme assets, has a long-term performance objective of achieving 4% per annum above the Retail Prices Index (RPI). Growth Pooled Fund performance is also checked against a passive Reference Portfolio (75% equities, 25% bonds) to provide shorter-term information on progress. RIB expects that, over time, the Growth Fund return needs to exceed that of the Reference Portfolio by around 1% per annum to achieve its long-term performance objective. Other pooled funds have performance objectives tailored to their roles in meeting the needs of stakeholders. Further details can be found in Appendix J.

RIB approves strategic plans for each of the pooled funds at the end of each year. These provide a road map for the direction of each portfolio over the coming year and the resources to be applied to it.

RIB delegates the day-to-day management of the pooled funds to its executive team. During 2016, the structure of the investment team was reviewed, and this resulted in the appointment of a Managing Director, Investment Business, in early 2017, reporting to the Chief Executive. Three Investment Directors are responsible for investment decision-making in three key areas – Scheme strategy, management of public market portfolios, and management of private market portfolios. They report to the Managing Director, Investment Business, who also oversees investment operational activities, safe custody, accounting, legal and compliance.

Also in 2016, further progress was made in reducing the numbers and scope of external firms managing Scheme money, with an associated reduction in cost. Equity investment is increasingly being carried out through Alternative Risk Premia strategies, which identify underlying drivers of return and build portfolios cost effectively and systematically. In addition, an internally managed Fundamental Growth Portfolio was launched in May 2016 in the Growth Pooled Fund.

This is an equity portfolio which incorporates sustainable ownership considerations at the stock selection phase and its construction recognises the investment philosophy that businesses with consistent and sustainably high returns on invested capital will outperform the market over the long term.

The overhaul of investment systems continued throughout 2016 and focused on three key strategic systems – portfolio management, performance and attribution measurement, and client reporting. It is anticipated that this work will come to fruition in 2017.

The referendum on UK membership of the EU took place in June 2016 and the implications and potential consequences of either a 'leave' or 'remain' result were considered by RIB in the run up to the vote. The decision was taken that it was not necessary to make changes to the investments in advance of the referendum but some trades were made on the day itself and following days to take advantage of market conditions, in particular volatility in foreign exchange and fixed income markets. The systems and governance arrangements that had been put in place to deal with the outcome of the referendum worked well.

Significant energy was expended during 2016 on the continued development of a distinctive asset owner culture, which focuses on taking ownership, collaboration and developing a pioneering spirit. RIB continues to sponsor and oversee the development of its in-house capabilities to support the Trustee as a world-class asset owner and meet the Scheme's objectives.

RIB is pleased to note that in the three years since the Investment Transformation Programme, performance has overall been very strong, with the Growth Pooled Fund beating RPI by 8% per annum.

Employer director appointment procedure

The appointment procedure for employer directors is based on industry sub-sector constituencies. The nominating electoral groups and the number of directors to be appointed by each electoral group are set out in the table below:

Number of directors to be appointed by each electoral group:

Electoral Group	Number of Directors
Passenger train operating companies	3
Network Rail	2
Freight train operating companies and support services	2
All employers (including above)	1

The voting arrangements for the electoral groups reflect the schemes' membership, while giving the most emphasis to active members. If there are more nominations than vacancies, voting within the electoral groups is on the basis of the number of employee members, deferred pensioners and pensioners associated with each employer. Each member of RHL has one vote for each active member and half a vote for each pensioner and deferred pensioner in its schemes and sections. Voting in the 'All Employers' group is on the basis of one employer, one vote.

The chart, right, shows the current employer directors as at the end of December 2016, their date of retirement by rotation, and deemed nominating constituency.

Current employer Directors;

Name	Nominating Constituency	Date of Retirement by Rotation
 John Chilman (Chairman)	Passenger train operating companies	2018
 Meliha Duymaz	Network Rail	2020
 John Hamilton	Passenger train operating companies	2020
 Chris Hannon	Freight train operating companies and support services	2022
 Richard Jones	All employers	2022
 Christine Kernoghan	Passenger train operating companies	2022
 John Wilson	Freight train operating companies and support services	2020
 Mark Engelbretson*	Network Rail	2018

*appointed 6 February 2017.

Employee director appointment procedure

Nominations for the six directors representing the employee members are sought from the railway trade unions, the British Transport Police Federation, and Pensions and Management Committees.

Nominations for the two directors representing the pensioner members (including deferred pensioners) are sought from the British Transport Pensioners' Federation, the Retired Railway Officers' Society, the railway trade unions and the British Transport Police Federation.

In all cases, if there are more nominations than vacancies, a secret ballot is held of all active members or pensioners (including deferred pensioners), as appropriate, in the railway pension schemes. The successful nominees will be those with the most votes.

The chart, below, shows the current employee Trustee Directors as at the end of December 2016, their date of retirement by rotation, and nominating organisation.

Current employee Trustee Directors:

Name	Nominating Constituency	Date of Retirement by Rotation
 Tony Cotgreave	British Transport Pensioners' Federation (Pensioners' Federation)	2020
 Dave Gott	National Union of Rail, Maritime and Transport Workers ('RMT') and the Management Committee of the British Railways Superannuation Fund ('BRSF')	2018
 Charles Harding	Confederation of Shipbuilding and Engineering Unions ('CSEU')	2020
 Mick Lynch	National Union of Rail, Maritime and Transport Workers ('RMT')	2022
 John Mayfield	Retired Railway Officers' Society ('RROS')	2020
 Stephen Richards	Transport Salaried Staffs' Association ('TSSA')	2018
 Gary Towse	British Railways Superannuation Fund Management Committee ('BRSF')	2022
 Dave Tyson	Associated Society of Locomotive Engineers & Firemen ('ASLEF')	2022

Governance

The Trustee places great emphasis on maintaining high standards of fiduciary governance.

Governance means having the people, structure and processes in place to provide the foundation for the efficient operation and effective decision making of the Trustee Board.

The experience and skills of Trustee Directors are the cornerstones of the Board's effective ways of working. Directors attended up to 18 Board and Committee meetings in 2016, in addition to various workshops, strategy events, and training seminars. Attendance is reported to the Board and published in this Report and Accounts on pages 35 to 40.

Directors have a comprehensive training programme on appointment and throughout their tenure. They complete Training Skills Analyses and have individual, tailor-made training programmes. Our objective is that all Trustee Directors complete a minimum standard which meets the Pensions Regulator's and the Trustee's requirements within six months of appointment. A wide range of training is offered by external providers and RPMI, including Trustee Knowledge and Understanding ('TKU') Training. Equally as important is training on the unique characteristics and complexity of the railway pension schemes. To further support Trustee Directors, there is a dedicated area of the RPS website which provides one easily-accessible location for information relevant to their role.

Exposure of investments

RPS assets are invested in a number of pooled investment vehicles that operate as internal unit trusts. These offer the RPS the ability to invest in a wide range of investments including UK and foreign equities, bonds, hedge funds, private equity, property and infrastructure. Each of these

types of investments has its own risks associated with it, therefore the asset classes that the RPS is invested in are closely monitored to ensure that assets are not exposed to unnecessary risk as a result of investment choices. Further details of pooled fund investment exposures can be found within the consolidated pooled fund accounts in Appendix J.

Pension Protection Fund ('PPF')

The PPF became operational on 6 April 2005 and impacts upon most defined benefit schemes in the UK which have to pay levies to the PPF. The PPF will pay compensation to members of eligible defined benefit schemes when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover PPF levels of compensation. Schemes or Sections with a Crown Guarantee are ineligible to join the PPF and therefore do not pay the PPF levy.

Insolvent employers

During 2013 the Railcare Limited (2007) Section entered a PPF assessment period. All the members associated with Railcare Limited (2007) transferred to the PPF in November 2016.

During 2016 the Lionverge Section entered a PPF assessment period. The Trustee is assisting the members and the PPF in this process and it is expected that the members associated with these employers will enter the PPF in due course.

In addition to the above companies, there are some other participating employers within the RPS that are no longer trading or who are in administration. Further details are given in Note 11 of the audited financial statements.

The Trustee Directors during 2016

In addition to formal meetings, Trustee Directors also attended several workshops, training events, and investment review meetings throughout the year.

1. John Chilman (Chairman of the Trustee)

John is Director of Pensions at FirstGroup plc. A Chartered Accountant by qualification, he has worked for a number of large companies, including PricewaterhouseCoopers, South Western Electricity, Shell and HBOS in pensions, financial and commercial roles. John has over 25 years of pensions experience, is a Trustee of FirstGroup's pension arrangements in the USA and Canada and is an Independent Trustee on the Nestlé UK Pension Fund. John was appointed as a Director of the Trustee in 2007 and was appointed as the Chairman in 2014.

2. Tony Cotgreave

Tony was employed in the railway industry for 39 years until retiring in 1990. He has been a member of the 1994 Pensioners Section Pensions Committee since 1997 representing the British Transport Pensioners Federation and the Retired Railway Officers Society. Tony was appointed as a Trustee Director in June 2005.

3. Meliha Duymaz

Meliha is the Finance Director for Anglia Route Network Rail. Before joining Network Rail in 2012, she worked for a diverse range of organisations including Serco Plc in the Docklands Light Railway Franchise Contract for Transport for London, Public Relations Group Hunstworth Plc and as an Auditor in Turkey.

Having spent 15 years as a finance professional in various industries, Meliha has extensive experience in commercial negotiations, franchising & bidding, outsourcing, Shared

Service Centre operating models and financial management in complex organisations. She was appointed as a Director of the Trustee in March 2016.

4. Richard Goldson OBE

Richard was, until 31 March 2011, a Non-Executive Director of the Office of Rail Regulation. Since 1 April 2011, he has been a Specialist Adviser to the House of Commons Transport Committee. In his earlier career, he spent 36 years working in the railway industry, including, for the final nine years, with National Express Group plc as Rail Development Director. He was a member of the BR Pensions Committee from its inception until 1997 and was elected as an employer Director of the Trustee in 1998 and re-elected in 2004 and 2010.

He is also a Trustee of the Railway Benefit Fund, one of the industry's leading charities. Richard was appointed as a Non-Executive Director of RPMI and Chairman of the Board from 2009 to 2015. Since January 2014, Richard has also been a Trustee Director of the Campaign for Better Transport, the charity which campaigns for sustainable transport. In 2015 Richard was appointed as a Non-Executive Director of the Railpen Investments Board.

5. Dave Gott

Dave joined British Rail in 1980 and worked in the signalling grades in the Lincoln/Retford areas. He was elected to the BRSF Management Committee in 2001 and elected to the Network Rail Pensions Committee in 2005. Dave was appointed as a Director of the Trustee in 2007 and re-elected in 2012.

6. John Hamilton

John is a Chartered Accountant and is the Group Taxation Director and the Director of Pensions and Employee Benefits at Stagecoach Group plc, where he is also an experienced Trustee of the group's pension scheme. John was initially appointed a Director of the Trustee in 2008, and was re-elected for another six-year term in 2014. John stood down as a Non-Executive Director of RPMI effective of 31 December 2016 having been appointed in 2015. He Chairs the Remuneration Committee of RPMI.

7. Chris Hannon (Chairman of the Integrated Funding Committee)

Chris was appointed a Director of the Trustee following his nomination by Network Rail in 2005, was re-elected in 2012 and then in 2016 was nominated on behalf of the Freight and Support Services Group. In January 2016 Chris was appointed as a Non-Executive Director of RPMI.

Chris joined Freightliner Group Limited as its Pensions Director in September 2016, having served for the previous 12 years as Head of Pensions at Network Rail, where he was responsible for the management and operation of its defined benefit and defined contribution pension schemes. He has over 30 years of company pensions experience and has held management and trustee supporting roles with several private sector employers, including Safeway Supermarkets plc and Thomas Cook Group.

8. Charles Harding

Charles has been a Senior CSEU Representative for over 20 years and was employed as an Engineer by a leading rail freight company until 2015. He is a member of Unite the Union. Charles was appointed as a Director of the Trustee in 2007.

9. Richard Jones

Richard was appointed as a Director of the Trustee in March 2016. Richard's railway career includes engineering, commercial and general management positions at BRB, Virgin, Alstom and AECOM, where he now leads UK corporate real estate. He has been involved in the leadership and governance of the Scott Wilson Railways (now AECOM) RPS Section since 2007.

Richard is an IoD Chartered Director and MBA graduate, and has non-executive experience with a Police Authority, including leading on pensions matters.

10. Christine Kernoghan

Christine is the Head of Financial Services at Stagecoach South Western Trains Limited where she is responsible for management and operation of the pension scheme. She has been involved with the Railways Pension Scheme for 20 years, taking an active role in developing effective communications and improved administration. She is a long-standing member of the South West Trains Pension Committee. Christine was appointed a Director of the Trustee in 2016.

11. Mick Lynch

Mick is the Assistant General Secretary of the RMT, Britain's largest rail union. Before being elected as a union official in 2015 he worked for 22 years for Eurostar in fleet engineering. He was appointed as a Director of the Trustee in 2015. Mick has served on the Eurostar Pensions Committee since it was established and is a member of the Network Rail Pensions Committee.

12. John Mayfield (Chairman of the Audit and Risk Committee)

John worked as the British Railways Board's Chief Internal Auditor and then as Finance Director at the British Rail Property Board until he retired in 1993. He is a past President of the Retired Railway Officers' Society. He was a member of the 1994 Pensioners Section Pensions Committee from 1994 to 1996 and was appointed as a Director of the Trustee in 1996.

13. Russell Mears

Russell joined Railfreight Distribution in 1993 after qualifying as a Chartered Accountant with Kingston Smith. He has since held a variety of senior financial posts within the Freightliner Group, becoming CFO in January 2005. He subsequently stepped up to the role of CEO in October 2013. Russell was appointed as a Director of the Trustee in July 2010.

14. Stephen Richards (Chairman of the Case Committee)

Stephen joined the rail industry in 1972. He has been the Transport Salaried Staffs' Association nominated Director of the Trustee and its predecessor since February 1993. Stephen is also a member of the Atos Pensions Committee.

15. Gary Towse

Gary joined the British Transport Police in 1974 and served in the South East Area. He was a Committee member of the British Transport Police Force Superannuation Fund from 1992 to 2006. He was elected the Treasurer of the British Transport Police Federation between 1996 and 2006. Gary was appointed as a Director of the Trustee in 2004 and a Non-Executive Director of RPMi in 2009.

16. Dave Tyson

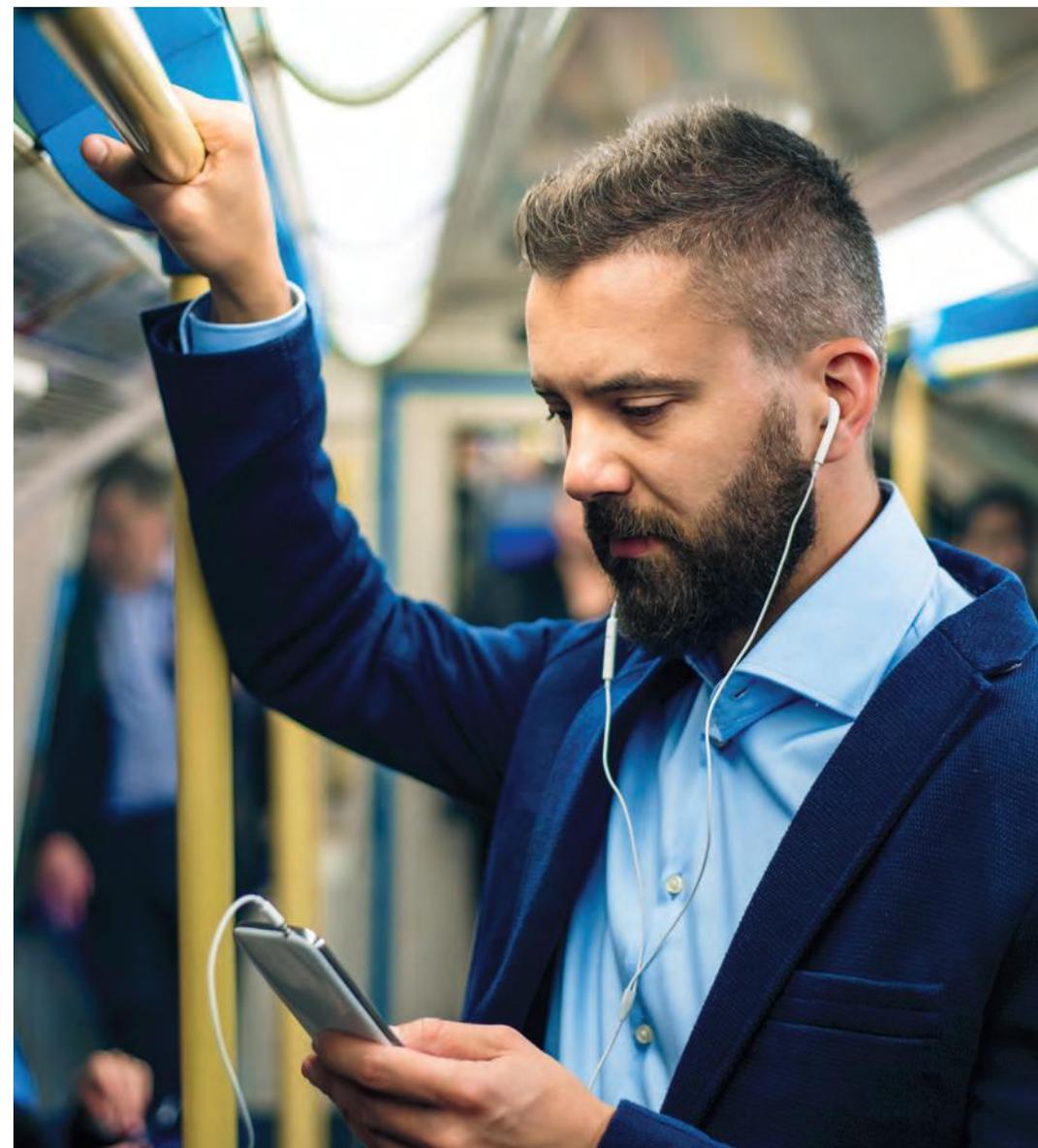
Dave was appointed as a Trustee Director in February 2001 and a Non-Executive Director of RPMi in 2009. He is a train driver based at Norwich, where he joined the railway industry in 1980. He has served on the BR, Anglia and 1994 Pensioners Section Pensions Committees. He is the former President of ASLEF's Executive which he served upon between 1994 and 2004.

17. Ian Wilson

Ian Wilson was the Director of Business Support Services at Network Rail where he was responsible for the delivery of shared services across the company. Prior to joining Network Rail in 2013, Ian worked in the global IT industry for over 20 years holding senior finance and business services roles. Ian is a Chartered Accountant and was appointed a Director of the Trustee in 2013.

18. John Wilson (Chairman of the Defined Contribution Committee)

John is an Actuary and was formerly employed by British Rail where he worked with others in establishing the Railways Pension Scheme. He has nearly 40 years' experience advising companies about their pension arrangements. John has been a member of the Pensions Committees of several sections of the RPS. He was appointed a Director of the Trustee in 2008.



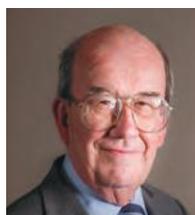
The Trustee Company's Directors during 2016



12 12

John Chilman

Chairman of the Trustee
Appointed by: Passenger Train Operating Companies
Term of office ending: 2018



15 16

Tony Cotgreave

Nominated by: British Transport Pensioners' Federation
Term of office ending: 2020



10 11

Meliha Duymaz

Nominated by: Network Rail
Term of office ending: 2020



7 8

Richard Goldson OBE

Appointed by: Passenger Train Operating Companies
Term of office ending: 2016
 – Retired on 15 September 2016



9 11

Dave Gott

Nominated by: National Union of Rail, Maritime & Transport Workers (RMT) and British Railways Superannuation Fund (BRSF) Management Committee
Term of office ending: 2018



8 10

John Hamilton

Appointed by: Passenger Train Operating Companies
Term of office ending: 2020



11 11

Chris Hannon
 Chairman of the Integrated Funding Committee

Appointed by: Freight Train Operating Companies & Support Services (previously appointed by Network Rail until 15 September 2016)
Term of office ending: 2022



12 12

Charles Harding

Nominated by: Confederation of Shipbuilding & Engineering Unions (CSEU)
Term of office ending: 2020



8 9

Richard Jones

Nominated by: All employers
Term of office ending: 2022



2 2

Christine Kernoghan

Nominated by:
Passenger Train
Operating Companies

**Term of office
ending:** 2022



8 10

Mick Lynch

Appointed by:
National Union of
Rail, Maritime &
Transport Workers
(RMT)

**Term of office
ending:** 2022



8 8

John Mayfield

**Chairman of the
Audit and Risk
Committee**

Nominated by:
Retired Railway
Officers' Society

**Term of office
ending:** 2020



6 9

Russell Mears

Nominated by:
Freight Train
Operating Companies
& Support Services

**Term of office
ending:** 2016 -
Retired on 15
September 2016



14 16

Stephen Richards

**Chairman of the
Case Committee**

Nominated by:
Transport Salaried
Staffs' Association
(TSSA)

**Term of office
ending:** 2018



12 12

Gary Towse

Nominated by:
British Railways
Superannuation
Fund Management
Committee and
British Transport
Police Federation

**Term of office
ending:** 2022



11 14

Dave Tyson

Nominated by:
Associated Society of
Locomotive Engineers
and Firemen (ASLEF)

**Term of office
ending:** 2022



2 2

Ian Wilson

Nominated by:
Network Rail

**Term of office
ending:** 2020 -
Retired on 11 March
2016



18 20

John Wilson

**Chairman of
the Defined
Contribution
Committee**

Appointed by:
Freight Train
Operating Companies
and Support Services

**Term of office
ending:** 2020

Trustee board and committee meetings attended:

 Number of meetings attended  Number of meetings eligible to attend

Membership and activities of board and principal committees during 2016

Attendance at the Trustee Board is shown in the table below.

The Trustee Board maintains oversight of the RPS and has delegated certain functions to five principal committees.

Member	Number of meetings attended	Number of meetings eligible to attend
 John Chilman (Chairman)	5	5
 Tony Cotgreave	5	5
 Meliha Duymaz ¹	5	5
 Richard Goldson ²	4	4
 Dave Gott	4	5
 John Hamilton	5	5
 Chris Hannon	5	5
 Charles Harding	5	5
 Richard Jones ³	3	4
 Christine Kernaghan ⁴	2	2
 Mick Lynch	4	5
 John Mayfield	5	5
 Russell Mears ⁵	2	4
 Stephen Richards	4	5
 Gary Towse	5	5
 Dave Tyson	4	5
 Ian Wilson ⁶	0	0

Notes

1. Meliha Duymaz was appointed as a Trustee Director on 12 March 2016
2. Richard Goldson retired as a Trustee Director on 15 September 2016
3. Richard Jones was appointed as a Trustee Director on 21 March 2016
4. Christine Kernaghan was appointed as a Trustee Director on 15 September 2016
5. Russell Mears retired as a Trustee Director on 15 September
6. Ian Wilson retired as a Trustee Director on 11 March 2016

A short report has been prepared on each of the Trustee Board's principal committees which provides an overview of the main activities of each committee during the year. The reports also list all meetings which Committee and Board members were eligible to attend. All Trustee Directors may, and some often do, attend meetings of the Trustee Board's Committees in addition to those of which they are formally members.

Audit and Risk Committee

At its 12 May 2016 meeting, the Trustee Board approved a change in the terms of reference for the Audit Committee, renaming to the Audit and Risk Committee ('ARC'). This change was in recognition of the oversight role ARC has over the risk management framework and signifying the importance the Trustee places over managing risk.

The purpose of the Committee is to decide, consider and report on matters relating to: (a) recommending the appointment of external auditors; (b) financial reporting arrangements; (c) work of external auditors and business assurance; and (d) the risk management framework and internal control systems (the Corporate Risk Policy) for RHL as a whole.

The ARC comprises six directors of the Trustee Board, and includes members with appropriate accounting qualifications and experience. External auditors and the Business Assurance team attend meetings at the invitation of the Committee, and relevant directors and officers of RPMI and RPMI Railpen also attend as appropriate. Membership and attendance during 2016 are shown in the table opposite:

Member	Number of meetings attended	Number of meetings eligible to attend
 John Mayfield (Chairman)	3	3
 John Chilman	3	3
 Meliha Duymaz ¹	2	2
 Charles Harding	3	3
 Richard Jones ²	2	2
 Russell Mears ³	1	1
 Gary Towse	3	3
 Ian Wilson ⁴	0	0

Notes

1. Meliha Duymaz was appointed to the Committee on 12 May 2016
2. Richard Jones was appointed to the Committee on 12 May 2016
3. Russell Mears resigned from the Committee on 12 May 2016
4. Ian Wilson resigned from the Committee on 11 March 2016

In addition to the above scheduled ARC meetings, there were also four Risk Management Committee ('RMC') meetings during the year that all ARC members were eligible to attend.

The key responsibilities of the ARC are outlined in a formal Terms of Reference which is regularly reviewed and updated and includes:

- recommending the appointment of the external auditor;
- reviewing the adoption of accounting principles and policies;
- reviewing all aspects of the annual accounts;
- reviewing the scope and plans of external audit and Business Assurance;
- reviewing the effectiveness of external audit and Business Assurance; and
- overseeing the control and risk management systems of the Trustee and operating companies.

The Committee is scheduled to meet four times a year to discuss, consider and review the audit work of the external auditors, financial reporting arrangements, the work of the RPMI Business Assurance team and general internal control and risk management issues. The Committee also reviews the Annual Report and Audited Financial Statements prior to Board approval.

During 2016, the Committee met on three occasions. It considered the Annual Report of Business Assurance covering its internal audit and assurance activities during 2015, received reports on the progress of the 2016 audit plans, and considered and approved the internal audit plan for 2017.

In addition, the Committee received and considered reports from the Chair of the RMC summarising the activities of the RMC and its work in facilitating the Trustee's risk management process.

The ARC co-ordinates and monitors the risk management process, ensuring that it is effective in identifying, evaluating and managing the key risks faced by the Trustee. On a day-to-day basis, this is delegated to members of the RMC, which met four times during 2016 and is attended by representatives of the ARC.

Financial reporting matters considered by the Committee in 2016 included the Annual Report and Financial Statements of RHL and the Trustee, the operating companies (RPMI and RPMI Railpen), railway pension schemes and pooled funds. The Committee also received and considered the Report by the External Auditor on the 2015 Report and Audited Financial Statements and the External Audit Strategy for 2016.

As part of these reviews, the ARC has specifically considered the processes that enable reliable and relevant valuations of the Scheme's assets. The Trustee retains BNY Mellon to provide the valuation of quoted securities, and an independent property valuer for UK properties, Cushman & Wakefield. BNY Mellon in turn relies, wherever possible, on independent sources of data, ensuring that the vast majority of the Scheme's assets are priced completely independently of the fund managers' valuations. In addition, as part of the audit of the year-end financial statements, the external auditors perform their own independent valuation of Scheme assets and compare this to the Trustee's valuation, reporting any material discrepancies to the ARC. The ARC is satisfied that these arrangements are robust.

More detail on the specific valuation principles adopted for each category of investments can be found in the accounting policies set out on pages 12 to 13.

Other matters considered by the Committee were the Internal Control Assurance Report (ISAE 3402 and AAF 01/06) prepared for the pensions administration business of RPMI for the period from 1 January 2015 to 31 December 2015, Trustee expenses, Trustee Hospitality & Gifts Policy, an analysis of pooled fund costs, and the provision of legal and actuarial services. The Committee also receives reports of any significant security incidents or frauds and will consider any governance issues arising from external or internal reports via the Policy for Confidential Reporting of Concerns. There were no reports received under the Confidential Reporting of Concerns Policy. At each meeting of the Committee, private discussions are held in a closed session with the external auditors and the Head of Business Assurance.

The ARC is satisfied that it has received sufficient, reliable and timely information to satisfy itself that the control and risk management systems are operating effectively.

Integrated Funding Committee

The Committee was established in 2014 to manage and agree integrated funding plans for the railway pension schemes and their sections, incorporating consideration of employer covenant, investment strategy and funding issues. It determines the allocation of individual schemes' and sections' assets to the Trustee's pooled funds and decides on changes to schemes' and sections' benefit structures. The membership and attendance of the Committee during the year is shown in the following table:

Membership and attendance of the Integrated Funding Committee:

Member	Number of meetings attended	Number of meetings eligible to attend
 Chris Hannon (Chairman)	5	5
 Tony Cotgreave	5	5
 John Hamilton	3	5
 Mick Lynch	4	5
 Russell Mears ¹	3	4
 Stephen Richards	4	5
 Dave Tyson	5	5
 John Wilson	5	5
 Meliha Duymaz ¹	-	-

Notes

- Russell Mears did not stand for re-election as Trustee Director when his term of office ended on 15 September 2016. Meliha Duymaz succeeded him on the Committee from 1 January 2017. In addition to the five scheduled Integrated Funding Committee meetings, there were six additional meetings scheduled throughout the year.

Valuation

The Committee developed an integrated approach to the actuarial valuation of the RPS at 31 December 2013 which addresses funding, investment and employer covenant matters. Each of the 105 sections included in this valuation was treated as a separate entity with its own valuation results. This valuation falls under the Pensions Act 2004, and means that agreement on the valuation results is needed from each sponsoring employer. The actuarial valuation of the RPS at 31 December 2013 is complete for all except two sections.

A report on actuarial liabilities is included on pages 47 to 49, which includes the latest available valuation of actuarial liabilities and the assumptions and methodology used to calculate them. The individual actuarial certificates of the latest completed valuation for each section have not been included in the annual report but are available on request from RPMI.

The Committee has developed the approach further in the context of the upcoming valuation at 31 December 2016. Consultation with stakeholders started in October 2016, and settling the valuation for each Section is expected to dominate the Committee's workload during 2017.

Employer covenant

A key factor when considering each valuation is the strength of the sponsoring statutory employer, and the Committee has the challenging task of assessing this for all the sponsoring employers in the RPS. In undertaking this work, the Committee continues to be advised by an experienced in-house team within RPMI.

For the 2013 valuation, and previously, the Committee has agreed a range of covenant enhancement proposals with employers to improve their covenant assessments. These include a range of guarantees, loan subordination agreements, and security over assets and other arrangements.

As well as assessing employer strength for valuation purposes, the Committee also considered the impact of various corporate transactions and, where appropriate, agreed mitigation or covenant support arrangements with the employers.

Rule changes

During the year, the Committee agreed a range of benefit and contribution changes for individual sections of the RPS, including a number in the context of the ending of contracting-out from April 2016. Each proposal from an employer, after review by Pensions Committees where applicable, is considered in detail and the impact on funding and contributions addressed. Where such proposals are approved, changes are then reflected in the Rules of the section.

The Committee also progressed the changes to arrangements for specific sections resulting from corporate reorganisations within groups of sponsoring employers or changes to franchises affecting train operating companies.

Investments

The Committee reviews section specific investment strategy and allocations to pooled funds. As part of the integrated funding approach, the Committee considers strategy within a Return/Risk/Liquidity framework. This allows for individual section characteristics, such as maturity, strength of employer covenant and tolerance for illiquidity, to be taken into account when deciding the appropriate asset allocation. Investment strategies are thus considered as part of overall valuation proposals.

Case Committee

The Case Committee meets to consider decisions on case work applications from individual members, where the decision-making powers have not been delegated to a Pensions Committee or to RPMI. The membership and attendance of the Committee during the year is shown in the following table:

Member	Number of meetings attended	Number of meetings eligible to attend
 Stephen Richards (Chairman)	6	6
 Tony Cotgreave	5	6
 Meliha Duymaz ¹	3	4
 Richard Goldson ²	3	4
 Dave Gott	5	6
 Ian Wilson ³	2	2
 John Wilson	5	6
 Christine Kernoghan ⁴	1	1

Notes

1. Meliha Duymaz was appointed to the Committee on 12 May 2016 and resigned on 1 March 2017
2. Richard Goldson resigned from the Committee on 15 September 2016
3. Ian Wilson resigned from the Committee on 11 March 2016
4. Christine Kernoghan was an alternate in 2016 and is now a permanent replacement for Meliha Duymaz

In 2016, the Case Committee held six scheduled meetings.

As at 31 December 2016, the Case Committee had responsibility for 84 sections of the Railways Pension Scheme.

During 2016, the Case Committee considered and made decisions on 127 cases which can be categorised as follows:

- 31 applications and reviews of incapacity benefits
- 54 applications for payment of lump sum death benefit
- 9 applications for spouse's, children's and dependant's pensions
- 11 appeals under stage 2 of the internal disputes resolution procedure
- 7 applications for early payment of preserved benefits
- 8 reviews of eligible dependant's pension after being in payment 10 years
- 7 Clause 7E - forfeiture of benefits cases

Defined Contribution Committee

The purpose of the Defined Contribution Committee ('DCC') is to ensure appropriate management and governance of the Additional Voluntary Contribution ('AVC') and defined contribution ('DC') arrangements of the railway pension schemes. These comprise BRASS, AVC Extra, the RPS Industry-Wide Defined Contribution ('IWDC') Section and the RPS Defined Contribution Arrangement (collectively the 'DC arrangements'). The membership and attendance of the Committee during 2016 is shown in the following table:

Member	Number of meetings attended	Number of meetings eligible to attend
 John Wilson (Chairman)	4	4
 John Chilman	4	4
 Chris Hannon ¹	1	1
 Charles Harding	4	4
 Richard Jones ²	3	3
 Gary Towse	4	4
 Dave Tyson	2	4

Notes

1. Chris Hannon resigned from the Committee on 12 May 2016
2. Richard Jones was appointed to the Committee on 12 May 2016

The Trustee Board has delegated to the DCC responsibility for ensuring that the DC arrangements can deliver good outcomes for members at retirement, and finding the best ways to support members to achieve their objectives. It helps to shape and articulate the Trustee's policy on DC matters. The Committee's mission is to provide DC arrangements which are designed for the long term and offer good value for members, including default investment strategies which are suitable for the majority of members throughout their scheme membership, and an appropriate range of fund choices for those who wish to self-select.

The DCC receives regular reports on the administration of the DC arrangements, reviews RPMI's administration service levels, and monitors the timeliness with which employers remit contributions and data. It sets and monitors the implementation of the Communications Strategy for the DC arrangements and approves RPMI's IWDC Section Guide to Services.

The DCC is responsible for evaluating the investment performance of the DC arrangements and ensuring that the investment goals, objectives and characteristics of the DC funds are appropriate. It evaluates the performance of the underlying investments to ensure that they are fit for purpose. To do this, it oversees the types of investments offered, including the default options, the options available and members' choices at retirement, and how issues relating to investments in the DC arrangements are communicated to members. The DCC monitors members' investment choices and tailors communications to encourage them to make the best decisions for their circumstances and to plan for their future. The same suite of investment funds is offered to new members of all the DC arrangements, although the default lifestyle strategies may be slightly different to reflect the characteristics of the various arrangements.

The annual investment review carried out in 2016 concluded that the performance of the DC funds, net of fees, was in line with the Trustee's expectations, and that they were being managed in accordance with the Trustee's investment beliefs. A DC strategic investment review will be conducted during 2017 to assess the suitability of the current fund range for the future, with a focus on delivering the best possible outcomes for members.

Each year the DCC undertakes a comprehensive assessment of the extent to which the DC arrangements offer good value for members. Its conclusions are included in the Chair's Statement on Governance attached to this Report at Appendix H. This is a relatively new requirement introduced by legislation in 2015 and is designed to give members and employers confidence that the RPS offers high-quality DC arrangements. The DCC assessed the administration, communications, governance, and investment services provided to the Scheme, alongside the level of member-borne charges and available information about transaction costs. We are pleased to report further improvements in value for members during this year, including reductions in charges, and we are working with RPMI to ensure this continues.

A dedicated IWDC Section Member Engagement Strategy was agreed in May 2016, to sit alongside the main RPS Communications Strategy. This ensures that sufficient focus is given to communicating key DC pensions messages to our DC members, including the importance of reviewing investment choices, and selecting an appropriate target retirement age for members invested in the lifestyle strategies. We ask for member feedback in all of our key communications. We also ensure that our communications and member

education materials are informed by a deep understanding of members' needs and continue to keep pace with changes in both the pensions and wider communications industries.

The DCC has continued to assess the DC arrangements against the requirements of the Pensions Regulator's code of practice and supporting guides, including the new version of the code which came into force in July 2016, to ensure compliance with legislation and the Regulator's expectations. It has also received regular updates on DC consultations, and statutory and regulatory developments. We will continue to engage with policymakers via consultation responses, and review as appropriate the operation of the railway pension schemes to ensure that they remain both compliant and attractive to employers and members.

The RPS IWDC Section retained its Pension Quality Mark (PQM) READY status following a reassessment in June 2016. As a PQM READY scheme, the Trustee and RPMI have demonstrated excellence in the IWDC Section's governance standards (including trustee training), the range of investment options, and its charges. The Section has also been recognised for its clear and comprehensive suite of member communications in both print and digital media. The first participating employer in the Section was awarded Pension Quality Mark PLUS (PQM PLUS) status in November 2015 and other participating employers are encouraged to apply for this certification to demonstrate to members that they are enrolled in a high-quality occupational pension arrangement.



The Trustee's
investment report

Introduction

The Trustee is responsible for ensuring that investment strategies are agreed for all sections of the RPS. It does this with advice from its executive arm, RPMI, and using RPMI Railpen and the Integrated Funding Committee (sometimes working with a Pensions Committee where established with delegated investment responsibilities). The policies that guide how the assets of each section of the RPS are invested are set out in the Statements of Investment Principles and Funding Principles; copies are available on request. An overview of the provisions of the Statements of Investment Principles is shown in Appendix F.

RPMI Railpen also has delegated authority for most of the Trustee's investment responsibilities; it decides on appropriate investment policies and management arrangements. The Trustee has appointed RPMI Railpen as its provider of investment management services. In this capacity, RPMI Railpen is regulated by the Financial Conduct Authority as an Occupational Pension Scheme firm. It is responsible for managing the pooled fund assets – both internally and including relationships with external managers – as well as taking significant investment decisions directly.

Investment management arrangements

The assets of the Scheme are invested through a number of pooled investment funds, each with a different risk and return profile. These funds are managed as if they are internal unit trusts and each pooled fund is approved by HM Revenue & Customs. Each section holds units in some or all of the pooled funds. The use of these pools enables sections to hold a broader range of investments more efficiently than may have been possible through direct ownership.

The range of pooled funds has been reviewed and simplified in recent years to ensure it is flexible enough to be tailored to the needs and particular circumstances of individual sections, while also allowing Scheme assets to be invested as much as possible as if they belonged to a single pension fund.

In most cases, the pooled funds are multi-asset where the mix of asset classes can be varied according to market conditions and opportunities. These funds seek to capture returns more efficiently and effectively than single asset pools. They enable RPS sections to hold a managed portfolio of assets rather than a fixed allocation, which consequently should have a less volatile return profile.

RPMI Railpen sets strategic portfolios for each of the multi-asset pooled funds on an annual basis. Each pooled fund has a benchmark or performance comparator and risk parameters within which additional returns may be targeted. Within the pooled funds, RPMI Railpen makes use of internal and external fund management capabilities and both passive and active management.

Active management is considered only where the opportunities for additional returns are deemed to outweigh the additional costs; that is, either RPMI Railpen or the fund management companies try to add value after fees. Passive management, that is index-tracking, is utilised elsewhere to ensure the most cost-effective and efficient approach. The use of external active management has declined substantially within the Scheme. In addition, fee structures in public markets have been increasingly moved to flat fees with fewer performance related payments. In private markets, fees are being reduced through an increase in co-investments and bespoke arrangements. External fund management companies are selected by RPMI Railpen.

There were further developments in the management of the pooled funds, consistent

with the roadmap agreed during the Investment Transformation Programme. The last active equity manager within the Growth Pooled Fund was terminated with a majority of the equity exposure now consisting of ARP strategies. These replace active management with exposure to risk premia that are expected to produce an excess return above the market weighted index over time. In addition, RPMI Railpen launched internal equity portfolios for the first time; these consisted of ARP exposures as well as an actively managed Fundamental Growth Portfolio. These portfolios were initially funded on a small scale as the systems and processes were tested but further allocations are expected. It is an important step in the internalisation of equity management.

The Illiquid Growth Pooled Fund, launched in 2015, made further allocations during the course of the year, including co-investments alongside our fund partners. In addition, bespoke arrangements were made in US direct lending and distressed debt. The Long Term Income Pooled Fund was launched in 2016 to hold sterling denominated assets which are generally expected to offer UK inflation linkage and distributable income. Sections may invest in the Long Term Income Pooled Fund alongside their government bond exposure as part of their defensive assets. It made its first investments in lifetime mortgages and a multi-strategy fund through the Pensions Infrastructure Platform.

The Investment Transformation Programme also looked at cost awareness. As a result of the measures mentioned above, such as internalisation of equity management, and other cost effectiveness initiatives the Trustee has reduced the total costs charged to the pooled funds by approximately £66.2m per annum since the start of the Programme. Some of these costs are indirect, in that they are charged by managers of pooled investment vehicles (mainly private equity funds) and do not appear as costs in the pooled fund accounts, appearing instead as a reduction in the

change in market value of these securities. Through being cost aware and looking for more cost efficient methods of investing, the Trustee is able to pass these cost savings onto members through increased returns in the pooled funds.

Investment strategy

The Integrated Funding Committee is the body that sets investment strategy for all sections without a Pensions Committee and reviews and approves strategies requested by Pensions Committees. In setting strategies for sections, the profile of the liabilities, along with the covenant strength and views of the sponsoring employer, are taken into account as part of an integrated risk management approach to funding.

Furthermore, the Trustee sets principles for the key aspects of section investment strategy, namely the expected return, risk and liquidity ('RRL') of investments. This is referred to as the RRL framework and takes into account covenant strength and maturity of pension liabilities. The Integrated Funding Committee uses these principles in assessing and agreeing the investment strategy for any individual section.

Each section's strategy is implemented through investment in the appropriate mix of the pooled funds operated by RPMI for the Trustee. Investment in return-seeking assets is usually made through the Growth Pooled Fund with the De-risking Platform used for defensive assets. The exact mix of pooled funds used for investment strategy is determined for most sections by RPMI.

RPMI works with the Integrated Funding Committee to agree investment strategies for sections as part of the actuarial valuation proposals.

Liquidity of investments

Investments described in the financial statements as 'quoted' or 'exchange traded' are either listed on a recognised investment exchange, or traded in a secondary market where prices are usually readily available from a broker, dealer, industry group or other pricing service, and where those prices are representative of actual market transactions on an arm's length basis. These investments are assumed to be realisable at accounting fair value although, on occasion, markets may experience reduced liquidity, in which case it may not always be possible to realise such assets at short notice at prices at least equal or close to accounting fair value.

Investments described as 'unquoted' in the financial statements – mainly property, private equity (including infrastructure), over-the-counter ('OTC') derivatives and hedge funds – are unlisted and, for some, there is no organised public market. These investments are carried at estimated fair values in accordance with the Trustee's accounting policies, as set out in the notes to the financial statements. These asset classes are generally less liquid than quoted or exchange traded investments, either because of the lack of an organised public market, the nature of the instruments or contractual arrangements. For these reasons, it is not usually possible to realise part or all of such assets at short notice.

Economic commentary

In 2016 the global economy grew at a moderate pace (3.1% estimated) broadly in line with expectations. Emerging Markets growth increased for the first time in six years as a number of economic headwinds stabilised. Meanwhile in developed markets, activity rebounded strongly in the second half of the year after a weak first

six months. With the notable exception of the Euro Area, most developed economies are now operating at close to full capacity. As a result, almost a decade after the Global Financial Crisis central banks have now switched their focus to withdrawing stimulus, albeit so far at a very gradual pace.

2016 was also a year when politics reappeared as a major driver of markets. Both Brexit (June) and Trump (November) were unexpected by the market, and many have linked the two as evidence of a coming shift away from globalisation. The sharpest move following Brexit was the depreciation of sterling which fell by close to 15% against a basket of currencies. This is likely to lead to higher UK inflation in time but in the short term meant that all overseas assets appreciated in sterling terms, a windfall for UK based global investors. Despite the resilience of UK economic data, the pound ended the year at multi-year lows.

The surprise victory of Trump accelerated a global sell-off of bonds as investors anticipated both higher growth and inflation if, as promised, he delivers much looser fiscal policy. Although bond yields were broadly unchanged over the calendar year, this hides a significant rally in the first half of the year and the subsequent reversal.

The year also neatly divides into two halves for equity investors. Developed market equities were broadly flat in the first half of the year and then rallied in the second half. MSCI World – a measure of equity prices in developed markets – returned 6.8% in local currency price terms. Emerging Market equities ended three straight years of underperformance returning 7.1% in local terms. Corporate bond investors also enjoyed positive returns as credit spreads tightened significantly from February onwards.

The developments over the second half of 2016, among them the increase in political risk, have added to the impression that the key economic and market themes of the last few years (moderate growth, low inflation, easy monetary policy) may be about to change. What this means for financial markets is, as ever, unclear but given the level of asset prices today it is likely to be a more challenging environment for generating returns than the recent past.

Investment performance

The Growth Pooled Fund, the largest of the Pooled Funds managed by RPMI Railpen, invests in a wide range of return-seeking assets with flexible allocations. The asset allocation of the Growth Pooled Fund will vary, taking into account changing market valuations, consistent with the Trustee's investment beliefs. The aim is to produce an investment return in excess of inflation over the long run with a target return of +4% per annum above UK RPI. A reference portfolio of market indices (75% equities, 25% bonds) is also used as a comparator.

The largest portfolio allocation in the Growth Pooled Fund is to global equities and over the year the allocation remained around 65%. Other asset classes held within the Growth Pooled Fund include property, fixed income (high yield and emerging market debt) and total return assets. The Growth Pooled Fund also continues to have a leveraged allocation to US Treasury futures contracts, which provides diversification and is expected to offer a potential buffer in the event of a significant equity market downturn.

The Growth Pooled Fund return in 2016 of 17.3% was significantly above the RPI+4% target return, and also ahead of the return for the reference portfolio for the third consecutive year. The Property Pooled Fund, which is now fully owned

by the Growth Pooled Fund and not by sections, posted only a small return of 2.9%, slightly ahead of its IPD universe benchmark.

The Passive Equity Pooled Fund is invested in line with a global index weighted by market capitalisation and produced a return of 10.3% in 2016. The Global Equity Pooled Fund had a return for the year of 19.2%, slightly ahead of its bespoke benchmark which is based on fixed weights in major geographic regions.

The Private Equity and Infrastructure pooled funds each invest in a diversified range of investments in private markets. Both of these pooled funds are closed to new investments although they still have some existing commitments being drawn down. New investments in private markets are made by both the Illiquid Growth Pooled Fund that was launched in 2015 and the Long Term Income Pooled Fund that was launched in 2016.

The Private Equity Pooled Fund provides exposure to a highly diversified range of private equity investments. It is made up of a series of sub-funds, each representing a different vintage of private equity investment. The Private Equity Pooled Fund produced an aggregate return of 26.1% in 2016, behind its quoted equity benchmark. Due to the unquoted nature of these investments, there is often a significant time lag for revised information on underlying investments to flow through to the Private Equity Pooled Fund valuation.

The Infrastructure Pooled Fund delivered a positive return of 24.1% for the year, substantially ahead of the RPI benchmark. As most of these investments are unquoted, there is often a significant time lag for revised information on underlying investments to flow through to the Infrastructure Pooled Fund valuation.

In 2015, the Government Bond Pooled Fund changed from an actively managed global government bond portfolio to a UK only government bond portfolio, managed internally by RPMI Railpen on a buy and maintain basis. The Government Bond Pooled Fund achieved a return of 5.8%, over 1% ahead of its comparator of short-dated bonds.

The Non Government Bond Pooled Fund, which was also moved to a buy and maintain portfolio in 2015, managed by an external fund manager, achieved a return of 6.1%, slightly ahead of the return of its comparator.

The Index Linked Pooled Fund is managed on a passive basis. The substantial decline in real bond yields in the UK during the year lead to a return of 32.6% in 2016.

Information on the returns of all pooled funds, including those which have closed, can be found in Appendix J.

Section returns

There is a diverse range of different investment strategies amongst RPS sections, reflecting differences in terms of section liability profiles and employer covenants. In 2016, the investment return produced by section assets ranged between 9% and 32%, net of fees and costs. This range reflected the diversity of returns seen in the major asset classes over the year. The returns for most sections were in a narrower range from 14% to 19%.

Over a three-year period, the investment returns of RPS sections ranged from 6% to 18% per annum, while over a five-year time horizon the range of returns was 8% to 13% per annum. Over a ten-year time horizon, the range of returns was 4% to 8% per annum, with most section returns in a narrower range from 4% to 5% per annum.

Securities lending

Securities lending forms part of the arrangements sanctioned by the regulatory authorities to maintain an orderly and more liquid securities market. Subject to the agreements in place and the constraints on certain portfolios, custodians are able to make a proportion of securities they hold available for lending to securities houses with short-term requirements. The lending does not impact on the fund managers' investment activities. In place of the lent securities, the Scheme receives collateral in the form of other securities that meet standards set on behalf of the Trustee. As a result of operating these securities lending arrangements, the Scheme receives revenues. The custodians also operate indemnification programmes which protect the Scheme against defaulting borrowers. The Scheme retains economic exposure to the lent securities, for example by receiving dividends, but loses voting rights temporarily. The Trustee retains the right, however, to recall securities if an important vote is scheduled.

Government support

The Transport Act 1980 provides financial support for the British Railways Board's historical obligations. These obligations are met partly in cash and partly by means of substitution orders from the Government.

Self-investment

The Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 require investments to be diversified so that the failure of one does not affect the security of members' benefits as a whole. Investments in employers' businesses are also restricted to avoid the prospect of the employees losing their jobs and part of their pensions at the same time, should their employer's business fail.

The RPS is in a special position. It is a multi-employer scheme for non-associated employers, with actuarially independent sections. The rules for self-investment therefore apply on a section-by-section basis.

Investment decisions on the purchase and sale of employer-related investments are taken by external investment managers acting within discretions given to them by the Trustee.

RPMI regularly monitors investment manager activity to ensure that statutory limits on self-investment are not breached.

BRASS and other AVC investments (excludes IWDC and DC arrangement)

The Scheme holdings in DC Pooled Funds and other AVCs as at 31 December 2016 was £1,458m.

The total value of these pooled funds as at 31 December 2016 was £1,466m.

AVC investments (BRASS and AVC Extra)

The AVC arrangements for the RPS, known as 'BRASS' and 'AVC Extra', are administered by RPMI. BRASS is open to all members of the Railways Pension Scheme defined benefit sections. AVC Extra is the second contribution top-up arrangement for members of the Railways Pension Scheme available to defined benefits sections other than the Network Rail section.

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)

The investment fund series for these arrangements is the RPMI Pension Saver Fund Range.

The Trustee has made lifestyle options available to members, matching various degrees of risk. 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, and is designed to be appropriate for a typical member with a predictable target retirement age.

These lifestyle 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.

The Long Term Growth Lifestyle is the default option for BRASS, while the Global Equity Lifestyle is the default option for AVC Extra.

Five self-select funds are also available: Global Equity Fund, Long Term Growth Fund, Index Linked and Global Bond Fund, Aggregate Bond Fund and Deposit Fund.

A further fund, the Pension Assured Fund ('PAF'), has been closed to new members since April 2003 and to new contributions since June 2007.

The Trustee may from time to time change the range of funds made available to the members.

The investment benchmarks for the self-select funds in the RPMI Pension Saver Fund Range are shown in the table below:

Fund	Comparator
Global Equity Fund	FTSE ALL World index
Aggregate Bond Fund	Composite comprising British Government and global corporate bond indices
Long Term Growth Fund	UK RPI (with a long term target out-performance of UK RPI +4% p.a.)
Index Linked and Global Bond Fund	Composite comprising Index Linked Gilt and corporate bond indices
Deposit Fund	7 Day Sterling London Interbank Bid Rate (LIBID)





**Report on
actuarial liabilities**

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the trustee and the employer and set out in a Statement of Funding Principles, which is available to Scheme members on request.

Most of the sections of the Railways Pension Scheme are subject to the Pensions Act 2004, the exceptions to this being the 1994 Pensioners Section and BR Shared Cost Section. However, the valuations for these two sections are still carried out in a consistent manner with the requirements of the Act.

The results of the most recent full actuarial valuation formally completed for each section at the time of writing are summarised below:

Date of valuation	Number of sections	Composite value of the sections' Technical Provisions £m	Composite value of the sections' assets £m
31 December 2010	2	90	75
31 December 2013	101	20,562	19,001

In addition, initial actuarial valuations are being undertaken as at 31 December 2015 for three sections which have been established since 31 December 2013 but where no formal actuarial valuations have yet taken place.

Full actuarial valuations are being undertaken as at 31 December 2016 for all sections, however the methodology and assumptions for these valuations have yet to be agreed.

Method

The 'standard' method and significant actuarial assumptions used to determine the technical provisions for sections as at 31 December 2013 are as follows. Some sections have different assumptions to those set out below - all assumptions adopted are set out in each section's Statement of Funding Principles.

The actuarial method used in the calculation of the technical provisions is the Projected Accrued Benefit Method.

Significant actuarial assumptions

Discount rates: dual discount rates which differ depending on the Covenant Category of the section. The nominal discount rates assumed for each covenant category are summarised in the following table:

Covenant category	Pre-retirement discount rate % per annum	Post-retirement discount rate % per annum
Open TOC Sections	7.33	6.04
Other Covenant Category 1 Sections	7.33	5.52
Open Covenant Category 2 Sections	6.55	5.26
Closed Covenant Category 2 Sections	6.30	5.01
Covenant Category 3 Sections	5.78	4.75
Covenant Category 4 Sections	5.01	4.23
Covenant Category 5 Sections	4.23	3.46
Covenant Category 6 Sections	Gilts	Gilts

Future Retail Price inflation: 3.20% per annum.

Future Consumer Price inflation: 2.40% per annum.

Pension increases: derived from the assumption for future consumer price inflation allowing for the caps and floors on pension increases according to the provisions in each section's rules.

Pay increases: general pay increases of 3.20% per annum for the first five years and general pay increases of 4.23% thereafter. Promotional pay increases of 0.4% per annum.

Mortality: for the period in deferment and retirement the following has been assumed:

Base Table

The mortality base table assumptions for each group of members (before allowance for postcode mortality effects) are summarised in the following table:

Group	Pension/ Pensionable pay	Table	Multiplier
Male age pensioners Low pension amounts	Current pension < £10,300 Pensionable pay < £35,000	S1 normal males heavy	96%
High pension amounts	Current pension ≥ £10,300 Pensionable pay ≥ £35,000	S1 normal males	93%
Female age pensioners Low pension amounts	Current pension < £3,700 Pensionable pay < £35,000	S1 normal females heavy	118%
High pension amounts	Current pension ≥ £3,700 Pensionable pay ≥ £35,000	S1 normal females	108%
Male ill-health pensioners	All	S1 ill-health males	148%
Female ill-health pensioners	All	S1 ill-health females	154%
Widows Low pension amounts	Current pension < £3,700 Pensionable pay < £35,000	S1 normal widows heavy	112%
High pension amounts	Current pension ≥ £3,700 Pensionable pay ≥ £35,000	S1 normal widows	108%
Widowers	All	S1 normal males	80%

Notes

- S1 refers to the SAPS (self-administered pension schemes) mortality tables published by the CMI on 31 October 2008 based on their mortality investigation over the period 2000-2006.
- The SAPS 'heavy' tables are based on mortality experience for pensioners and dependants with relatively low pension amounts.
- 'Normal' refers to pension scheme members who did not retire on grounds of ill health.

The two male age pensioners groups have then been further segmented into the three postcode groups. The resulting base table multipliers for each of the six postcode/amounts groups are as follows:

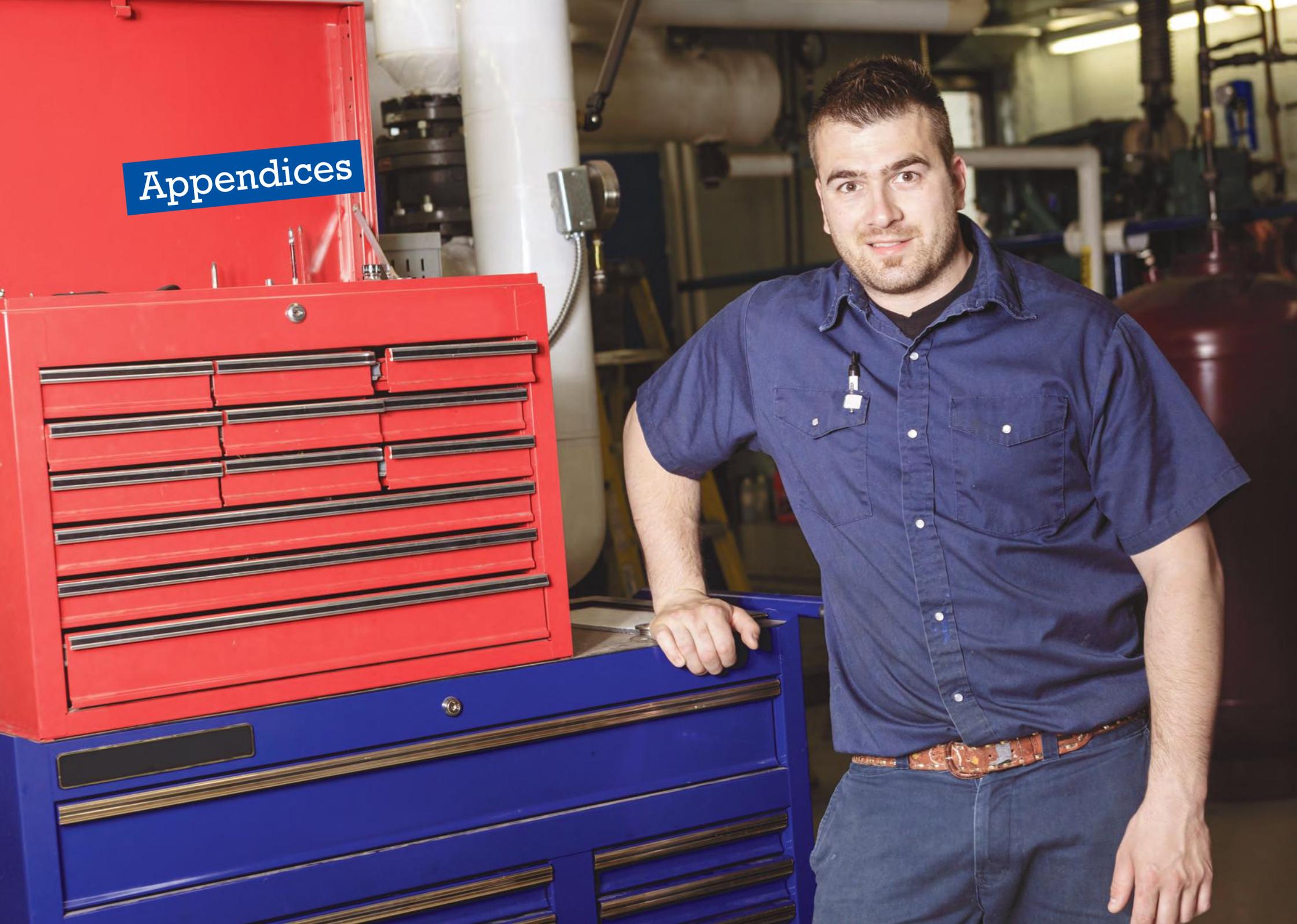
Postcode group	Low pension amounts S1 normal males heavy	High pension amounts S1 normal males
1 (light)	87%	89%
2 (medium)	89%	92%
3 (heavy)	105%	109%

Future mortality improvements

Allowance for future improvements in mortality from 2011 onwards has been made in line with the 2013 version of the 'CMI core projection' model published by the Institute and Faculty of Actuaries, assuming a long-term improvement rate of 1.5% pa. For the period 2002 to 2010, allowance for future improvements in mortality has been made in line with the 2012 version of the 'CMI core projection' model.

Under these mortality assumptions, the average future life expectancy for members aged 65 at 31 December 2013 is approximately 20.2 years for a male and 21.4 years for a female.

Appendices



Appendix A	Principal advisers to the Trustee	52
Appendix B	Payment of contributions	54
Appendix C	Custody arrangements	56
Appendix D	Sustainable Ownership	58
Appendix E	Risk statement	61
Appendix F	Statement of Investment Principles	63
Appendix G	Summary of the main provisions of the Scheme	66
Appendix H	Annual governance statement by the Trustee Chairman	69
Appendix I	Where to go for help	75
Appendix J	Pooled fund accounts	77



**Appendix A:
Principal advisers to the Trustee**

Scheme and Investment Administrator	RPMI
Manager of Investment Managers and Investment Managers	RPMI Railpen Aviva
Actuaries	James Wintle, Willis Towers Watson Limited Martin Clarke, the Government Actuary (joint actuary for the 1994 Pensioners Section and BR Section)
External Auditor	KPMG LLP
Legal Advisors	Herbert Smith Freehills Linklaters DWF Eversheds Sutherland Maclay Murray & Spens Simmons & Simmons
Principal Custodians	BNY Mellon
Clearing Bankers	The Royal Bank of Scotland plc



A photograph of two men in a control room. They are wearing light blue shirts and blue lanyards with 'CENTRAL PAY SERVICE' written on them. They are looking at a laptop on a desk. The background shows multiple computer monitors and other people working. A blue banner with white text is overlaid on the left side of the image.

**Appendix B:
Payment of contributions**

Participating employers

The Trustee collects contributions from most employers participating in the Scheme. As at the year-end, there were 179 participating employers. Each one may operate from several distinct locations, each with its own payroll department and combination of weekly, fortnightly, four-weekly and calendar-monthly paid employees. As a result, the Trustee deals with employers based at approximately 170 different addresses and 200 distinct payroll combinations.

Due dates for payment of contributions

Under the provisions of the Pensions Act 1995, it is the responsibility of each employer to pay contributions on time. The Trustee is required to prepare, maintain and monitor schedules setting out the dates by which contributions should be received. These dates then become the legal due dates for application of the Pensions Act 1995.

Sections in the Shared Cost Arrangement

The Trustee is required to maintain a schedule of contributions for every section of the Scheme. This schedule sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and also shows the dates on which the contributions are due. Each schedule must be certified by the Scheme Actuary as being sufficient to ensure that the funding objective will continue to be met for the next five years, or will be met by the end of the recovery period.

The schedules of contributions that the Trustee has prepared for the Scheme require payment to be made by the due date set out in the Rules, which

is seven working days after the relevant members are paid (compared to the 22nd day of the following month under legislation, if paid by BACS, otherwise the 19-day rule applies). The Scheme Actuary revalues the Scheme every three years. The valuation and schedules of contributions must be signed off within 15 months of the valuation date. The schedules of contributions must be signed by both the Designated Employer and the Trustee.

Sections in the Defined Contribution (money purchase) Arrangement and the IWDC Section

As at 31 December 2016, there were 30 employers actively contributing to the Defined Contribution Arrangement and the IWDC Section. Collection of contributions from these employers is governed by a payment schedule. This is similar to a schedule of contributions, and again sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and the dates on which the contributions are due. Payment schedules do not have to be certified by the Scheme Actuary, but must be prepared by the Trustee and revised from time to time as circumstances require. Once put in place, the employer must pay contributions by the date shown in the schedule.

Late payment of contributions

The Trustee is required by law to report to the Pensions Regulator late payments of contributions which are of material significance.

The Trustee takes the collection of contributions extremely seriously, and also maintains a dialogue with the Pensions Regulator from whom it seeks advice on best practice. Breaches of the regulations deemed significant by the Trustee are reported in accordance with both applicable law and the Pensions Regulator's recommendations.

Employers are encouraged to participate in the Trustee's direct debit arrangements for all invoiced amounts, which greatly reduces the risk of an employer failing to pay contributions on time.

During 2016, there were 230 instances of late payment of contributions with a total value of £4.1m, which represents 0.6% of contributions payable under the schedules of contributions. The largest individual amount was £530,000, which was paid 19 days after the due date. Of the 230 instances of late payment 21 were reported to the Pensions Regulator totalling £3,917.97.



**Appendix C:
Custody arrangements**

Custody arrangements

The law of trust imposes a fiduciary duty on trustees to safeguard assets and this has been reinforced by the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has appointed custodians to hold the assets, including cash, which make up the various quoted securities portfolios managed by the investment fund managers including RPMI Railpen. This is in accordance with the Pensions Act 1995 which requires trustees, rather than the employer or the fund manager or some other party, to make the appointment.

The custodians are responsible for the administration and safekeeping of the assets. Safekeeping can be defined as the preservation of assets under a system of control that ensures that assets are only released with proper authorisation, and that the custodian's clients' investments are legally segregated from those of the custodian.

Core administrative functions performed by the custodians include the following:

- settlement of transactions;
- registration and safekeeping;
- collection of income (dividends and interest) arising from investments;
- tax recovery;
- processing corporate actions, including proxy voting where applicable;
- reporting;
- cash management;
- foreign exchange; and
- appointing and operating through sub-custodians in overseas markets.

Other arrangements which seek to ensure asset safety, and to protect evidence of title, are in place for certain asset classes such as hedge funds and property. In the case of property, freehold and leasehold property is normally registered at HM Land Registry, where appropriate, and copies of all title documents are held by the Trustee's property lawyers.

In the case of investments managed by US fund of hedge fund managers, the Trustee has appointed The Bank of New York Mellon as the independent fund administrator to ensure that underlying hedge fund entitlements are properly monitored and accounted for, through effective and rigorous reporting and controls.

As part of the services provided to the Trustee, RPMI reviews the effectiveness of custody arrangements on a regular basis. This includes monitoring the efficiency of transaction settlement, income collection, tax recovery, foreign exchange performance and the appointment and management of overseas sub-custodians. The verification of assets is also conducted by reference to independent records held by the custodians. Great emphasis is placed on asset safety.

In addition, all custodians appointed by the Trustee are required to publish an AAF 01/06, ISAE 3402 or similar document in other jurisdictions. This is a report on the custodian's internal controls, which is made available to third parties, and is reviewed by the custodian's reporting accountant, in accordance with guidance issued by the Audit and Assurance faculty of the Institute of Chartered Accountants in England and Wales in its technical release AAF 01/06 'Assurance reports on internal controls of service organisations made available to third parties', or ISAE 3402 (formerly SAS70, as amended following the introduction of the Sarbanes-Oxley Act of 2002, the US equivalent issued by the Auditing Standards Board of the

American Institute of Certified Public Accountants ('AICPA') as a Statement on Auditing Standards).

Although not a regulatory requirement, this constitutes best practice and the Trustee will not appoint a custodian that does not produce a report of this type. These reports are reviewed by RPMI's Business Assurance team as part of the ongoing monitoring of custodians and by the Scheme's external auditors as part of their annual audit procedure.

**Appendix D:
Sustainable Ownership**



Introduction

The Trustee, on behalf of the RPS, has a long history as an active and engaged shareholder, with a strong heritage in corporate governance. Trustees of UK occupational pension schemes are required by law to address in their Statement of Investment Principles ('SIP') the extent to which social, environmental and ethical ('SEE') considerations are taken into account in the selection, retention and realisation of investments. This includes their policy directing the exercise of rights (including voting rights) attached to investments. These factors are commonly referred to as extra-financial or environmental, social and governance ('ESG') factors.

One of the Trustee's core investment beliefs relates to Sustainable Ownership which takes account of extra-financial factors which can have a material impact on the long term performance of the investments of the RPS.

Integration of extra-financial factors into investment process

Sustainable Ownership encompasses long term, finance-driven strategies that integrate extra-financial factors into the Scheme's investment arrangements. Such an approach aims to anticipate and address the internal investment implications of Sustainable Ownership factors prior to them occurring.

Our Sustainable Ownership framework considers the impact of extra-financial factors through four lenses:

- Improve returns
- Harm returns
- Impact the reputation of the Trustee as a responsible investor
- Impact the world the beneficiaries of the RPS retire into

Sustainable Ownership factors will be integrated more systematically into portfolio management over time.

Measurement of carbon footprint and Montreal Pledge statement

In 2015, RPMI Railpen signed the Montreal Pledge, an annual commitment to measure and disclose the carbon footprint of part or all of the equities portfolio managed on behalf of the RPS. As a signatory of the Montreal Pledge, the Trustee, through RPMI Railpen, is committed to annual measurement and disclosure of the carbon footprint of the Scheme's equities portfolio.

In 2016, we commissioned TruCost to provide the emissions data for both passive and active elements of the Scheme's listed equity portfolio and brought the data analysis in house to gain a clearer understanding of our carbon exposure. The results will be factored into engagement with external fund managers and with specific companies held in the equity portfolio going forward. More information on the measurement of the carbon footprint is available on the RPMI Railpen website.

UK Stewardship Code

The Trustee considers that its fund managers and other intermediaries have a major role to play in ensuring that companies are run in a manner consistent with clients' best interests. We support, and encourage our fund managers to adopt, the Financial Reporting Council's UK Stewardship Code, updated in September 2012. This sets out seven principles on how institutional investors can enhance the quality of engagement with investee companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.

We expect our external fund managers, where relevant, to comply with the Code and its principles, which have also been incorporated in the Trustee's SIP, and to publish a compliance statement. Our full statement on how we apply the UK Stewardship Code and the Japan Stewardship Code of which we are also signatories, can be found on our website.

Voting

Voting is a key step in engagement, and the Trustee through RPMI Railpen has voted on all resolutions at all annual and extraordinary general meetings of UK companies in which it has holdings since 1992. We publicly disclose on our website our voting record in respect of all UK company meetings held after 1 January 2010.

In addition to our activities in the UK, active voting and engagement has been extended to overseas markets since 2006 and currently extends to the USA, Continental Europe, Japan, Singapore, Australia and Hong Kong. We disclose our voting records for Japanese companies from December 2014 onwards and these, together with self-standing policies for several overseas markets, can be found on our website.

Collaborative engagement

RPMI Railpen is an active participant in several national, regional and global investor networks, alliances and trade bodies in line with the active ownership principles outlined in the UK Stewardship Code. We work informally with other investors, including other pension funds around the world, and benefit from the local market expertise that they bring to our own thinking on Sustainable Ownership matters.

These include:

- Pensions and Lifetime Savings Association ('PLSA')
- International Corporate Governance Network ('ICGN')
- UK Corporate Governance Forum
- UK Sustainable Investment and Finance Association ('UKSIF')
- Council of Institutional Investors ('US')
- Australian Council of Superannuation Investors ('ACSI')
- Eumedion (Netherlands)
- Asian Corporate Governance Association

We are members of Institutional Investors Group on Climate Change ('IIGCC').

We are asset owner signatories to the following responsible investor initiatives:

- UN Principles for Responsible Investment ('UNPRI')
- Carbon Disclosure Project ('CDP')
- Montreal Pledge

Pooled fund equity holdings

The largest ten direct equity holdings within the pooled fund investments as at 31 December 2016 were as follows:

	£m
Apple	71.10
Johnson & Johnson	52.77
ExxonMobil	50.72
IBM	46.13
Wal-Mart	41.36
Merck & Co.	40.63
AT&T	39.89
Nestle	36.55
Cisco Systems	33.65
Altria Group	32.45



Appendix E:
Risk statement



The following risk management process operated throughout the year-ended 31 December 2016.

Risk policy

The Trustee has overall responsibility for internal control and risk management. It is committed to identifying, evaluating and managing risk, and to implementing and maintaining control procedures to reduce significant risks to an acceptable level, taking note of the guidance and principles of the UK Corporate Governance Code issued in April 2016 and the guidance within the Pension Regulator's Code of Practice on Internal Controls.

The objective of the Trustee's risk policy is to limit the exposure of the Scheme, and the assets that it is responsible for safeguarding, to business, financial, operational, compliance and other risks. Implementation of the risk policy is delegated to the boards of the operating companies. The risk policy is reviewed regularly by management and annually by the Trustee and provides a framework for managing risk on a day-to-day basis.

The risk policy covers all aspects of the Trustee operations and includes the use of third-party service providers.

The Trustee strongly encourages its investment managers to publish internal control assurance reports, (AAF 01/06, ISAE 3402 or equivalent style reports), on the effectiveness of internal controls, although investment managers are under no regulatory obligation to do so. The internal audit plan includes a rolling programme to review the internal control environment of all of the investment managers retained by the Trustee.

Risk identification and management

Risks are identified and regularly reviewed by management and directors in a formal process. Risks are evaluated by considering the likelihood of occurrence and the significance of the consequent impact on the business if they occur.

The risks identified, together with action plans for their management (including responsibilities and target dates for completion), are recorded in the risk register of the Trustee and each operating company, RPMI and RPMI Railpen. Actions include implementing or adapting internal controls, risk transfer, risk sharing and contingency planning. These actions are monitored by the Business Assurance team.

The approach is based upon the 'three lines of defence' model as outlined below.

First line of defence:

This refers to the day-to-day controls that have been designed into systems and processes and the day-to-day line management and supervision that ensures compliance and identifies breakdowns or other unexpected events or errors. These processes are supported by documented policies and procedures or in some cases specific projects.

Second line of defence:

This describes the committees and functions that provide oversight of the effective operation of the internal control environment and will include those receiving reports and management information concerning key business activities, for example, the Organisational Leadership Team and the Board. The second line is re-enforced by the monitoring functions of risk management through the Risk Management Committee and the Compliance team.

Third line of defence:

This describes the independent assurance provided by internal audit, external audit and/or any other independent source of assurance, for example internal control reporting.

The effectiveness of the internal controls is examined by the internal audit plan, which focuses on the significant risks in the risk registers and covers all major activities of the Trustee and operating companies. The internal audit plan is approved by the Audit and Risk Committee. Internal audit output, in terms of any significant findings or risks identified, together with planned actions to mitigate them, are reported to the Audit and Risk Committee.

In respect of the pensions administration service provided by RPMI, an internal controls assurance report has been prepared for the year ended 31 December 2015. The report sets out a description of the relevant control objectives and procedures which operated during the period. These have been independently evaluated under the guidelines of the International Standard on Assurance Engagements 3402 (ISAE 3402) and the Institute of Chartered Accountants in England & Wales Technical Release, 'Assurance reports on internal controls of service organisations made available to third parties (AAF 01/06)'.

Internal audit services are provided to the Trustee by the in-house Business Assurance team. The Head of Business Assurance reports to the Chief Executive of the Trustee and the Audit and Risk Committee, and has unrestricted access to the Chairman of the Audit and Risk Committee and the Trustee Board Chairman should the need arise. Internal audit activity is governed by the Audit Charter, which is reviewed periodically by the Audit and Risk Committee.

The RMC is chaired by the Director of Trustee and Client Services and includes representatives from the executive management of RPMI. Trustee Directors have an open invite to attend the meetings of the RMC. It meets regularly with the Business Assurance team and external auditors in attendance, to consider the significant risks and assess how they have been identified, evaluated and managed, as well as the effectiveness of the internal controls associated with these significant risks.

As with any system of internal control, the Trustee's risk management process is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and therefore can only provide reasonable, not absolute, assurance against material misstatement or loss.



**Appendix F:
Statement of Investment Principles**

Introduction

Under the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005, the Trustee is required, following consultation with the employers, to maintain a Statement of Investment Principles ('SIP') for the Scheme. Each section of the Scheme has a unique combination of assets, liabilities and strength of employer covenant. In addition, some sections have established Pensions Committees, which in most cases have the power to set investment strategy – although the Trustee retains legal responsibility for implementation of investment policy and for ensuring the policy complies with statutory requirements.

In order to deal with the large diversity of sections, the Trustee has developed an overarching SIP, supplemented by an individual investment policy document for every section. These are reviewed following each triennial actuarial valuation and following any significant change in the investment policy of the Scheme or of a section. The Trustee will consult with the relevant employers about any changes, but where changes are only in relation to a section-specific SIP, the employers have agreed that the Trustee will only consult with employers participating in that particular section.

An overview of the provisions in the Scheme SIP is set out as follows. The current SIP was adopted in July 2015.

Investment beliefs

The Trustee has agreed investment beliefs that set out a clear view on investment philosophy, governance and policy. These beliefs are used to inform the investment process used across the Scheme.

Investment objectives

The Trustee's primary objective is to ensure that the assets of each section are sufficient to pay the benefits promised when they fall due, and to endeavour to achieve this at affordable cost to the employers and members.

To facilitate achieving this objective, the Trustee adopts an integrated approach to funding and investment policy. Due to the different maturity profiles of the liabilities of the individual 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 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 section.

The RRL framework is set out for the IFC and RPMI as part of 'The Trustee's guiding principles for the Integrated Funding Committee'. These principles outline the expected investment strategy for broad section groupings (effectively grouped by covenant strength and maturity profile). With these principles in mind, the individual components of the RRL framework are considered as follows:

- Expected investment return is considered taking into account risk and affordability, making use of the pooled fund range to accommodate individual 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;

- Investment risk is considered using several measures with a focus on downside risk, consistent with the Trustee's belief that investment risk is multi-faceted. The primary risk measure will differ according to covenant rating;
- Liquidity requirements are evaluated with reference to a number of criteria including maturity, size and cash-flow projections.

The resultant portfolios and investment strategy for each 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 section.

Management of pooled funds

The sections invest in a number of HMRC approved pooled funds (the 'pooled funds') operated by RPMI 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 sections.

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 risk premia and return drivers may offer diversifying characteristics. Accordingly, the default offering is to use 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.

Under the RRL framework, the proportion of the 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 under delegated authority) in order to comply with the RRL framework in the manner the Trustee considers appropriate. Where the rules of a section require the investment policy to establish the proportion of section assets to be held in each of the pooled funds, that policy will be recorded in the relevant Investment Policy Document.

The Trustee regularly reviews the pooled fund range and is free to change the range of pooled funds, the associated benchmarks and investment guidelines from time to time, as it considers appropriate, in accordance with the rules of the Scheme.

The investment of the assets within each pooled fund is delegated under an Investment Management Agreement to a wholly owned subsidiary of the Trustee, RPMI Railpen, or to fund managers appointed by RPMI Railpen (together the 'fund managers'). The investment arrangements are overseen by RIB.

The multi-asset pooled funds are managed within a strategic risk premia framework, agreed on a regular basis with the RIB. The single-asset pooled funds are managed to specific benchmarks 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 risk premium.

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 fund particulars. This includes the power to rebalance funds from available cash or make transfers in order to keep within stipulated asset allocations or restrictions.

Details of the pooled funds operating during the year, including their benchmarks and performance information, are set out in the pooled fund accounts in Appendix J.

Performance measurement

The performance of each section, and the investment performance of the portfolios of RPMI Railpen and the fund managers, are independently measured for the Trustee. Also, investment performance of each section is monitored by RPMI and reported to the IFC, the Pensions Committees (where appropriate) and the relevant employer. The RIB monitors the performance of RPMI Railpen and the fund managers against long-term performance objectives and compliance with operating parameters.

Risk management

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:

- an Integrated Funding Committee with specific responsibilities including agreeing integrated funding plans for each section, using the RRL framework (as described in paragraphs 8, 9

and 13), and monitoring performance against their agreed funding plans;

- an Audit and Risk Committee with specific responsibilities including review of financial control and risk management systems;
- appointing a global custodian to hold assets and RPMI monitoring the custodian's service provision and credit-worthiness;
- appointing the RIB with specific responsibilities including oversight of the management of the pooled funds;
- the establishment of the Railpen Investment Risk Committee to oversee monitoring of investment and operational risks.

Defined contribution assets

The Trustee is responsible for providing appropriate fund choices for the investment of defined contribution ('DC') assets. This includes members' Additional Voluntary Contributions ('AVCs') and contributions in respect of members of the defined contribution schemes ('DC Schemes') including the Industry-Wide Defined Contribution Section ('IWDC') and the Defined Contribution Arrangement.

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 Scheme. The intention is to ensure an investment philosophy consistent across both defined benefit and defined contribution arrangements to the extent possible.

Costs

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 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 risk premia. 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.

Social, environmental and ethical considerations

As a long-term investor and asset owner, the Trustee recognises the need to consider sustainable ownership issues across the portfolios. It expects RPMI Railpen and fund managers as appropriate to take into account non-financial and extra-financial considerations in selecting, retaining and realising investments, where these factors are likely, in RPMI Railpen and the fund manager's view, to have a material impact on the performance of the portfolio either now or in the future. In addition, the Trustee takes into account the fund manager's policies in relation to sustainable ownership when making new fund manager appointments.

Policy on corporate governance and voting

The Trustee attaches particular importance to the maintenance of good standards of corporate governance by companies in which it invests.

The Trustee has corporate governance policies for various markets and expects fund managers in those markets to comply with the relevant policy. As part of these policies, the Trustee supports the principles, as revised from time to time, in the UK Stewardship Code published by the Financial Reporting Council and expects similar standards to be followed by UK and overseas fund managers. RPMI Railpen requires fund managers to report regularly on their compliance with these policies and to provide post-hoc quarterly reports on voting and other significant matters. RPMI Railpen will also review and consider endorsing other international stewardship codes.

The Trustee, through RPMI, will take further action in relation to individual companies, whether independently or with other parties, where it considers it in the best interests of beneficiaries to do so. The Trustee endeavours to vote on all resolutions at all Annual and Extraordinary General Meetings of UK companies in which it has holdings. It has now extended voting selectively to overseas markets.

**Appendix G:
Summary of the main
provisions of the Scheme**



Introduction

The RPS is a registered scheme under the Finance Act 2004. All railway employees are eligible to join the Scheme if allowed by their contract of employment.

Members of each of the sections of the Shared Cost and the DC Arrangements of the RPS were contracted-out of the State Second Pension ('S2P') until the option to contract-out was abolished, which was from 6 April 2012 for DC schemes and from 6 April 2016 for defined benefit schemes. The IWDC Section has never been contracted-out of S2P.

Rules specific to sections

A broad outline of the main provisions of sections that have adopted the Shared Cost Arrangement is given below. However, some employers have introduced rules specific to their section only which override the summary given. Each section's rules are available from RPMI to members of that section upon request and are summarised in each section's Guide for Members booklet, which is available in the members' area of the Scheme's website.

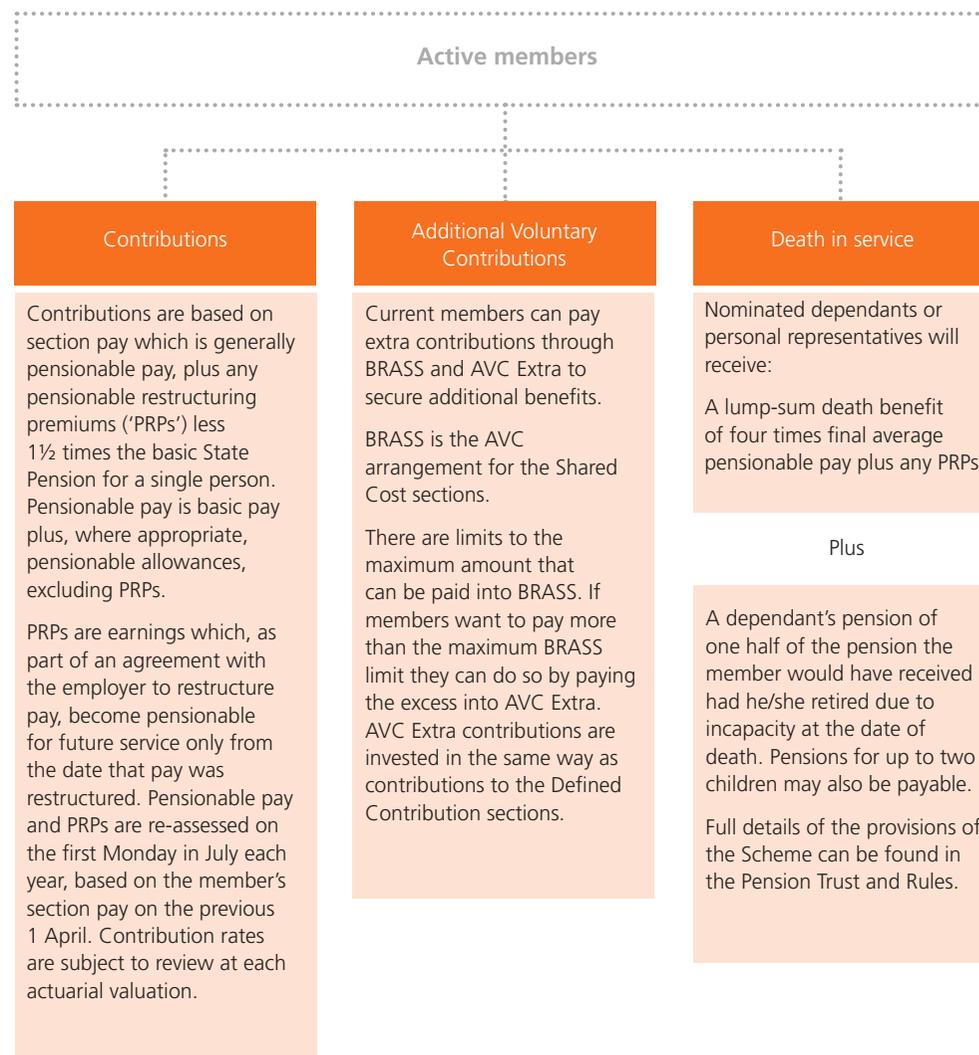
The outline of the main provisions of sections covers the standard situation whereby a section remains ongoing with a solvent employer backing the section. In the event of the employers in a section suffering a qualifying insolvency event, the benefits available from that section will depend on the assets in the section. If there are insufficient assets available to secure a minimum level of benefits, the PPF will pay compensation to members. In these situations, the PPF will take over the pension scheme's assets and provide the compensation to the scheme's members. The compensation provided by the PPF would in many cases be lower than the pensions that members could have received from the scheme that has been taken over.

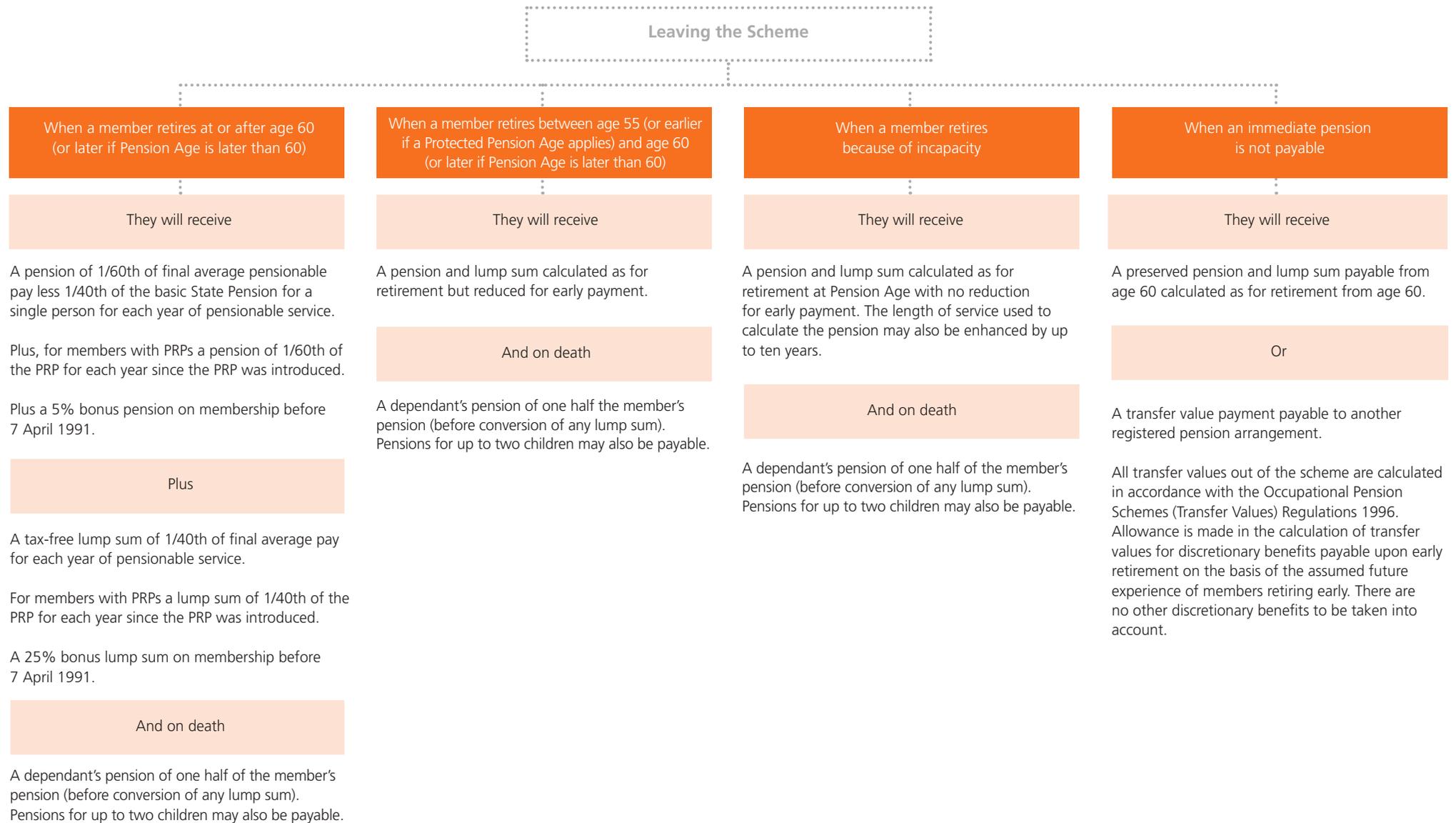
IWDC Section

IWDC Section participating employers can choose their contribution rates, normal retirement date and amount of lump sum on death in service. Contributions range from upwards of 2% of pensionable pay, and retirement ages range from 60 to 65. Lump sums are either one times pensionable pay or four times pensionable pay on death in service. At retirement, members use their accumulated funds to provide an annuity purchased from an insurance company under an open market option, or they can transfer their funds to a specialist drawdown provider. They can also take tax-free cash up to the HM Revenue and Customs limit, or take 100% of their funds as a partially-taxed lump sum direct from the scheme. The remaining members within the DC Arrangement are all preserved pensioners.

Pension increases

Pensions increased by 1% with effect from 6 April 2017. This is based on the Consumer Price Index ('CPI') inflation figure, which measures changes in the prices of goods and services, as at September 2016. Pensions in payment and deferment in the Fund are increased in line with Orders laid by the Government under the Pensions (Increase) Act 1971.







**Appendix H:
Annual governance statement
by the Trustee Chairman**

Introduction

As the Trustee Chairman, I have to provide you with a yearly statement which explains what steps have been taken by the Trustee Board, with help from our professional advisers, to meet the governance standards that apply to the Defined Contribution Arrangement and Industry-Wide Defined Contribution Section of the Railways Pension Scheme, and the Scheme's Additional Voluntary Contribution arrangements, BRASS and AVC Extra (collectively the 'DC Arrangements'). The law sets out what information has to be included in my statement and this is covered in the following sections. The governance requirements are designed to help members achieve a good outcome from their pension savings.

The Trustee is committed to having high governance standards and we have a number of dedicated sub-committees which meet regularly to monitor the controls and processes in place in connection with the DC Arrangements' investments and administration. More information about the sub-committees is on pages 37 to 41 of the Annual Report.

I welcome this opportunity to explain what the Trustee does to ensure the DC Arrangements are run as effectively as they can be. If you have any questions about anything that is set out as follows, or any suggestions about what can be improved, please do let us know.

Default investment arrangement

The default investment arrangements are provided for members who join the DC Arrangements and do not choose an investment option. Members can also choose to invest in one of the default arrangements which are set up by the Trustee. Currently more than 60% of members have some or all of their contributions invested in the default arrangements. The default investment choices are reviewed regularly by the Trustee to ensure they remain appropriate for members, taking into account the characteristics of the various DC Arrangements.

Setting an appropriate investment strategy

The Trustee is responsible for investment governance. This includes setting and monitoring the investment strategy for the default arrangements.

We have chosen the following lifestyle strategies, as the default investment options.

DC Arrangement	Growth Portfolio	Portfolio at Target Retirement Age	Length of Switching Period
Industry-Wide Defined Contribution Section and Defined Contribution Arrangement	100% Long-Term Growth Fund	25% Deposit Fund 75% Aggregate Bond Fund	10 Years
BRASS	100% Long-Term Growth Fund	100% Deposit Fund	5 Years
AVC Extra	100% Global Equity Fund	25% Deposit Fund 75% Aggregate Bond Fund	10 Years

Details of the investment strategy and investment objectives of the default arrangements are recorded in a document called the Statement of Investment Principles. This document is included as an appendix to the Annual Report, and an extract from the schedules relating specifically to the DC Arrangements is appended to this Statement.

When deciding on the investment strategy, the Trustee recognises that the majority of members do not take active investment decisions and instead invest in the default option. Therefore, the Trustee's primary objective in deciding on an investment strategy is to ensure that the strategy is appropriate for a typical member, taking into account their age and planned retirement date. When choosing the default strategy, it is the Trustee's policy to consider a range of asset classes, together with their expected returns and the expected volatility of those returns, the suitability of styles of investment management, and the need for diversification. The Trustee also recognises that there are various investment and operational risks, and gives qualitative and quantitative consideration to such risks.

All day-to-day investment functions are delegated to a wholly-owned subsidiary of the Trustee, RPMI Railpen, or to fund managers appointed by them. RPMI Railpen is regulated by the Financial Conduct Authority. As a long-term investor and asset owner, the Trustee recognises the need to consider sustainable ownership issues across the portfolios. It expects RPMI Railpen and any appointed fund managers, as appropriate, to take into account non-financial and extra-financial considerations in selecting, retaining and realising investments, where these factors are likely, in RPMI Railpen and the fund manager's view, to have a material impact on the performance of the portfolio either now or in the future. In addition, the Trustee takes into account the fund manager's policies in relation to sustainable ownership when making new fund manager appointments.

Reviewing the default investment arrangement

The Trustee is expected to:

- review the investment strategy and objectives of the default investment arrangements at regular intervals, and at least once every three years; and
- take into account the needs of the membership when designing the default arrangements.

The Trustee's Defined Contribution Committee reviews the investment objectives and the performance of the default arrangement at least once a year, on the advice of RPMI, the Trustee's investment advisers. RPMI is a wholly-owned subsidiary of the Trustee. The Committee also carries out a more in-depth review of the DC investment options offered to members at least every three years.

The last in-depth review of the default investment arrangements was completed on 5 November 2015. As a result of this review, we decided not to make any changes to the existing DC investment strategies and the funds' objectives. However, a facility was made available to all members who want to take their entire savings in one lump sum at retirement. We also identified some future actions and projects to feed into the next strategic review, scheduled to begin in 2017.

The DC funds are invested alongside the Scheme's defined benefit arrangements, using the same pooled funds. This means that DC members benefit from the same investment opportunities as members of the defined benefit arrangements.

The Trustee is monitoring the use of the default investment strategies and the choices being made by members when benefits come into payment. This will help to inform us about any changes which may be appropriate in the future.

Charges and transaction costs paid by members

We are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments) which are paid by members rather than the employer.

Where information about the member costs and charges is not available we have to make this clear, together with an explanation of what steps we are taking to obtain the missing information.

During the last Scheme Year the level of charges applicable to the funds under the DC Arrangements, including the funds which are part of the default lifestyle strategies, were:

DC fund	2016 fees %
DC Long Term Growth Fund	0.60
DC Global Equity Fund	0.21
DC Aggregate Bond Fund	0.33
DC Index Linked and Global Bond Fund	0.29
DC Deposit Fund	0.23
BRASS Pension Assured Fund	0.73

It has not been possible to obtain complete information about transaction costs in relation to each of the funds offered as some of this information is currently only disclosed in published annual accounts which are not available until later in 2017.

However, the table above right shows the transaction costs obtained for each fund, along with the percentage of the fund by asset value that we have managed to obtain costs for.

DC fund	2016 transaction costs	Total assets under management	Proportion of fund for which information is available
	£	£m	%
DC Long Term Growth Fund	423,703	800.63	92%
DC Global Equity Fund	11,986	169.55	100%
DC Aggregate Bond Fund	597	16.49	100%
DC Index Linked and Global Bond Fund	977	24.81	50%
DC Deposit Fund	-	338.01	50%
BRASS Pension Assured Fund	Information not available	179.00	0%

We continually review our processes for monitoring transaction costs and are working with the fund managers to improve the timeliness and transparency of transaction cost information.

The Trustee minimises transaction costs arising from buying and selling assets as far as possible through the pooling arrangements within the railway pension schemes. Where we can, we match 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 Scheme participants.

The Trustee has recently completed an investment governance review. Key objectives of this process were to manage and control costs, and to implement investment strategies in the most efficient way possible.

RPMI Railpen is continuing to make improvements in these important areas to ensure that Scheme members get the best possible returns from their investments after all fees and transaction costs have been accounted for. The member-borne charges for all the DC funds were lower in 2016 than they were in 2015, and we will continue to monitor the funds' costs and charges closely.

Good value for members

When assessing the charges and transaction costs which are payable by members, the Trustee is required to consider the extent to which the investment options and the benefits offered by the DC Arrangements represent good value for members when compared to other options available in the market.

There is no legal definition of 'good value' and so the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our advisers, and considered regulatory guidance.

As a starting point to assessing good value, we have compared the level of charges in each fund with the levels of return they have delivered to members. We have also considered how the charges borne by members (the costs of membership) compare against the services and benefits provided by the DC Arrangements (the benefits of membership). The benefits of membership include, amongst other things: the design of the default arrangement and how this reflects the interests of members; the range of investment options and strategies; the efficiency of administration processes, and the extent to which RPMI as administrator met and exceeded its service

level standards for the scheme year; the quality of communications delivered to members; and the quality of support services and Scheme governance.

Based on our assessment, we concluded that the DC Arrangements represent good value for members. While some areas offer excellent value, work is ongoing to improve efficiency, cost-effectiveness, and service in other areas. In all of the areas the Trustee has identified for improvement, plans are already in place to make the necessary changes, and many improvements have been delivered during 2016. In future statements, we expect to be able to report that the DC Arrangements offer excellent value for members overall. This reflects the commitment of both RPMI and RPMI Railpen to continuous improvement on behalf of the Trustee and Scheme members.

Core financial transactions

The Trustee is required to report to you about the processes and controls in place in relation to the 'core financial transactions.' The law specifies that these include the following:

- investing contributions;
- transferring assets relating to members in or out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments to or on behalf of members.

We must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme administrator. Our Scheme administration is delivered by RPMI, a wholly-owned subsidiary of the Trustee.

RPMI provides regular reports to the Trustee's DCC, which allows us to assess how quickly and effectively the Scheme's core financial transactions are completed. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible. The key controls operating to support the core financial transactions are tested as part of RPMI's annual AAF 01/06 Internal Control Report which is externally audited.

In addition, noting that we need accurate member data to process contributions and payments correctly, the DCC receives an annual report from RPMI on the accuracy and completeness of member data in our records. We are pleased to report that no errors or omissions were identified in this year's report that would affect the calculation or payment of members' benefits. The quality of member data was found to be of a very high standard.

Trustee knowledge and understanding

The law requires the Trustee Board to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively. We take our training and development responsibilities seriously and keep a record of the training completed by each member of the board. This training record is reviewed annually to identify any gaps in the knowledge and understanding across the board as a whole. This allows us to work with our professional advisers to fill in any gaps.

All newly appointed Trustee Directors are expected to complete a minimum standard of training within six months of joining the Trustee Board. Most Trustee Directors have completed the Trustee Toolkit made available by the Pensions Regulator, and more than half of Trustee Directors hold the Award in Pension Trusteeship, which is awarded following an examination set by the Pensions

Management Institute, the professional body for the pensions industry.

As a result of the training activities which have been completed by the Trustee Directors, individually and collectively as a board, and taking into account the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the board enables us to exercise properly our functions as the Trustee of the DC Arrangements and the RPS generally.

Additional governance requirements for multi-employer schemes

The Trustee is required to comply with additional governance standards because it is used by non-associated employers from across the rail industry. These are designed to offer additional protections for members and ensure that the Trustee acts in your best interests.

The Trustee Board has considered these requirements and determined that all Trustee Directors, including the Chairman, 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. 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 Chairman, are always in the majority on the Trustee Board.

Three Employer Trustee Directors were appointed during the Scheme year, in accordance with the governing documents of Railtrust Holdings, the Trustee's parent company. Nominations were

sought from the relevant Electoral Groups and, where more than one nomination was received, a secret ballot was held of all the members of Railtrust Holdings within the relevant Electoral Group.

The Trustee is keen to hear members' views about the Scheme, the benefits it offers, the investment options available to you, and your plans for how you intend to use your funds to provide an income in retirement. We encourage members to make their views known via the Scheme's website, and through the surveys that accompany your annual newsletter and retirement statements. All Trustee Directors are happy to hear from members and we are keen to share your views with the Trustee Board. Please contact us, or get in touch with RPMI, if you have any comments that will help us ensure that the DC Arrangements continue to meet your needs.

Extract from Schedules to the Statement of Investment Principles in respect of the defined contribution schemes and Additional Voluntary Contribution arrangements.

Introduction

This Schedule is appended to and should be read in conjunction with the Statement of Investment Principles ('SIP') adopted by the Trustee, as amended from time to time.

The defined contribution schemes ('DC Schemes') are the defined contribution (also known as 'money purchase') pension arrangement of the RPS for rail industry employees. They include the IWDC Section and the Defined Contribution Arrangement.

The Additional Voluntary Contribution ('AVC') arrangements include BRASS and AVC Extra.

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 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)

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 of the Trustee Board was established to ensure appropriate management and governance of the BRASS, AVC Extra, and DC Schemes' arrangements. Specific responsibilities of the Committee include oversight of investment performance and reviewing communications and investment options as appropriate.

Fund choices

The following funds are available to all members of DC Schemes and both AVC arrangements:

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

The DC Schemes and AVC arrangements also offer lifestyle options:

- DC Long Term Growth Lifestyle (the default option for the DC Schemes)
- BRASS 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.

Certain AVC 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 DC Long Term Growth Fund and DC 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 DC 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.

Fund on-going charges

The investment managers 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.

Risks

There are a number of risks within the DC Schemes and AVC 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 DC 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. RIB oversees the performance of RPMI Railpen and fund managers on a regular basis;
- Risk of inappropriate member decisions. This is addressed by:
 - making a default option available which the Trustee believes appropriate for the majority of members;
 - regular member communications; and
 - recommending members seek guidance and independent financial advice where appropriate.

The Trustee also reviews these risks as part of each formal strategy review. These take place at least every three years or more frequently if appropriate.

Note

Further information and factsheets for the DC Schemes' and AVC arrangements' funds can be found on the Railways Pensions website www.railwayspensions.co.uk.

John Chilman,
Chairman of the Trustee Company



Appendix I:
Where to go for help

Trustee and RPMI Railpen

Company Secretary
Railways Pension Trustee Company Limited
7th Floor
Exchange House
Exchange Square
London
EC2A 2NY

T: 0207 330 6800
E: enquiries@rpmico.co.uk
W: www.rpmico.co.uk
W: www.rpimirailpen.co.uk

RPMI

Further information about the fund and individual entitlements can be obtained from:

Director of Administration
RPMI
Stooperdale Offices
Brinkburn Road
Darlington
DL3 6EH

T: 0800 2 343434 (Customer Services Team)
E: csu@rpmico.co.uk
W: www.railwayspensions.co.uk

The Pensions Advisory Service ('TPAS')

TPAS is an independent voluntary organisation with local advisers who are experts in pension matters. TPAS can be contacted either through any local Citizens Advice Bureau or at the following address:

TPAS Headquarters
11 Belgrave Road
London
SW1V 1RB

T: 0300 123 1047

Online enquiry:

[www.pensionsadvisoryservice.org.uk/
contacting-us/online-enquiry-form](http://www.pensionsadvisoryservice.org.uk/contacting-us/online-enquiry-form)
W: www.pensionsadvisoryservice.org.uk

Pensions Ombudsman

If TPAS cannot resolve a complaint or dispute then the Pensions Ombudsman could be contacted at the following address:

The Office of the Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

T: 020 7630 2200
E: enquiries@pensions-ombudsman.org.uk
W: www.pensions-ombudsman.org.uk

The Pensions Regulator

The Pensions Regulator can be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

T: 0345 600 1011
E: customersupport@tpr.gov.uk
W: www.thepensionsregulator.gov.uk

Pensions Tracing Service

Information about UK schemes (including a contact address) is provided to the Department for Work and Pensions ('DWP') Pension Tracing Service. This enables members to trace benefits from previous employers' schemes.

The DWP's Pension Tracing Service can be contacted at the following address:

The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU

T: 0345 600 2537
W: www.gov.uk/find-lost-pension
RPS Registration number: 10203279

A man with a beard, wearing a black beanie and a blue work jacket, is operating a forklift in a warehouse. He is looking directly at the camera. The forklift is yellow and black. The background shows a warehouse with blue shelving units.

Appendix J:
Pooled fund accounts

Introduction

This appendix represents a consolidated summary of the Annual Report and non-statutory audited accounts of the pooled funds of the railways pension schemes for the year ended 31 December 2016. The non-statutory accounts have been prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 102) and with the guidance set out in the Statement of Recommended Practice the 'SORP').

The total valuation of the pooled assets as at 31 December 2016 was £26,084.06m (2015: £22,819.98m). There are in addition £917.85m (2015: £920.98m) of assets held directly by the railway pension schemes not included in the pooled fund arrangements, bringing total assets to £27,001.91m (2015: £23,740.96m).

The pooled funds operate as internal unit trusts. They comprise a key element of the arrangements that the Trustee has put in place for the investment of schemes' and sections' assets and provide the railways pension schemes with a means to invest in a wide range of asset classes.

Following the investment review begun in 2013, the range of pooled funds is being simplified to allow assets to be invested, as far as possible, as if the Railways Pension Scheme were a single unified scheme, whilst also allowing the Trustee to meet the needs of individual sections.

As part of this review, the assets within the Hedge Funds Pooled Fund were, where possible, liquidated during the year with remaining assets transferred to the Growth Pooled Fund. The Hedge Funds Pooled Fund was wound up in March 2016. The Trustee also

agreed to work towards a position where the Growth Pooled Fund is the only unit holder of the Property Pooled Fund and this work was completed in January 2016.

The existing Private Equity Pooled Funds are also being wound up, although this will take several years due to the nature of the investments within these pooled funds. New investment in private markets will be made through the Illiquid Growth Pooled Fund which was launched in 2015 and the Long Term Income Pooled Fund which was launched in January 2016.

The table on page 80 summarises the investments of each of these pooled funds as at 31 December 2016. The notes on pages 87 to 102 analyse the total pooled assets of £26,084.06m into the categories required by the SORP. The net asset value of each pooled fund at the end of the current and prior years is set out on page 88, and the unit prices on page 87.



Accounting Policies

Basis of preparation:

Investments

Investments are held at fair value. The principal bases of investment valuation adopted by the pooled funds are set out below:

- a. Listed investments are stated at the bid price or last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.
- b. Fixed interest securities are stated at their 'clean' prices, with accrued income accounted for within investment income.
- c. Unquoted securities, including most investments in private equity and infrastructure (both direct and via managed funds), are included at the Trustee's estimate of accounting fair value based on advice from the investment managers.
- d. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price, where there are no bid/offer spreads, as provided by the investment managers.
- e. Properties are included at open market value as at the year end date determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by independent external valuers, Cushman & Wakefield. Cushman & Wakefield are Chartered Surveyors and members of the Royal Institution of Chartered Surveyors, who have experience in the locations and class of investment properties held by the Trustee.
- f. Exchange traded derivatives are stated at fair value determined using market quoted prices. Over the counter ('OTC') derivatives

are stated at the Trustee Company's estimate of accounting fair value based on advice from Markit, external valuers retained by the Trustee through BNY Mellon, who provide a valuation service independent of the fund managers, using pricing models and relevant market data at the year end date.

- g. Forward foreign exchange contracts are valued at the forward rate at the year end date.
- h. All gains and losses arising on derivative contracts are reported within change in market value of investments during the year.
- i. Foreign investments, debtors, creditors, cash and cash equivalents have been translated into sterling at the exchange rates ruling at the fund statement date.

Foreign currencies

Balances denominated in foreign currencies are translated at the rate ruling at the net assets statement date. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

Investment income

Investment income is included in the accounts on the following bases:

- a. Dividends from quoted equities are accounted for when the security is declared ex-div.
- b. Interest is accrued on a daily basis.
- c. Property rental income is accounted for on an accruals basis in accordance with the terms of the lease.
- d. Sub-underwriting, commission recapture and stock lending commission are accounted for on a receivable basis.
- e. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the

associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

- f. Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled investment vehicles, reflected in the unit price and reported within the change in market value.
- g. Income has been accumulated within the unit prices of the pooled funds and no income distributions have been made to the participating schemes.

Subsidiaries and consolidation

Several properties in the Property Pooled Fund are owned by means of an exempt unauthorised unit trust, English limited partnerships, Jersey unit trusts and a number of companies.

In all cases, the share capital or units in all the entities in question are held either directly or indirectly for the beneficial entitlement of the Property Pooled Fund. All the entities are controlled by the Trustee on behalf of the Property Pooled Fund, and hence fall to be subsidiary undertakings of the pooled fund. They have been included in the pooled fund accounts on a full consolidation basis. This consolidation is done voluntarily as this is not a requirement of the SORP.

Derivative contracts: objectives and policies

The Trustee has authorised the use of derivatives by investment managers as part of the investment strategy. Derivatives may only be used by investment managers where they are specifically permitted in the investment management agreement, and each manager must comply with the Trustee's approved derivatives policy.

Investment in derivative instruments may be made only in so far as they contribute to a reduction of risk, or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income).

Unit transactions

Units issued and redeemed during the year are shown on a gross basis and include in-specie transfers between sections and pooled funds.

Fund statement as at 31 December 2016

Pooled Fund	Equities £m	Fixed interest securities £m	Index linked securities £m	UK property £m	Pooled investment vehicles £m	Derivative assets £m	Derivative liabilities £m	Cash deposits and cash instruments £m	Other assets £m	Other liabilities £m	Cross holdings £m	Net assets attributable to unit holders £m
Growth	5,899.61	1,484.25	343.17	-	4,947.58	57.51	(172.05)	2,348.14	55.90	(20.18)	2,071.37	17,015.30
Private Equity	0.50	-	-	-	2,417.24	0.05	-	66.26	5.99	(1.35)	-	2,488.69
Property	-	-	-	1,845.04	0.15	-	-	234.82	33.29	(41.98)	-	2,071.32
Government Bond	-	1,810.00	-	-	-	-	-	238.02	12.16	(1.01)	-	2,059.17
Defined Contribution	-	43.92	-	-	177.31	-	-	296.06	0.56	(0.88)	832.52	1,349.49
Infrastructure	-	-	-	-	890.28	-	-	18.32	0.01	(0.49)	-	908.12
Passive Equity	-	-	-	-	780.51	-	-	0.39	-	(0.35)	-	780.55
Global Equity	-	-	-	-	646.50	7.38	(5.76)	110.15	0.03	(0.65)	-	757.65
Non Government Bond	-	623.51	-	-	-	0.15	(7.43)	3.60	7.35	(0.59)	-	626.59
Cash	-	-	-	-	-	-	-	320.44	0.08	(0.13)	-	320.39
Illiquid Growth	30.00	-	-	-	204.61	-	-	48.65	0.01	(0.44)	-	282.83
Index Linked	-	-	-	-	225.43	-	-	0.40	-	(0.15)	-	225.68
Long Term Income	-	0.48	-	-	99.03	-	-	2.89	0.01	(0.24)	-	102.17
Cross Holdings											(2,903.89)	(2,903.89)
Total	5,930.11	3,962.16	343.17	1,845.04	10,388.64	65.09	(185.24)	3,688.14	115.39	(68.44)	-	26,084.06
%	22.7	15.2	1.3	7.1	39.8	0.3	(0.7)	14.1	0.4	(0.2)	-	100

The accounting policies on page 79 and the notes on pages 86 to 100 form part of these accounts.

Analysis of cross holdings

	Growth	Index Linked	Property	Private Equity	Non Government Bond	Total Cross Holdings
Pooled Fund	£m	£m	£m	£m	£m	£m
Growth	-	-	2,071.32	0.05	-	2,071.37
Defined Contribution	799.67	12.51	-	-	20.34	832.52
Total	799.67	12.51	2,071.32	0.05	20.34	2,903.89

The accounting policies on page 79 and the notes on pages 86 to 100 form part of these accounts.

Movement in unit holders' funds

Pooled Fund	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested net income	Change in cross holdings	Total unit holders' funds
	£m	£m	£m	£m	£m	£m	£m
Growth	14,498.45	400.60	(370.17)	2,286.83	199.59	-	17,015.30
Private Equity	2,265.31	67.31	(404.95)	563.45	(2.43)	-	2,488.69
Property	2,220.60	18.85	(223.85)	(33.37)	89.09	-	2,071.32
Government Bond	1,917.52	143.28	(111.81)	78.98	31.20	-	2,059.17
Defined Contribution	1,232.22	141.07	(160.34)	136.65	(0.11)	-	1,349.49
Infrastructure	948.92	4.92	(265.92)	219.77	0.43	-	908.12
Passive Equity	690.58	17.22	(0.24)	73.84	(0.85)	-	780.55
Global Equity	827.97	-	(188.98)	118.15	0.51	-	757.65
Non Government Bond	615.83	25.28	(49.57)	11.13	23.92	-	626.59
Cash	288.67	55.45	(25.14)	0.01	1.40	-	320.39
Illiquid Growth	34.38	223.30	-	27.49	(2.34)	-	282.83
Index Linked	194.40	1.59	(32.36)	62.48	(0.43)	-	225.68
Long Term Income	-	102.45	-	0.94	(1.22)	-	102.17
Hedge Funds	110.68	-	(110.33)	(0.30)	(0.05)	-	-
Cross Holdings	(3,025.55)					121.66	(2,903.89)
Total	22,819.98	1,201.32	(1,943.66)	3,546.05	338.71	121.66	26,084.06

Approved on behalf of the Trustee Company on 5 June 2017.

John Chilman Chairman, Trustee Board

John Mayfield Director and Chairman, Audit and Risk Committee

The accounting policies on page 79 and the notes on pages 86 to 100 form part of these accounts.

Fund statement as at 31 December 2015

	Equities	Fixed interest securities	Index linked securities	UK property	Pooled investment vehicles	Derivative assets	Derivative liabilities	Cash deposits and cash instruments	Other assets	Other liabilities	Cross holdings	Net assets attributable to unit holders
Pooled Fund	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Growth	4,024.13	875.30	11.71	-	4,448.59	23.57	(52.49)	2,836.88	44.34	(26.10)	2,312.52	14,498.45
Private Equity	0.29	-	-	-	2,188.74	0.01	(0.06)	77.06	0.66	(1.39)	-	2,265.31
Property	-	-	-	1,890.93	0.50	-	-	342.34	20.21	(33.38)	-	2,220.60
Government Bond	-	1,828.09	-	-	-	-	-	78.77	11.72	(1.06)	-	1,917.52
Defined Contribution	-	-	-	-	160.13	-	-	359.11	0.63	(0.68)	713.03	1,232.22
Infrastructure	-	-	-	-	890.87	-	-	58.53	0.01	(0.49)	-	948.92
Global Equity	-	-	-	-	805.45	3.31	(10.90)	30.53	0.33	(0.75)	-	827.97
Passive Equity	-	-	-	-	690.47	-	-	0.49	-	(0.38)	-	690.58
Non Government Bond	1.86	613.54	-	-	-	0.54	(14.94)	7.88	8.07	(1.12)	-	615.83
Cash	-	-	-	-	-	-	-	288.71	0.11	(0.15)	-	288.67
Index Linked	-	-	-	-	194.44	-	-	0.08	-	(0.12)	-	194.40
Hedge Funds	-	-	-	-	101.43	-	-	0.26	9.13	(0.14)	-	110.68
Illiquid Growth	-	-	-	-	39.29	0.04	-	0.11	-	(5.06)	-	34.38
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(3,025.55)	(3,025.55)
Total	4,026.28	3,316.93	11.71	1,890.93	9,519.91	27.47	(78.39)	4,080.75	95.21	(70.82)	-	22,819.98
%	17.6	14.5	0.1	8.3	41.7	0.1	(0.3)	17.9	0.4	(0.3)	-	100

The accounting policies on page 79 and the notes on pages 86 to 100 form part of these accounts.

Analysis of cross holdings

	Growth	Index Linked	Hedge Funds	Property	Private Equity	Non Government Bond	Total Cross Holdings
Pooled Fund	£m	£m	£m	£m	£m	£m	£m
Growth	-	-	110.68	2,201.79	0.05	-	2,312.52
Defined Contribution	687.20	9.56	-	-	-	16.27	713.03
Total	687.20	9.56	110.68	2,201.79	0.05	16.27	3,025.55

The accounting policies on page 79 and the notes on pages 86 to 100 form part of these accounts.

Movement in unit holders' funds

Pooled Fund	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested net income	Change in cross holdings	Total unit holders' funds
	£m	£m	£m	£m	£m	£m	£m
Growth	13,481.05	1,001.90	(451.71)	343.05	124.16	-	14,498.45
Private Equity	2,226.31	129.82	(492.95)	406.28	(4.15)	-	2,265.31
Property	2,008.00	128.89	(129.19)	143.73	69.17	-	2,220.60
Government Bond	1,093.79	1,122.79	(311.44)	(12.80)	25.18	-	1,917.52
Defined Contribution	1,224.76	169.37	(184.14)	21.65	0.58	-	1,232.22
Infrastructure	1,013.92	-	(285.00)	221.60	(1.60)	-	948.92
Global Equity	1,377.38	3.13	(595.21)	39.44	3.23	-	827.97
Passive Equity	249.32	457.17	(0.10)	(14.64)	(1.17)	-	690.58
Non Government Bond	1,294.07	44.33	(734.63)	(22.09)	34.15	-	615.83
Cash	290.46	-	(2.69)	-	0.90	-	288.67
Index Linked	206.73	1.02	(13.25)	0.34	(0.44)	-	194.40
Hedge Funds	668.85	-	(565.17)	6.45	0.55	-	110.68
Illiquid Growth	-	66.49	(33.24)	1.22	(0.09)	-	34.38
Defensive	1,017.05	1.80	(1,032.71)	11.04	2.82	-	-
Cross Holdings	(4,128.42)	-	-	-	-	1,102.87	(3,025.55)
Total	22,023.27	3,126.71	(4,831.43)	1,145.27	253.29	1,102.87	22,819.98

The accounting policies on page 79 and the notes on pages 86 to 100 form part of these accounts.

1.1 Fund statement as at 31 December 2016

Assets	Note	2016 £m	2015 £m
Equities			
UK quoted		315.20	265.60
UK unquoted		0.09	0.09
Overseas quoted		5,609.83	3,742.50
Overseas unquoted		4.99	18.09
		5,930.11	4,026.28
Fixed interest securities			
UK quoted - public sector		2,293.39	1,829.39
UK quoted - non-public sector		74.21	49.39
UK unquoted - non-public sector		0.48	-
Overseas quoted - public sector		336.83	633.20
Overseas quoted - non-public sector		1,257.25	804.95
		3,962.16	3,316.93
Indexed linked securities			
Overseas quoted - public sector		343.17	11.71
		343.17	11.71
UK Property		1,845.04	1,890.93
Pooled investment vehicles	1.5	10,388.64	9,519.91
Derivative contracts			
Futures - exchange traded	1.6	25.59	15.16
Options - OTC		-	0.01
FX contracts - OTC	1.6	45.67	12.30
		71.26	27.47
Other assets			
Other investment assets	1.7	102.53	85.43
Current assets	1.8	12.24	9.33
		114.77	94.76
Cash deposits and cash instruments	1.9	3,688.14	4,080.75
Total assets		26,343.29	22,968.74

Liabilities	Note	2016 £m	2015 £m
Derivative contracts			
Futures – exchange traded	1.6	(15.66)	(8.35)
FX contracts - OTC	1.6	(175.75)	(70.04)
		(191.41)	(78.39)
Other liabilities			
Other investment liabilities	1.10	(5.04)	(12.67)
Current liabilities	1.11	(62.78)	(57.70)
		(67.82)	(70.37)
Total liabilities		(259.23)	(148.76)
Net assets attributable to unit holders		26,084.06	22,819.98



1.2 Pooled fund unit prices as at 31 December 2016

	2016 £/unit	2015 £/unit
Growth Pooled Fund	16.74	14.32
Property Pooled Fund	87.00	84.77
Government Bond Pooled Fund	13.27	12.55
Infrastructure Pooled Fund	18.49	14.54
Passive Equity Pooled Fund	15.65	14.21
Global Equity Pooled Fund	84.00	70.57
Non Government Bond Pooled Fund	13.80	13.03
Cash Pooled Fund	10.29	10.23
Illiquid Growth Pooled Fund	11.55	10.34
Index Linked Pooled Fund	91.47	69.03
Long Term Income Pooled Fund (from January 2016)	8.42	-
Hedge Funds Pooled Fund (to March 2016)	-	16.39
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995	5,104.38	5,148.26
Direct Investment Pooled Fund 1997	184.25	186.05
Direct Investment Pooled Fund 1999	40.87	41.23
Direct Investment Pooled Fund 2000	21.28	19.01
Private Equity Pooled Fund 2001	42.82	35.18
Private Equity Pooled Fund 2004	41.04	32.93
Private Equity Pooled Fund 2005	34.41	29.62
Private Equity Pooled Fund 2007	26.09	20.68
Private Equity Pooled Fund 2009	30.79	24.18
Private Equity Pooled Fund 2011	22.27	17.13
Private Equity Pooled Fund 2013	14.68	11.53
Defined Contribution Pooled Fund		
DC Global Equity Fund	13.02	11.83
DC Long Term Growth Fund	13.68	11.72
DC Deposit Fund	10.10	10.07
DC Index Linked and Global Bond Fund	13.65	11.50
DC Aggregate Bond Fund	12.70	11.34

1.3 Value of the Pooled Funds

	2016 £m	2015 £m
Growth Pooled Fund	17,015.30	14,498.45
Private Equity Pooled Fund*	2,488.69	2,265.31
Property Pooled Fund	2,071.32	2,220.60
Government Bond Pooled Fund	2,059.17	1,917.52
Defined Contribution Pooled Fund*	1,349.49	1,232.22
Infrastructure Pooled Fund	908.12	948.92
Passive Equity Pooled Fund	780.55	690.58
Global Equity Pooled Fund	757.65	827.97
Non Government Bond Pooled Fund	626.59	615.83
Cash Pooled Fund	320.39	288.67
Illiquid Growth Pooled Fund	282.83	34.38
Index Linked Pooled Fund	225.68	194.40
Long Term Income Pooled Fund (from January 2016)	102.17	-
Hedge Funds Pooled Fund (to March 2016)	-	110.68
	28,987.95	25,845.53
Cross holdings		
Property Pooled Fund	(2,071.32)	(2,201.79)
Growth Pooled Fund	(799.67)	(687.20)
Non Government Bond Pooled Fund	(20.34)	(16.27)
Index Linked Pooled Fund	(12.51)	(9.56)
Private Equity Pooled Fund	(0.05)	(0.05)
Hedge Funds Pooled Fund (to March 2016)	-	(110.68)
Net assets attributable to unit holders	26,084.06	22,819.98

*See breakdown into pooled fund segments to the right.

	2016 £m	2015 £m
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995	0.15	0.15
Direct Investment Pooled Fund 1997	0.21	0.21
Direct Investment Pooled Fund 1999	0.23	0.23
Direct Investment Pooled Fund 2000	11.51	16.36
Private Equity Pooled Fund 2001	78.84	95.96
Private Equity Pooled Fund 2004	58.51	67.23
Private Equity Pooled Fund 2005	125.99	197.34
Private Equity Pooled Fund 2007	1,063.93	1,002.56
Private Equity Pooled Fund 2009	272.58	251.34
Private Equity Pooled Fund 2011	698.09	508.72
Private Equity Pooled Fund 2013	178.65	125.21
	2,488.69	2,265.31
Defined Contribution Pooled Fund		
DC Long Term Growth Fund	800.63	687.93
DC Deposit Fund	338.01	357.32
DC Global Equity Fund	169.55	154.75
DC Index Linked and Global Bond Fund	24.81	19.53
DC Aggregate Bond Fund	16.49	12.69
	1,349.49	1,232.22

1.4 Investment income

	2016 £m	2015 £m
Dividends from equities	153.74	103.23
Income from fixed interest securities	130.83	120.60
Income from UK property	102.14	85.38
Interest from cash deposits	14.47	22.48
Income from index linked securities	9.89	0.76
Income from pooled investment vehicles	1.67	12.69
Income from preferred securities	0.06	0.54
Other income	6.16	3.31
	418.96	348.99
Irrecoverable withholding tax	(6.61)	(5.07)
Total income	412.35	343.92
Administration, custody and other expenses	(24.42)	(19.53)
Investment management fees - base	(21.41)	(27.33)
Investment management fees - performance	(2.10)	(5.73)
RPMI fees	(25.62)	(38.02)
Tax	(0.09)	(0.02)
	(73.64)	(90.63)
Reinvested net income (accrued in unit prices)	338.71	253.29

1.5 Pooled investment vehicles

The pooled funds had holdings in pooled investment vehicles at the year end that can be analysed as follows:

	2016 £m	2015 £m
UK unquoted - unitised insurance policies	5,160.86	5,316.46
UK unquoted - partnerships	667.51	575.48
UK unquoted - property partnerships	0.15	0.50
UK unquoted - other managed funds	348.46	306.27
UK quoted - other managed funds	33.23	22.87
Overseas quoted - other managed funds	123.06	198.46
Overseas unquoted - partnerships	3,341.26	2,829.84
Overseas unquoted - hedge funds	178.67	254.70
Overseas unquoted - other managed funds	535.44	15.33
	10,388.64	9,519.91

The pooled funds are the sole investor in nine (2015: five) pooled investment vehicles included within the above analysis. The assets underlying these sole investor pooled investment vehicles are:

	2016 £m	2015 £m
Fixed interest securities	63.95	-
Private equity	259.44	145.59
	323.39	145.59

1.6 Derivative contracts

Futures: Future contracts are standardised, transferable, exchange traded contracts that require delivery of a commodity, bond, currency or stock index, at a specified price, on a specified future date. The details of open futures contracts at the year end are as follows:

Type of future	Duration	Notional value at year end £m	Asset value at year end £m	Liability value at year end £m
US treasury notes	Mar 2017	1,643.12	-	(13.10)
S&P indices	Mar 2017	1,033.47	0.11	(1.01)
German government bonds	Mar 2017	186.93	3.66	-
CAC 40 index	Jan 2017	134.58	2.53	-
Swiss market index	Mar 2017	56.05	1.15	-
Japanese topix index	Mar 2017	409.83	10.64	-
MSCI EM indices	Mar 2017	114.35	-	(0.83)
FTSE index	Mar 2017	130.20	4.03	-
Korea stock exchange	Mar 2017	90.81	3.28	-
Other equity indices	Mar 2017	67.14	0.19	(0.72)
		3,866.48	25.59	(15.66)

Included within cash balances is £261.17m in respect of initial and variation margins deposited with brokers regarding open futures contracts at the year end.

Forward foreign exchange ('FX') contracts: The pooled funds had open FX contracts at the year end as follows:

Type of contract	Settlement date	Currency bought million	Currency sold million	Value at year end £m
Assets				
Sterling / Yen	Jan 2017	308.52	42,551.11	13.04
US dollar / Yen	Feb 2017	486.35	54,900.00	11.99
Sterling / Swiss franc	Jan 2017	191.54	230.76	7.63
Sterling / US dollar	Jan - Feb 2017	521.77	640.43	4.18
Sterling / Euro	Jan 2017	574.02	667.40	3.95
Other	Jan - Dec 2017			4.88
				45.67
Liabilities				
Sterling / US dollar	Jan - Apr 2017	4,486.02	5,758.64	(170.01)
Sterling / Euro	Jan - Feb 2017	555.57	652.51	(1.99)
US dollar / Brazil real	Jan - Feb 2017	68.68	229.59	(1.34)
US dollar / Sterling	Feb 2017	137.66	112.50	(1.20)
Other	Jan - Dec 2017			(1.21)
				(175.75)

Under the terms of FX contracts, each party may be required to place collateral with the other according to whether the outstanding position is a profit or a loss. Under the terms of the above FX contracts, the Trustee had received £6.69m cash in respect of collateral at the year end. Contingent collateral received in this way is not reported within the pooled fund's net assets.

Included within net assets is £170.57m of cash in respect of collateral deposited with counterparties relating to open FX contracts at the year end.

1.7 Other investment assets

	2016 £m	2015 £m
Asset in respect of investment settlements	20.88	24.12
Investment income accrued	51.39	44.91
Recoverable tax	5.93	4.17
Rent receivable	24.33	12.23
	102.53	85.43

1.8 Current assets

	2016 £m	2015 £m
Asset in respect of unit trades	0.43	0.49
Trade debtors	8.59	5.82
Tax	0.34	1.85
VAT and other	2.88	1.17
	12.24	9.33

1.9 Cash deposits and cash instruments

	2016 £m	2015 £m
Cash held in liquidity funds	3,156.06	3,732.08
Cash held at brokers in respect of futures margin	261.17	172.78
Cash at bank	100.34	143.96
Cash collateral held by counterparties	170.57	31.93
	3,688.14	4,080.75

1.10 Other investment liabilities

	2016 £m	2015 £m
Liability in respect of investment settlements	(3.84)	(11.60)
Tax payable	(1.20)	(1.07)
	(5.04)	(12.67)

1.11 Current liabilities

	2016 £m	2015 £m
Accrued management fees and expenses	(20.88)	(22.36)
Property income received in advance	(18.30)	(18.27)
Trade creditors	(8.13)	(9.74)
Liability in respect of unit trades	(1.42)	(0.59)
Tax	(12.93)	(2.72)
VAT and other	(1.12)	(4.02)
	(62.78)	(57.70)

1.12 Stock lending

The Trustee has given limited approval to custodians to lend stock in the market. A principal condition of this approval is that borrowers must meet the Trustee's collateral specifications

At 31 December 2016, the market valuation of stock that had been lent in the market was £145.78m (2015: £60.00m).

Collateral held in respect of the stock on loan at 31 December 2016 had a total value of £152.37m (2015: £62.10m).

1.13 Reconciliation of investments held at beginning and end of year

	Value at 31 December 2015	Units issued/ (redeemed)	Net income	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 December 2016
	£m	£m	£m	£m	£m	£m	£m
Directly held assets							
Equities	4,026.28	-	-	3,967.50	(3,222.19)	1,158.52	5,930.11
Fixed interest securities	3,316.93	-	-	3,056.60	(2,865.48)	454.11	3,962.16
Index linked securities	11.71	-	-	574.85	(305.50)	62.11	343.17
Pooled investment vehicles	9,519.91	-	-	1,670.54	(2,911.19)	2,109.38	10,388.64
UK property	1,890.93	-	-	42.54	(55.00)	(33.43)	1,845.04
	18,765.76	-	-	9,312.03	(9,359.36)	3,750.69	22,469.12
Derivatives							
Futures	6.81	-	-	476.14	(793.05)	320.03	9.93
FX contracts	(57.74)	-	-	1,929.83	(1,250.90)	(751.27)	(130.08)
Options	0.01	-	-	-	-	(0.01)	-
	(50.92)	-	-	2,405.97	(2,043.95)	(431.25)	(120.15)
Cross holdings	3,025.55	-	-	34.34	(330.98)	174.98	2,903.89
Other							
Cash and current assets	4,105.14	(742.34)	338.71	(11,752.34)	11,734.29	51.63	3,735.09
	25,845.53	(742.34)	338.71	-	-	3,546.05	28,987.95
Cross holdings	(3,025.55)						(2,903.89)
Net Assets	22,819.98						26,084.06



1.14 Transaction costs

Included within the pooled funds' purchases and sales in note 1.13 are direct transaction costs of £10.02m (2015: £16.47m) comprising mainly of fees, commissions, stamp duty land tax and legal fees. Included within pooled funds' expenses in note 1.4 are direct transaction costs of £0.53m (2015: £0.06m) relating to legal and due diligence fees.

Together these costs are attributable to the key asset classes as follows:

Year to 31 December 2016	Fees £m	Commission £m	Stamp duty land tax £m	Legal and other £m	Total £m
Equities	2.08	2.41	-	-	4.49
Futures	-	1.27	-	-	1.27
Pooled investment vehicles	-	2.83	-	0.65	3.48
UK property	-	-	0.53	0.78	1.31
	2.08	6.51	0.53	1.43	10.55

Year to 31 December 2015	Fees £m	Commission £m	Stamp duty land tax £m	Legal and other £m	Total £m
Equities	2.33	3.44	-	-	5.77
Fixed interest securities	-	0.04	-	-	0.04
Futures	-	2.01	-	-	2.01
Pooled investment vehicles	-	0.02	-	0.06	0.08
UK property	-	-	6.23	2.40	8.63
	2.33	5.51	6.23	2.46	16.53

Transaction costs are also borne by the pooled funds in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

1.15 Investment fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than the quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly

Level 3: Inputs are unobservable (i.e. for which market data is unavailable for the asset or liability)

The pooled funds' investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

At 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Directly held assets				
Equities	5,887.58	-	42.53	5,930.11
Fixed interest securities	3,215.93	746.23	-	3,962.16
Index linked securities	331.97	11.20	-	343.17
Pooled investment vehicles	156.29	5,568.29	4,664.06	10,388.64
UK property	-	-	1,845.04	1,845.04
Derivatives				
Futures	9.93	-	-	9.93
FX contracts	-	(130.08)	-	(130.08)
Other				
Cash and current assets	3,735.09	-	-	3,735.09
	13,336.79	6,195.64	6,551.63	26,084.06

At 31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Directly held assets				
Equities	4,006.11	-	20.17	4,026.28
Fixed interest securities	2,592.89	722.15	1.89	3,316.93
Index linked securities	11.71	-	-	11.71
Pooled investment vehicles	221.33	5,611.03	3,687.55	9,519.91
UK property	-	-	1,890.93	1,890.93
Derivatives				
Futures	6.81	-	-	6.81
Options	-	-	0.01	0.01
FX contracts	-	(57.74)	-	(57.74)
Other				
Cash and current assets	4,105.14	-	-	4,105.14
	10,943.99	6,275.44	5,600.55	22,819.98

1.16 Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The pooled funds have exposure to these risks because of the investments they make to implement their investment strategies. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the pooled funds' strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the pooled funds' investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the pooled funds' exposures to credit and market risks is set out as follows.

Credit risk

The pooled funds are subject to credit risk as they invest in fixed interest securities, OTC derivatives, have cash balances and undertake stock lending activities. The pooled funds also invest in pooled investment vehicles and are therefore directly exposed to credit risk in relation to the instruments they hold in the pooled investment vehicles and are indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Credit risk is analysed as follows by reference to the credit rating of the securities or the underlying transaction counterparties.

Securities or counterparties deemed to be investment grade generally have an investment rating of BAA3/ BBB or higher (depending on the rating firm used), meaning that there is a relatively low risk of default. Ratings below these are classed as non-investment grade as the risk of default is relatively higher. Some of the pooled funds holdings are not rated by a rating firm; generally these are the pooled investment vehicles which the pooled funds are invested in.

Analysis of direct credit risk

At 31 December 2016	Investment grade	Non investment grade	Unrated	Total
	£m	£m	£m	£m
Fixed interest securities	3,160.43	782.31	19.42	3,962.16
Index linked securities	343.17	-	-	343.17
Pooled investment vehicles	-	-	10,388.64	10,388.64
FX contracts	(130.08)	-	-	(130.08)
Cash	3,699.29	-	-	3,699.29
Stock lending	145.78	-	-	145.78
	7,218.59	782.31	10,408.06	18,408.96

At 31 December 2015	Investment grade	Non investment grade	Unrated	Total
	£m	£m	£m	£m
Fixed interest securities	2,930.19	314.13	72.61	3,316.93
Index linked securities	11.71	-	-	11.71
Pooled investment vehicles	-	-	9,519.91	9,519.91
Options	-	-	0.01	0.01
FX contracts	(57.78)	-	-	(57.78)
Cash	4,080.75	-	-	4,080.75
Stock lending	60.00	-	-	60.00
	7,024.87	314.13	9,592.53	16,931.53

Credit risk arising on fixed interest securities is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds, which are rated at least investment grade. The pooled funds also invest in high yield and emerging market bonds, some of which are non-investment grade. The Trustee manages the associated credit risk by requesting the investment managers to diversify their portfolios to minimise the impact of default by any one issuer.

Credit risk also arises on forward foreign currency contracts. There are collateral arrangements for some of these contracts and all counterparties are required to be at least investment grade. FX collateral balances are detailed in note 1.6.

The pooled funds lend certain fixed interest and equity securities under a Trustee approved stock lending programme. The Trustee manages the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. Details regarding stock lending are provided in note 1.12.

Cash is held within financial institutions which are at least investment grade credit rated.

The pooled funds holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2016 £m	2015 £m
Unitised insurance policies	5,160.86	5,316.46
Partnerships	4,008.77	3,711.59
Other managed funds	1,040.19	236.66
Hedge funds	178.67	254.70
Property partnerships	0.15	0.50
	10,388.64	9,519.91

Indirect credit risk arises in relation to underlying investments held in fixed interest pooled investment vehicles. The value of fixed interest pooled investment vehicles held at the year end was £1,166.92m (2015: £506.98m).

Currency risk

The pooled funds are subject to currency risk because some of the pooled funds' investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy.

The pooled funds' total net unhedged exposure by major currency at the year end was as follows:

	2016 £m	2015 £m
Currency		
US dollar	5,346.56	5,754.48
Euro	872.52	1,249.82
Japanese yen	195.61	570.96
Other	2,683.44	2,495.29
	9,098.13	10,070.55

Interest rate risk

The pooled funds are subject to interest rate risk on fixed interest securities and interest rate swaps held either as segregated investments or through pooled vehicles. At the year end, the pooled funds held the following investments that are subject to interest rate risk:

	2016 £m	2015 £m
Direct		
Fixed interest securities	3,962.16	3,316.93
Index linked securities	343.17	11.71
Fixed interest futures	(9.44)	5.39
Indirect		
Fixed interest pooled investment vehicles	1,166.92	506.98
	5,462.81	3,841.01

Other price risk

Other price risk arises principally in relation to the pooled funds investments in directly held equities, equities held in pooled vehicles, equity futures, property, property pooled investment vehicles, hedge funds and private equity.

The pooled funds manage this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

At the year end, the pooled funds exposure to investments subject to other price risk was:

	2016 £m	2015 £m
Direct		
Equities	5,930.11	4,026.28
UK property	1,845.04	1,890.93
Equity futures	19.37	1.42
Indirect		
Equity pooled investment vehicles	5,083.51	5,330.19
Private equity pooled investment vehicles	2,876.23	2,279.50
Infrastructure pooled investment vehicles	890.28	890.87
Other managed funds	192.88	257.17
Hedge funds	178.67	254.70
UK property pooled investment vehicles	0.15	0.50
	17,016.24	14,931.56

1.17 Investment managers during the year

The investment managers used by the pooled funds during the year together with their net assets under management at the year end were as follows:

	2016 £m	2015 £m
RPMI Railpen*	6,286.07	5,256.16
Legal & General Investment Management	4,855.88	5,001.83
Orchard Street	1,889.68	1,974.17
Northern Trust Asset Management	1,807.37	714.02
AQR Capital Management	1,693.14	1,452.33
Unigestion	988.43	775.62
Russell Investments (from March 2016)	815.59	-
Wellington Management Int	747.83	266.90
Insight Investment	640.01	625.59
Blackstone Alternative Asset Management	594.20	78.69
BlackRock Advisors (UK)	566.88	912.03
Horsley Bridge Partners	508.88	441.82
Lazard Asset Management	362.61	688.76
Intermediate Capital Group	348.46	306.28
Epoch Investment Partners	333.81	368.87
Alinda Capital Partners	298.68	293.51
Arcus Infrastructure Partners	251.31	224.41
Goldman Sachs Asset Management	193.04	229.35
Bridgewater Associates	192.88	257.17
HarbourVest Partners	165.85	174.67
Innisfree	142.37	119.23
Sequoia Capital	129.37	99.72
HealthCare Royalty Partners (from September 2016)	107.40	-
Adams Street Partners	106.53	96.23
Grosvenor Capital Management	96.65	157.77
Riverside Europe Fund Associates	88.04	7.37
Morningside Ventures	82.94	77.81
Cinven	82.71	143.34
Pantheon Ventures	77.71	75.77
Carried forward	24,454.32	20,819.42

*Included in this balance is cash invested in Liquidity Funds totalling £2,674.65m (2015 : £3,193.91m)

	2016 £m	2015 £m
Brought forward	24,454.32	20,819.42
Standard Life Investments	77.12	88.63
Apax Partners	75.65	102.35
Accel Partners	74.90	52.12
Bain Capital	73.68	67.78
OneFamily (from May 2016)	63.95	-
Westbridge Capital Partners	59.24	40.03
Long Harbour (from June 2016)	57.05	-
Khosla Ventures	55.23	42.30
Great Hill Partners	52.62	41.96
Columbia Capital	52.17	33.11
Hony Capital	43.22	33.70
Institutional Venture Partners	41.65	35.04
Warburg Pincus	40.96	37.42
Dalmore	40.20	39.36
Scale Venture Partners	39.78	35.20
Thoma Bravo	39.14	23.75
Balderton Capital	36.27	25.04
Pensions Infrastructure Platform (from January 2016)	35.57	-
Limerston Capital Partners (from July 2016)	34.28	-
General Atlantic	34.07	22.39
Ares Management	31.85	20.10
Charlesbank Capital Partners	30.45	24.92
Highland Capital Partners	28.87	21.36
Sankaty Advisors	28.14	20.01
Clearsight Investments	25.87	19.49
Venor Capital Management (from August 2016)	25.12	-
ClearVue Partners	24.38	16.44
Innovation Works	23.58	14.90
Anacap Financial Partners	22.33	25.21
Oaktree Capital Management	22.25	18.24
Private Advisors	21.36	16.89
Carried forward	25,765.27	21,737.16

	2016 £m	2015 £m
Brought forward	25,765.27	21,737.16
Orion Energy Partners (from March 2016)	20.46	-
H.I.G. Capital	20.32	13.78
CI Capital Investors	20.31	12.11
Innova	19.97	12.60
Domain Partners	18.90	15.07
Bessemer Venture Partners	18.25	13.68
WP Global Partners	17.93	6.95
Archer Capital	17.75	27.80
KPS Capital Partners	17.16	15.09
EQT Funds Management	15.82	22.71
Andreessen Horowitz	15.57	12.54
Berkshire Partners	15.32	10.36
Index Ventures	14.74	11.31
Navis Capital Partners	14.13	16.34
Blakeney General Partners	13.25	18.33
Southern Cross Group	11.75	9.47
Headland Capital Partners	11.33	11.87
Peak Rock Capital	10.28	6.43
General Catalyst	8.77	5.50
Abry Partners	7.04	5.24
Indicus Advisors	4.83	3.90
Triton Partners	4.57	4.48
Bridges Community Ventures	0.17	0.12
Governance For Owners Group	0.09	0.09
William Blair & Company	0.08	1.59
Longview Partners (to April 2016)	-	337.23
Dimensional Fund Advisors Ltd (to March 2016)	-	326.30
Marathon Asset Management (to August 2016)	-	158.71
Capital Dynamics (to November 2016)	-	3.22
	26,084.06	22,819.98

1.18 Benchmarks and targets

The performance of the Global Equity Pooled Fund is measured against a composite benchmark which at the year end comprised:

	2016 %	2015 %
FTSE All World North America Index	25.0	25.0
FTSE All Share Index	20.0	20.0
FTSE All World Developed Europe (ex UK) Index	20.0	20.0
FTSE All World Developed Asia Pacific (ex Japan) Index	20.0	20.0
MSCI Emerging Markets Free (net dividends reinvested) Index	15.0	15.0
	100.00	100.00

A passive hedging strategy is employed whereby 50% of the overseas developed markets currency exposure in the pooled fund is hedged back to Sterling. The target for the Global Equity Pooled Fund is to beat this benchmark by 0.5% over the long term.

The benchmarks and targets that all other pooled funds were measured against during the year are shown in the table below:

Pooled fund	Benchmark	Long term target
Growth	UK Retail Price Index	Benchmark + 4% pa
Private Equity	MSCI All Countries World Index	Benchmark + 1% pa
Property	IPD UK All Properties Index	Benchmark + 1% pa
Government Bond	Citigroup World Government Bond Index – ex Japan (hedged)	Benchmark + 0.5% pa
DC Global Equity	FTSE All World Index with Developed Markets hedged to GBP	Benchmark
DC Long Term Growth	UK Retail Price Index	Benchmark
DC Deposit	7 Day Sterling London Inter-Bank Intra Day Interest Rate	Benchmark
DC Index Linked and Global Bond	Composite benchmark comprising: 50% FTSE UK gilts index Linked >15 years Index 50% Barclays Global Aggregate Corporation (£ hedged) Index	Benchmark
DC Aggregate Bond	Composite benchmark comprising: 50% FTSE British Government over 15 years Index 50% Barclays Global Aggregate Corporation (£ hedged) Index	Benchmark
Infrastructure	UK Retail Price Index	Benchmark + 4% pa
Passive Equity	FTSE All World Index with Developed Markets hedged to GBP	Benchmark
Non Government Bond	Barclays Capital Global Aggregate Corporate Index (£ hedged)	Benchmark + 0.75% pa
Cash	7 Day Sterling London Inter-Bank Intra Day Interest Rate	Benchmark
Illiquid Growth	UK Retail Price Index	Benchmark + 4 - 6% pa
Index Linked	FTSE UK gilts – Index Linked > 15 years Index	Benchmark
Long Term Income	UK Retail Price Index	Benchmark + 0 - 2% pa

1.19 Performance

The return of each pooled fund as measured by State Street Global Services Performance Services and RPMI is shown in the table below:

Pooled fund	Actual 2016	Target 2016	Benchmark 2016	Actual last 5 years	Target last 5 years	Benchmark last 5 years
	(%)	(%)	(%)	(%)	(%)	(%)
Growth	17.3	6.5	2.5	9.6	6.8	2.2
Private Equity	26.1	30.4	29.4	15.5	16.1	15.1
Property	2.9	3.6	2.6	9.4	10.6	9.6
Government Bond	5.8	5.0	4.5	4.5	4.7	4.2
Infrastructure	24.1	6.5	2.5	19.8	6.2	2.2
Passive Equity ¹	10.3	10.2	10.2	12.8	12.9	12.9
Global Equity	19.2	18.6	18.6	12.9	12.1	12.1
Non Government Bond	6.1	6.6	5.8	5.2	5.3	4.6
Cash	0.6	0.3	0.3	0.5	0.4	0.4
Illiquid Growth ¹	11.9	6.5 - 8.5	2.5	11.9	6.5 - 8.5	2.5
Index Linked	32.6	32.5	32.5	11.2	11.2	11.2
Long Term Income ¹	0.1	2.5 - 4.5	2.5	0.1	2.5 - 4.5	2.5
DC Long Term Growth ¹	16.9	2.5	2.5	8.5	1.9	1.9
DC Deposit ¹	0.5	0.3	0.3	0.5	0.3	0.3
DC Global Equity ¹	10.2	10.2	10.2	6.9	6.8	6.8
DC Aggregate Bond ¹	12.2	12.3	12.3	6.4	6.2	6.2
DC Index Linked and Global Bond ¹	18.6	19.0	19.0	7.8	7.9	7.9

¹ These pooled funds have been in existence for less than five years, therefore the figures given in the table are since inception returns rather than five year returns.

