



2017 Annual Report and Audited Financial Statements



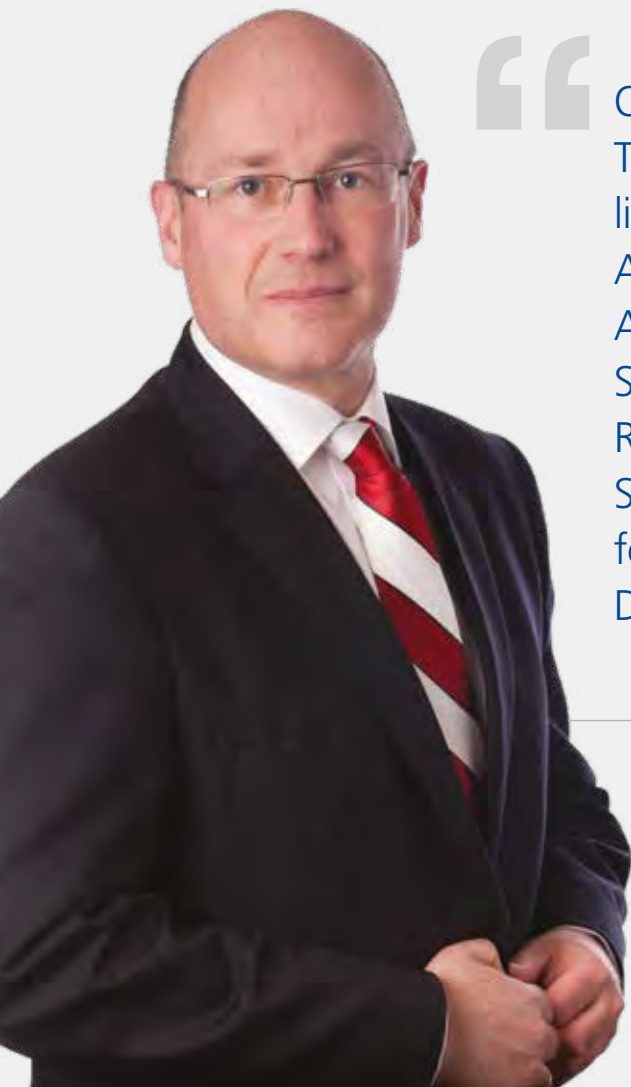
We work hard to deliver our mission: to pay members' pensions securely, affordably and sustainably.

In doing so, we help thousands of members of the railways pensions schemes enjoy their lives after work.



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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 2017. ”

The year was a mixed one for investment returns. The Growth Pooled Fund, which is the largest investment of the Scheme, recorded absolute gains of 11.6% against a comparator of 8.3%. However the Scheme's second largest investment, the Private Equity Pooled Fund, recorded annual gains behind its comparator: 8.6% against a comparator of 13.2%. The Infrastructure Pooled Fund and the Long Term Income Pooled Fund also delivered returns behind their comparators. Due to the unquoted nature of the investments in these pooled funds, there is a time lag for revised information on underlying investments to flow through to the valuation of these pooled funds, which can impact on when performance is recognised. All other pooled funds, including the Scheme's other significant holdings such as the Passive Equity Pooled Fund, Government Bond Pooled Fund and Global Equity Pooled Fund returned gains in excess of, or equal to, their comparators. During 2017 we amended the method of calculating pooled fund performance and prior year numbers have been restated. For more information on these changes, please refer to Appendix J.

2017 saw the continued implementation of many of the initiatives begun in the previous years, as we increased our in-house trading capability – particularly in respect of equity investing through ARP strategies. These identify underlying drivers of return and build portfolios cheaply and systematically. This year also saw us build an in-house property management team and transfer all commercial property assets from the external manager. This significant development will facilitate better control of the Scheme assets, improved strategic planning and cost efficiencies.

2017 also saw changes to the Index Linked Pooled Fund which changed from an externally-managed passive fund to an internally-managed fund and was renamed the Long Duration Index Linked Bond Pooled Fund. We also launched the Short Duration Index Linked Bond Pooled Fund, which is managed internally on a buy and maintain basis.

As stated in the 2016 annual report, we are also implementing a change programme for administration and Trustee services, 'Chrysalis'. This programme includes the replacement of the current pension administration system, but is intended to deliver much more than that. It will transform the way in which RPMI, our administration business, operates. Throughout Chrysalis we have spoken with our many stakeholders, a process that will continue during the final stages of implementation, as we work to deliver a range of services that meet as many of those needs as possible. We always remain aware that the railways pension schemes cover 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.

As communicated in the annual report last year, 2017 saw the launch of the second phase of the programme and all pensioners are now being administered and paid on the new system. Work continues on the remaining phase of the programme which is scheduled for launch in late 2018. The final phase of the programme is the transfer of all active and deferred members onto the new system, and includes a complete rationalisation of the way member contributions are received.

Throughout 2018 we will continue engaging with employers and other stakeholders as we deliver this exciting change, and keep investing in RPMI to maintain a quality service for our members that demonstrates excellent value for money, and meets the needs of the modern world.

I would like to take this opportunity to record my gratitude to all the Trustee Directors who have served during the year. The demands on Trustee Directors' time continues to increase in order to meet regulatory changes and compliance requirements, whilst ensuring that pensions can continue to be paid securely, sustainably and affordably. 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 that can represent effectively the interests of its many stakeholders.

John Chilman,
Chairman of the Trustee Company



For life after work

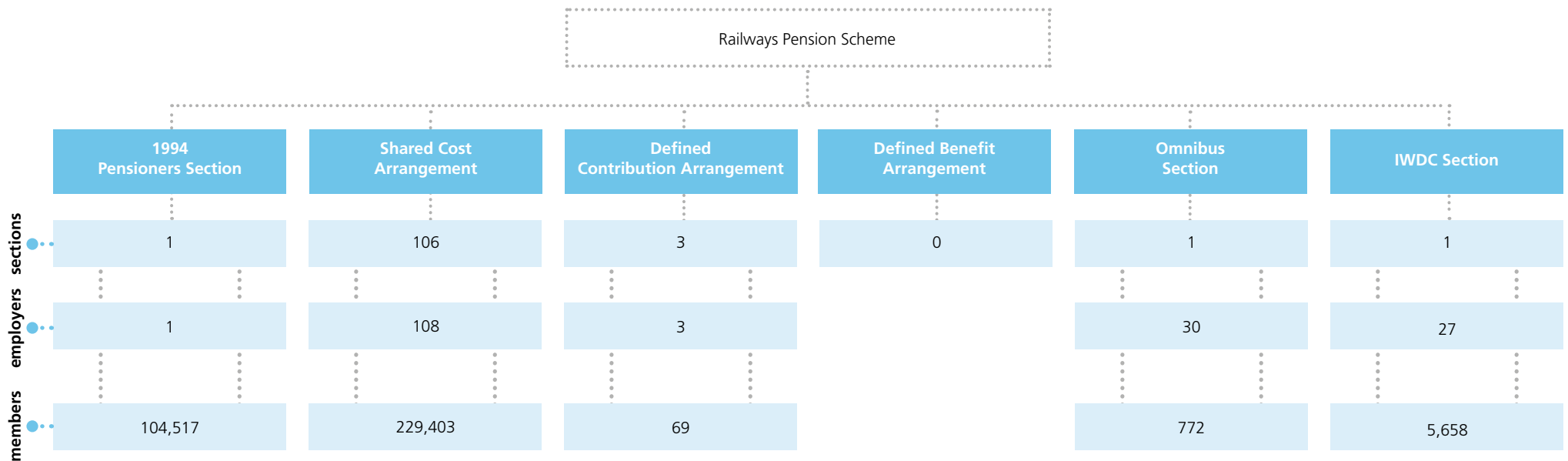
A man is lying in a colorful striped hammock in a park. He is wearing a blue and white striped shirt, blue trousers, and a wide-brimmed straw hat. His hands are clasped in his lap, and his feet are visible at the end of the hammock. The background is a lush green park with trees and a grassy area.

The Railways Pension Scheme

For the relaxation

The 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 and one of the largest schemes in the UK, and provides pensions for 156 (2016: 156) 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 IWDC Section. Employers may participate in more than one arrangement and in more than one section of the Shared Cost Arrangement. There are 112 sections (2016: 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 RPS 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 DfT.

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 a 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 2017, 93 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 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 2017, 30 employers (2016: 29 employers) were part of the Omnibus Section. A full list of participating employers is given in Note 11 to the 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 Arrangement 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 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 2017, 27 employers were part of this Arrangement (2016: 30 employers).

At 31 December 2017, there were three defined contribution sections (2016: 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

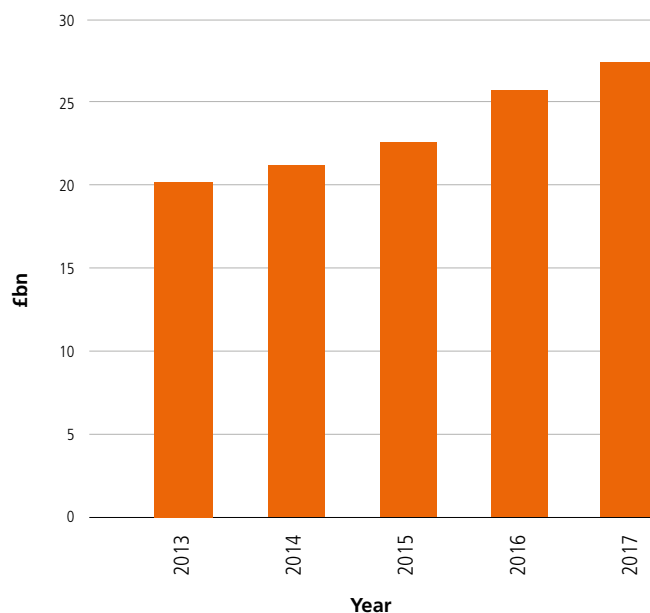
For the enjoyment

Five-year summary of RPS participation

	2017	2016	2015	2014	2013
Sections	112	113	113	110	111
Employers	177	179	186	178	197
Active membership	92,472	93,938	90,574	89,336	87,528
Preserved membership	107,400	105,350	106,793	107,714	108,440
Pensioners	140,547	138,731	140,366	139,998	141,472
Total membership	340,419	338,019	337,733	337,048	337,440

Five-year summary of net assets of RPS

Total assets of the Scheme

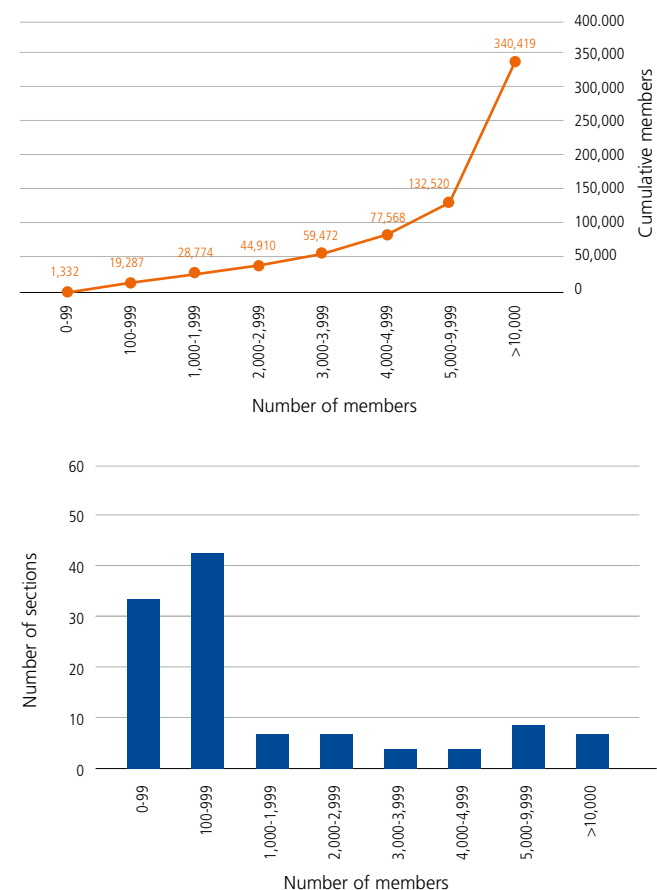


Five-year summary of financial statements of RPS

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Scheme benefits					
Pensions	792	775	776	742	725
Lump sums*	221	204	181	182	132
Death benefits	22	23	26	19	22
Total benefits	1,035	1,002	983	943	879
Scheme income					
Members' contributions	281	288	292	288	270
Employers' contributions	362	382	402	377	366
Government support	16	19	18	21	23
Total contributions	659	689	712	686	659
Net transfer values	(29)	(54)	(13)	(215)	(220)
Admin expenses	(20)	(20)	(18)	(18)	(20)
PPF levies	(39)	(34)	(27)	(28)	(30)
Net investment income	290	319	241	331	320
Change in market value	2,132	3,206	877	1,734	1,377
Net increase in the Scheme	1,958	3,104	789	1,547	1,207
Net assets of the Scheme	27,503	25,545	22,441	21,652	20,105

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

Comparison of membership of sections



Key statistics for 2017

Total Membership	340,419
Net increase in the Scheme	£1,958m
Net assets of Scheme	£27,503m



Independent
Auditor's Report

For the hobbies and interests

Independent Auditor's report to the Trustee of the Railways Pension Scheme for the year ended 31 December 2017

Opinion

We have audited the financial statements of the Railways Pension Scheme ('the Scheme') for the year ended 31 December 2017 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 2.

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 2017 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 accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least 12 months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the Chairman's introduction. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work, we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 25, the Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme 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 Scheme 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 Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

Fang Fang Zhou

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

10 May 2018



**Audited
Financial Statements**

For the adventure

Fund account for the year ended 31 December 2017

	Note	2017 DB £m	2017 DC £m	2017 Total £m	2016 Total £m
Contributions and benefits					
Member's contributions	3	278	3	281	288
Employer's contributions	3	369	9	378	401
Individual transfers in		14	1	15	13
		661	13	674	702
Pensions		(792)	-	(792)	(775)
Group transfers out	4	(6)	-	(6)	(51)
Lump-sum retirement benefits		(219)	(1)	(220)	(204)
Death benefits		(21)	(1)	(22)	(23)
Individual transfers out		(36)	(2)	(38)	(15)
Taxation where lifetime or annual allowance exceeded		(1)	-	(1)	(1)
		(1,075)	(4)	(1,079)	(1,069)
Administrative expenses	5	(20)	-	(20)	(20)
PPF levies		(39)	-	(39)	(34)
Total withdrawals		(1,134)	(4)	(1,138)	(1,123)
Net (withdrawals)/additions from dealings with members		(473)	9	(464)	(421)
Returns on investments					
Change in market value	6	2,411	11	2,422	3,525
Net returns on investments		2,411	11	2,422	3,525
Net increase in the Scheme during the year		1,938	20	1,958	3,104
Net assets at the start of the year		25,480	65	25,545	22,441
Net assets at the end of the year		27,418	85	27,503	25,545

The notes numbered 1 to 11 on pages 14 to 24 form an integral part of these audited financial statements.

Statement of net assets (available for benefits) as at 31 December 2017

	Note	2017 DB £m	2017 DC £m	2017 Total £m	2016 Total £m
Pooled funds	6	25,126	82	25,208	23,354
Securities directly held by Schemes	6	2,251	-	2,251	2,149
Other cash and cash instruments	6	56	3	59	61
Current assets	7	40	-	40	33
Current liabilities	8	(55)	-	(55)	(52)
Net assets at the end of the year	11	27,418	85	27,503	25,545

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 10 May 2018.

John Chilman
Chairman, Trustee Company

John Mayfield
Director and Chairman, Audit and Risk Committee

Notes to the audited financial statements for the year ended 31 December 2017

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).

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:

- 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.

- 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.

- BRASS AVC holdings in pooled investment vehicles are stated at fair value at the year-end date as advised by the manager. The 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.

- 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. The Government Actuary, Martin Clarke, is joint Actuary for the 1994 Pensioners Section and the BR Section.

- 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 comprise gains and/or losses on investments arising in the year and reinvested investment income.

Investment income arising from the underlying investments of pooled funds 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 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 levies

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

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. 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.

Tax

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



3. Contributions receivable

	2017 DB £m	2017 DC £m	2017 Total £m
Members' contributions			
Normal	199	2	201
Additional voluntary contributions	68	1	69
Deficit funding	11	-	11
	278	3	281
Employers' contributions			
Normal	285	9	294
Deficit funding	51	-	51
Government support	16	-	16
BRASS matching	10	-	10
Augmentation	7	-	7
	369	9	378
	647	12	659
	2016 DB £m	2016 DC £m	2016 Total £m
Members' contributions			
Normal	210	2	212
Additional voluntary contributions	62	-	62
Deficit funding	14	-	14
	286	2	288
Employers' contributions			
Normal	305	7	312
Deficit funding	55	-	55
Government support	19	-	19
BRASS matching	12	-	12
Augmentation	3	-	3
	394	7	401
	680	9	689

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

During 2017, there were 159 instances of late payment of contributions with a total value of £4.7m, which represents 0.15% of contributions payable under the schedules of contributions. The largest individual amount was £1,109,010, which was paid one day after the due date. Of the 159 instances of late payment two were reported to the Pensions Regulator totalling £37.

Further information on contribution rates can be found in the Report on Actuarial Liabilities on pages 47 to 49. Further information on government support can be found on page 45.

4. Group transfers out

Group transfers out of £4.5m relate to the transfer of the Lionverge Section to the PPF in October 2017.

The remaining group transfers out of £1.5m relate to transfers to the PPF following realisation of RPS assets in relation to Jarvis Facilities, Fastline, Relayfast and Railcare Sections, as well as the Bridgen Holdings Ltd, Catalis Ltd, North South Communications, Vital Rail Ltd and Western Track Engineering Ltd employers within the Omnibus Section.

5. Administrative expenses

	2017 £m	2016 £m
Pensions administration	(10)	(10)
Actuarial fees	(3)	(3)
Trustee governance	(2)	(2)
Other overheads	(2)	(2)
Other professional fees	(1)	(1)
Legal fees	(1)	(1)
Communications	(1)	(1)
	(20)	(20)

Pensions administration charges cover the processing of member transactions and preparation of financial statements and other reports. These activities are carried out by RPMI and are allocated in line with the per capita charge.

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 2016 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 December 2017 £m
Pooled funds					
Growth	15,323	190	(165)	1,780	17,128
Private Equity	2,389	39	(398)	134	2,164
Government Bond	1,825	79	(154)	6	1,756
Passive Equity	781	-	(16)	145	910
Global Equity	713	-	(81)	117	749
Non Government Bond	587	4	(40)	29	580
Infrastructure	866	-	(320)	33	579
Illiquid Growth	249	140	-	27	416
Long Term Income	90	201	-	2	293
Cash	288	-	-	1	289
Long Duration Index Linked Bond	180	-	(3)	5	182
Short Duration Index Linked Bond	-	80	-	-	80
	23,291	733	(1,177)	2,279	25,126
Directly held securities					
BRASS and other AVCs	1,458	152	(192)	115	1,533
Substitution orders	691	9	-	17	717
Annuities		1	-	-	1
	25,440	895	(1,369)	2,411	27,377
Cash and other assets	40				41
	25,480				27,418
DC Section					
DC Section	Value at 31 December 2016 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 December 2017 £m
DC Pooled Fund	63	13	(5)	11	82
Cash and other assets	2				3
	65				85

BRASS investments include 161,137,701 units in the PAF (2016: 178,975,211 units). Further information on the PAF can be found on page 46.

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.

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 fund assets that relate to RPS investments are shown in the table, right.

	% of pooled fund owned by the RPS 31.12.17	% of pooled fund owned by the RPS 31.12.16
Pooled Funds		
Passive Equity	100.0	100.0
Non Government Bond	96.7	96.8
Private Equity	95.9	96.0
Cash	95.4	89.8
Infrastructure	95.3	95.3
Growth	94.7	94.5
Global Equity	94.2	94.2
Government Bond	89.6	88.6
Illiquid Growth	88.8	88.1
Long Term Income	88.7	88.2
Long Duration Index Linked Bond	87.5	84.3
Short Duration Index Linked Bond	70.5	-

(b) Investment risks

The total value of the pooled funds used in the percentage calculations only include scheme investments in the pooled funds and so exclude 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).

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

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

DB Section At 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Pooled funds				
Growth	-	17,128	-	17,128
Private Equity	-	-	2,164	2,164
Government Bond	-	1,756	-	1,756
Passive Equity	-	910	-	910
Global Equity	-	749	-	749
Non Government Bond	-	580	-	580
Infrastructure	-	-	579	579
Illiquid Growth	-	-	416	416
Long Term Income	-	-	293	293
Cash	-	289	-	289
Long Duration Index Linked Bond	-	182	-	182
Short Duration Index Linked Bond	-	80	-	80
	-	21,674	3,452	25,126
BRASS and other AVCs	-	1,533	-	1,533
Substitution orders	-	-	717	717
Annuities	-	1	-	1
Cash and other assets	41	-	-	41
	41	23,208	4,169	27,418
DC Section				
At 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
DC Pooled Fund	-	82	-	82
Cash and other assets	3	-	-	3
	3	82	-	85

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
Passive Equity	-	781	-	781
Global Equity	-	713	-	713
Non Government Bond	-	587	-	587
Cash Fund	-	288	-	288
Illiquid Growth	-	-	249	249
Long Duration Index Linked Bond	-	180	-	180
Property	-	90	-	90
	-	19,787	3,504	23,291
BRASS and other AVCs	-	1,458	-	1,458
Substitution orders	-	-	691	691
Cash and other assets	40	-	-	40
	40	21,245	4,195	25,480
DC Section				
At 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
DC Pooled Fund	-	63	-	63
Cash and other assets	2	-	-	2
	2	63	-	65

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

	2017 £m	2016 £m
Contributions due from employers	28	28
PPF levies	10	5
Investment debtor	2	-
	40	33

At the year-end £687,000 (2016: £720,000) of contributions on the schedules of contributions were not paid by their due date. Of this amount, £443,000 (2016: £596,000) has since been paid and £244,000 (2016: £124,000) remains outstanding as at the date of signing these financial statements.

8. Current liabilities

	2017 £m	2016 £m
Administration expenses	(5)	(2)
Benefits payable	(6)	(4)
Taxation and social security	(8)	(8)
Assets payable to the PPF	(36)	(38)
	(55)	(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 2017, administration expenses within current liabilities included a liability of £2.9m in respect of these charges (2016: a liability of £2.5m).

At 31 December 2017, 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 Pension 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 2017, 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 2017 are shown below:

Section	Employer	Total membership as at 31 December 2017	Net assets as at 31 December 2017 £m
Shared Cost Arrangement			
1994 Pensioners*	The Secretary of State for Transport	104,517	3,522
Abellio	Abellio Transport Holdings Ltd	46	9
Abellio Scotrail	Abellio ScotRail Ltd	8,544	772
AECOM	AECOM Infrastructure & Environment UK Ltd	215	52
Alpha Trains	Alpha Trains (UK) Ltd	27	9
ALSTOM Railways	ALSTOM Transport UK Ltd	2,284	182
ALSTOM Signalling	ALSTOM Transport UK Ltd	85	25
AMCO	Amalgamated Construction Ltd	17	2
Amey Rail	Amey Services Ltd	2,436	216
Angel Trains	Angel Trains Limited	237	63
Anglia Railways	Abellio East Anglia Limited	975	114
Arriva Trains Wales	Arriva Trains Wales/Trenau Arriva Cymru Ltd	3,938	371
Atkins	Atkins Ltd	859	247
ATOC	ATOC Limited	591	63
Atos	ATOS IT Services UK Ltd Atos UK International IT Services Ltd	1,108	222
Babcock Rail Ltd	Babcock Rail	2,307	263
Balfour Beatty	Balfour Beatty Group Employment Ltd	3,065	336
BAM Nuttall	BAM Nuttall Ltd	10	2

Section	Employer	Total membership as at 31 December 2017	Net assets as at 31 December 2017 £m
Bombardier Transportation (Signal) UK	Bombardier Transportation UK Ltd	374	51
Bombardier Transportation c2c	Bombardier Transportation UK Ltd	164	9
Bombardier Transportation UK	Bombardier Transportation UK Ltd	1,182	128
BR*	The Secretary of State for Transport BRB (Residuary) Ltd Channel Tunnel Rail Link Ltd London & Continental Railways Ltd London Underground Ltd Scottish Ministers	891	145
British Transport Police	British Transport Police Authority	4,635	156
BT	British Telecommunications plc	317	18
BUPA Occupational Health	Occupational Health Care Limited	96	11
Caledonian Sleepers Ltd	Serco Caledonian Sleepers Limited	143	7
Carillion Rail (Centrac)	Carillion Construction Limited***	361	38
Carillion Rail (GTRM)	Carillion Construction Limited***	3,979	285
Carlisle Cleaning Services Ltd	Carlisle Cleaning Services Ltd	62	2
Chiltern Railway Co. Ltd (Maintenance)	The Chiltern Railway Company Ltd	294	25
Clientlogic	Clientlogic (UK) Ltd	64	5
Colas Rail	Colas Rail Ltd	2,223	193
COMATEC	COMATEC UK Ltd**	28	2
Crossrail	Crossrail Limited	970	71
CSC Computer Sciences	CSC Computer Sciences Ltd	10	1
DB Cargo (UK) Ltd	DB Cargo Rail (UK) Limited DB Cargo Rail Services Limited DB Cargo Rail (UK) Holdings Limited	10,550	1,267

Section	Employer	Total membership as at 31 December 2017	Net assets as at 31 December 2017 £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 Limited DB Cargo International Limited			London and North Western Railway	London and North Western Railway Company Limited	66	11
East Coast Main Line	East Coast Main Line Company Limited	8,228	598	London Eastern Railway (West Anglia)	Abellio East Anglia Limited	965	110
East Midlands	East Midlands Trains Limited	4,712	387	London Overground	Arriva Rail London Limited	2,170	175
Eurostar	Eurostar International Limited	4,416	448	London Underground	London Underground Limited	45	2
Eversholt Rail (UK) Ltd	Eversholt Rail (UK) Limited	116	43	Merseyrail	Merseyrail Electrics 2002 Ltd	2,572	212
First Great Western	First Greater Western Limited	12,861	996	MITIE Facilities Services	MITIE Limited	43	1
Freightliner	Freightliner Limited Freightliner Heavy Haul Limited Freightliner Maintenance Limited Management Consortium Bid Limited	3,580	424	Mouchel Parkman Rail Ltd	Kier Rail Limited	5	1
GB Railfreight	GB Railfreight Limited	427	69	MTR Crossrail	MTR Corporation (Crossrail) Limited	545	50
Global Crossing	Century Link Communications UK Limited	229	47	National Express Services Ltd	National Express Services Ltd**	142	3
Govia Thameslink Railway (Southern & Gatwick Express)	Govia Thameslink Railway Limited	10,793	698	Network Rail	Network Rail Infrastructure Ltd	47,103	6,900
Govia Thameslink Railway	Govia Thameslink Railway Limited	6,620	446	New Cross Country	XC Trains Ltd	4,333	422
Great Eastern Railway	Abellio East Anglia Limited	2,144	234	Northern (ex North West)	Arriva Rail North Limited	5,532	467
Halcrow Rail	Halcrow Group Limited	240	52	Northern (ex North East)	Arriva Rail North Limited	5,889	546
HS1	HS1 Limited	34	9	Omnibus*****	Aggregate Industries UK Ltd	772	114
Hull Trains	Hull Trains Company Limited	99	9		Belmond (UK) Limited		
Intelenet Global BPO (UK) Limited	Intelenet Global BPO (UK) Limited**	6	-		Bombardier Transportation UK Ltd		
Island Line	First MTR South Western Trains Limited	91	9		CapGemini UK plc		
ISS Transport Services	ISS Facility Services Limited	204	8		Cats Solutions Ltd		
Knorr-Bremse RailServices	Knorr-Bremse RailServices (UK) Ltd	66	1		CSC Computer Sciences Ltd		
London & South Eastern Railway Ltd	London & South Eastern Railway Limited	10,019	807		Daisy IT Services Limited		
					DHL Services Limited		
					EB Central Services Ltd		
					Forth and Oban Limited		
					Harsco Rail Limited		

Section	Employer	Total membership as at 31 December 2017	Net assets as at 31 December 2017 £m
	Keolis (UK) Ltd		
	Loram UK Limited		
	Lorne Stewart Plc		
	MITIE Cleaning & Environmental Services Ltd		
	MITIE Technical Facilities Management Ltd		
	O2 Unify Limited		
	Rail Operations (UK) Limited		
	Servest Group Limited		
	Signet Solutions Ltd		
	Stagecoach Supertram Maintenance Ltd		
	Staveley Industries PLC T/A Integral		
	Telent Technology Services Limited		
	TeleTech UK Ltd		
	Voestalpine VAE UK Ltd		
	VolkerRail Specialist Businesses Ltd		
	Vossloh Cogifer UK Limited		
	Weedfree Ltd		
	West Coast Railway Company Limited		
	Wetton Cleaning Services Ltd		
Owen Williams Railways	Amey Services Limited	323	71
Porterbrook	Porterbrook Leasing Company Ltd Porterbrook Maintenance Ltd	174	47
Qjump	Qjump Limited	127	5

Section	Employer	Total membership as at 31 December 2017	Net assets as at 31 December 2017 £m
Rail Gourmet UK Ltd	Rail Gourmet UK Ltd Rail Gourmet International Ltd	423	34
Resonate Group (Link)	Resonate Group Limited	201	37
Resonate Group (Rail)	Resonate Group Limited	275	79
Resonate Group (TCI)	Resonate Group Limited	124	30
	RPMI RPMI Ltd	747	83
	RSSB Rail Safety and Standards Board Limited	620	96
	Serco SERCO Limited	551	70
	Siemens Siemens plc	91	12
	SNC-Lavalin Rail & Transit SNC-Lavalin Rail & Transit Limited	334	62
	Socotec UK Limited Socotec UK Limited Socotec Asbestos Limited	296	30
	South Western Railway First MTR South Western Trains Limited	12,056	927
Specialist Computer Centres	Specialist Computer Centres	31	3
	Stadler Rail Stadler Rail Service UK Limited****	144	-
	Swirl Service Group ISS Facility Services Ltd****	8	-
	Tata Steel UK Ltd TSP Projects Limited	548	56
	Thales Information Systems Thales UK Ltd	22	5
Thales Transport and Security	Thales Transport and Security Limited Thales UK Limited Thales Ground Transportation Systems UK Limited	1,940	310
	The Chiltern Railway Company The Chiltern Railway Company Ltd	1,484	147
	The QSS Group Ltd The QSS Group Limited RIQC Limited	74	10
	Torrent Trackside Ltd Torrent Trackside Limited	10	1
	TransPennine Express (Former Arriva Trains Northern) First Transpennine Express Ltd	1,036	109

Section	Employer	Total membership as at 31 December 2017	Net assets as at 31 December 2017 £m
TransPennine Express (Former North Western Trains)	First Transpennine Express Ltd	669	57
Trenitalia c2c Ltd	Trenitalia c2c Limited	1,714	121
Unipart Rail - NRS	Unipart Rail Limited	607	69
Unipart Rail - Railpart	Unipart Rail Limited	356	55
Unisys	Unisys Limited	29	4
UPS	UPS Limited	344	47
Voith	Leadec Limited	22	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	1,023	138
West Coast Trains Ltd	West Coast Trains Limited	8,236	711
Westinghouse Rail Systems	Siemens Rail Automation Holdings Ltd	898	221
West Midlands Trains	West Midlands Trains Ltd	6,245	511
Worldline IT Services UK Ltd	Worldline IT Services UK Ltd	163	62
Wrexham, Shropshire & Marylebone Railway Company	Wrexham, Shropshire & Marylebone Railway Company Ltd**	28	1
Shared Cost Arrangement Total		334,692	27,418
Defined Contribution Arrangement	c2c Rail Ltd****	18	-
	Wales and West Passenger Trains Ltd****	2	-
	West Anglia Great Northern Railway****	49	-
Defined Contribution Arrangement Total		69	-

Section	Employer	Total membership as at 31 December 2017	Net assets as at 31 December 2017 £m
Industry-Wide Defined Contribution Section	Abellio Greater Anglia Ltd	5,658	85
	Abellio East Anglia Limited		
	Arriva Rail North Limited		
	Babcock Rail Ltd		
	East Coast Main Line Company Ltd		
	East Midlands Trains Ltd		
	Eversholt Rail (UK) Ltd		
	First MTR South Western Trains Limited		
	First Transpennine Express Ltd		
	Freightliner Ltd		
	GB Railfreight Ltd		
	Global Travel Ventures Ltd		
	Hull Trains Company Ltd		
	MTR Corporation (Crossrail) Ltd		
	Porterbrook Leasing Company Ltd		
	Qjump Ltd		
	Rail Gourmet UK Ltd		
Rail Gourmet waterloo International Ltd			
RPMI Ltd			
Southern Railway Ltd			
Swietelsky Construction Company Ltd			
Tata Steel UK Ltd			

Section	Employer	Total membership as at 31 December 2017	Net assets as at 31 December 2017 £m
	Tedipay (UK) Ltd		
	The Chiltern Railway Company Ltd		
	Tram Operations Ltd		
	Unipart Rail Ltd		
	VolkerRail Limited		
	Total	340,419	27,503

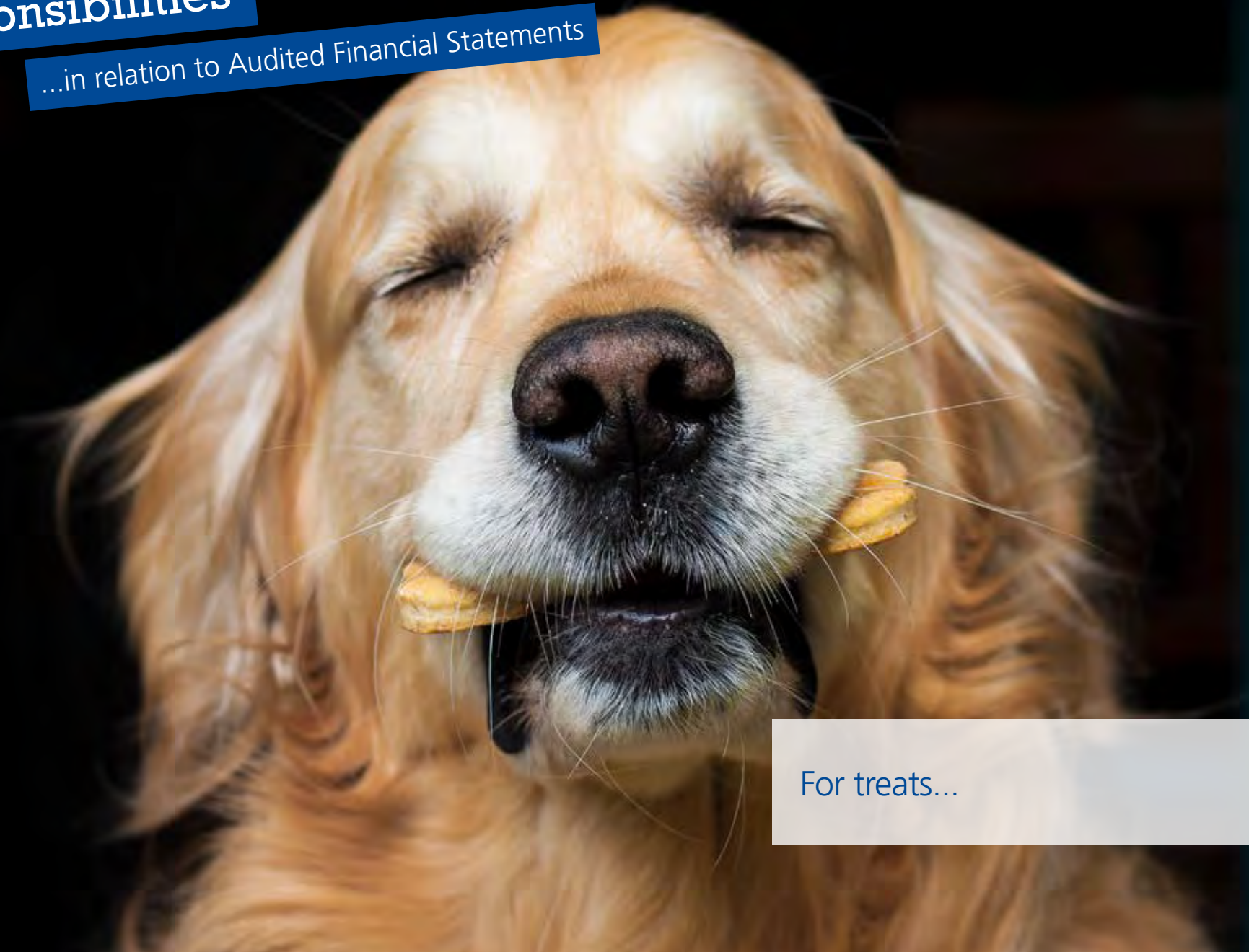
For those sections that have more than one participating employer, the designated employer is shown in bold.

- * Denotes sections with a Crown Guarantee
- ** Denotes employers that were in administration or no longer trading as at 31 December 2017
- *** Denotes employers that went into administration after 31 December 2017 and sections that are currently in a PPF assessment period
- **** Denotes assets less than £0.5m
- ***** Employers with active members only



Statement of Trustee responsibilities

...in relation to Audited Financial Statements



For treats...

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 Standard 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:

(i) 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

(ii) 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:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and

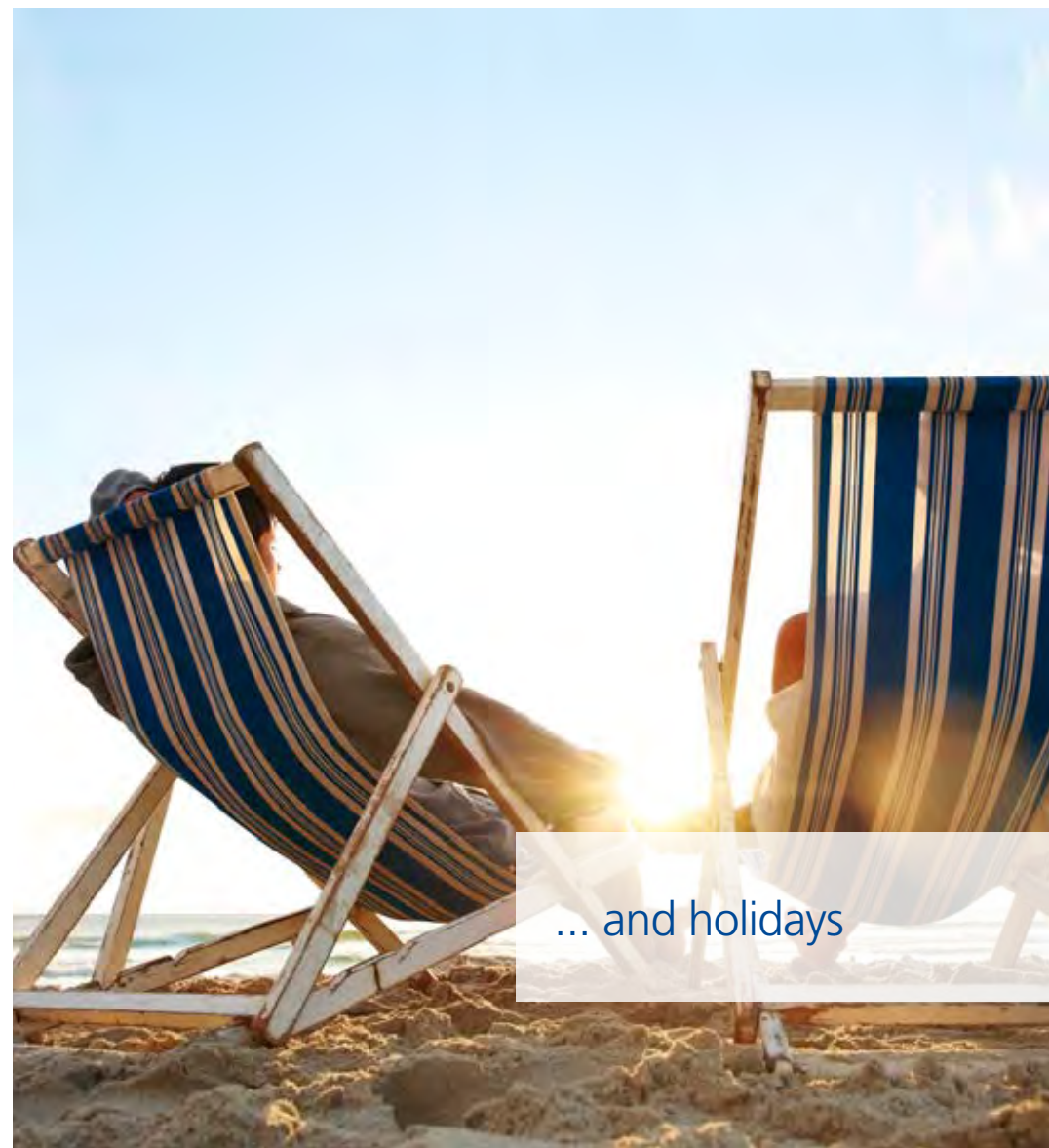
- making available each year, commonly in the form of a Trustee annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

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 10 May 2018.



... and holidays

A close-up, profile view of a smiling Black couple looking towards the left. The woman has her hair in braids and is wearing a dark green top. The man is wearing a grey sweater. They are outdoors, with a body of water and autumn-colored trees in the background.

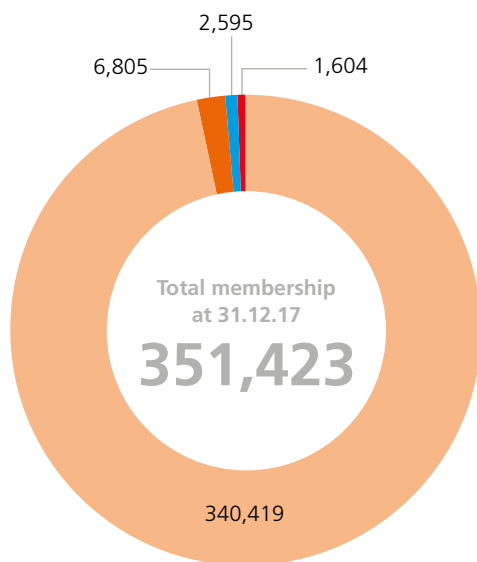
The Trustee Company Annual Report

For the good days...

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 RPS 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 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.

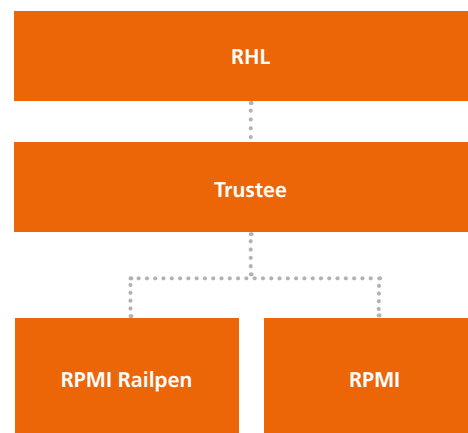
Total membership at 31.12.17

Railways Pension Scheme	340,419
British Transport Police Force Superannuation Fund	6,805
British Railways Superannuation Fund	2,595
BR (1974) Fund	1,604
Total	351,423

There are 16 directors in total, eight elected by the members of RHL ('employer directors') and eight on behalf of the members of the railways 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 2017



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 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 2017 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 2017 was as follows:

Name	Position
 Babloo Ramamurthy (Chair)	Independent Director
 Chris Hitchen (resigned 31 December 2017)	Chief Executive
 Julian Cripps	Managing Director, Investments Business
 David Maddison	Managing Director, Scheme
 David Gott (appointed 4 August 2017)	Trustee Director
 Chris Hannon	Trustee Director
 Richard Jones	Trustee Director
 Gary Towse	Trustee Director
 Dave Tyson (resigned 4 August 2017)	Trustee Director

Phil Willcock, Chief Executive, and Paul Sturgess, Managing Director, Pension Business, were both appointed to the RPMI Board on 1 February 2018.

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

Project Chrysalis ('Chrysalis') remained the most significant strategic project for the RPMI Board in 2017. Chrysalis will replace the pensions administration system RPMI uses for the railways schemes and modernise the way it delivers its services through multi-channel distribution. During the year, the project passed its second major milestone with the administration of existing pensions in payment moving on to the new platform, meaning that at year-end over 147,000 pensions were being administered on the new platform. Nevertheless, the project has not been without its challenges. Whilst such challenges 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 RPMI Board. Completion of the system build is expected in late 2018, with clients cut over onto the platform across the first half of 2019.

As in previous years, significant RPMI resources are required to manage Chrysalis. The RPMI Board spent considerable time therefore ensuring that regular business activities continued to be concluded satisfactorily. In respect of these activities, service standards were maintained and RPMI's financial performance was ahead of targets for the year.

The RPMI Board continued to increase 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 'Activity of RPMI Railpen', opposite.

RPMI Railpen

RPMI Railpen is authorised by the 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 2017, the membership of the RIB was as follows:

Name	Position	Date of appointment (new members)	Date of resignation (if applicable)
 Paul Trickett (Chair)	Independent Director		
 John Chilman	Trustee Director	7 February 2017	31 October 2017
 Meliha Duymaz	Trustee Director	27 November 2017	
 Chris Hitchen	Chief Executive		31 December 2017
 Angelen Kemna	Independent Director		
 John Mayfield	Trustee Director		
 Karl Sternberg	Independent Director		

Phil Willcock, Chief Executive, was appointed to the RIB on 1 February 2018.

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 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. 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, Investments Business, who also oversees investment operational activities, safe custody, accounting, legal and compliance and reports to the Chief Executive.

Overall 2017 was a favourable period for investment markets. Equities ended the year at, or around, all-time highs with the MSCI ACWI returning 13% in GBP and global government bonds remaining in positive territory with GBP hedged returns of around 3%. Despite BREXIT fears UK equities and bonds kept pace with overseas markets, with Sterling actually strengthening against the US Dollar and Japanese Yen, but weakening against the Euro.

Against this backdrop the Growth Pooled Fund performed reasonably well, up 11.7% against the Reference Portfolio of 12.1%. The high equity weighting of the Reference Portfolio would typically lead us to marginally underperform in periods of strong equity performance.

The Growth Fund also suffered quite a sharp mark down of the retail assets in the Property Pooled Fund. However, the Growth Fund markedly outperformed the RPI+4% comparator of 7.6%.

The other public markets funds performed much in line with their respective comparators – Passive Equity (£909m) up 18.66% vs 18.16%, Global Equity (£797m) up 17.64% vs 17.15%, Government Bond (£1,961m) up 0.34% vs 0.18%, Non Government Bond (£623m) up 5.16% vs 4.55%, Long Duration Index Linked (£221m) up 2.67% vs 3.05% and Cash Fund (£303m) up 0.26% vs 0.31%. It is too near the year-end for the private market fund calculations.

During the course of the year, the Public Markets team made continued progress in building our internal investment management capability, notably in the areas of equities (ARP and Fundamental Growth) and property. RPMI developed an in-house property management team during the year, and transferred the management of all commercial property assets from the external manager. This development will facilitate better control of Scheme assets, improved strategic planning and cost efficiencies.

By the end of the year, we were managing in-house £5.1bn in direct securities (government bonds £2.6bn, equities £2.5bn), £2.0bn in property, £4.2bn in index derivatives and £5.0bn in Forward FX positions.

The Private Markets team ended the year with the completion of three Ground Rent transactions (commitments totalling £215m), and we are nearing completion on a c.\$200m transaction as the founding partner of US based platform to seed new Private Markets strategies. Over 2017 the Private Markets team made investments with total commitments of c.\$600m with some notable investments in communication assets and sustainability.

Investment matters aside, the business continued to make strong progress in building an enduring investment management capability. We welcomed 23 permanent and six fixed term employees to the business and completed the ITP Systems work with the full implementation of Charles River dealing system, ORTEC Pearl performance and attribution system and a new client reporting package.

Our senior leaders participated in a year long leadership development programme and embedding a purpose driven culture to pay our members' pensions securely, affordably and sustainably lies at the heart of everything we do.

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, below, shows the current employer directors as at the end of December 2017, their date of retirement by rotation, and 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
 Mark Engelbretson ¹	Network Rail	2018
 John Hamilton	Passenger train operating companies	2020
 Chris Hannon	Freight train operating companies and support services	2022
 Richard Jones	All employers	2022
 Christine Kernaghan	Passenger train operating companies	2022
 John Wilson	Freight train operating companies and support services	2020

Note

1. Mark Engelbretson was appointed on 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 railways 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 2017, their date of retirement by rotation, and nominating organisation.

Current employee Trustee Directors:

Name	Nominating Constituency	Date of Retirement by Rotation
 Tony Cotgreave	Pensioners' Federation	2020
 Dave Gott	RMT and the Management Committee of the BRSF	2018
 Charles Harding	CSEU	2020
 Mick Lynch	RMT	2022
 John Mayfield	RRROS	2020
 Stephen Richards	Transport Salaried Staffs' Association	2018
 Gary Towse	Management Committee of the BRSF	2022
 Dave Tyson	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 2017, in addition to various workshops, strategy events, and training seminars. Attendance is reported to the Board and published 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 railways 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

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 2017, the Lionverge Section was in a PPF assessment period prior to moving to the PPF in October 2017. During this period a PPF Panel appointed administrator was appointed.

During January 2018, the PPF confirmed that the Carillion Rail (Centrac) and Carillion Rail (GTRM) sections of the RPS entered a PPF assessment period as a result of the insolvency of Carillion Construction Ltd in January 2018.

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 2017

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 was appointed as a Director of the Trustee Company in 2007 and was re-elected in 2012. In 2014 John was appointed as Chairman of the Trustee, having previously chaired the Investment Committee.

John is Group Head of Pensions at National Grid. A Chartered Accountant by qualification, he has worked for a number of large companies, including PricewaterhouseCoopers, South Western Electricity, Shell, HBOS and FirstGroup in pensions, financial and commercial roles. John has over 25 years of pensions experience and is an Independent Trustee of the Nestlé UK Pension Fund.

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 Company Director in June 2005.

3. Meliha Duymaz

Meliha has been the Managing Director for Anglia Route Network Rail since July 2017. Before joining Network Rail, she worked for a diverse range of organisations including Serco Plc in the Docklands Light Railway, public relations group Hunstworth Plc and as an Auditor in Turkey. Having spent 17 years as a finance professional in various

industries, Meliha has extensive experience in franchising & bidding, outsourcing, financial and commercial management in complex organisations.

Meliha is a qualified Chartered Accountant with ACCA and holds an Economics & Business Administration degree. She was appointed as a Director of the Trustee Company in March 2016.

4. Mark Engelbretson

Prior to joining Network Rail, Mark was the Head of Group Pensions and Secretary to Trustees at Mothercare. He has worked in the pensions industry for 23 years, 16 of which have been at a senior level as Head of Group Pensions/Scheme Secretary for a number of large Plc companies. Mark was appointed as a Director of the Trustee Company in February 2017.

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 Company in 2007 and re-elected in 2012. In August 2017 Dave was appointed as a Non-Executive Director of RPMI.

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 Company in 2008, and was re-elected for another six year term in 2014.

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

Chris joined Freightliner Group Limited as their 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.

Chris was appointed a Director of the Trustee Company following his nomination by Network Rail in 2005, he 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.

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 till 2015. He is a member of Unite the Union. Charles was appointed as a Director of the Trustee Company in 2007.

9. Richard Jones

Richard was appointed as a Director of the Trustee Company 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 South Western Rail 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 Western Rail Pensions Committee. Christine was appointed a Director of the Trustee Company 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 Company 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 Company in 1996.

13. 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 Company and its predecessor since February 1993. Stephen is also a member of the Atos Pensions Committee.

14. 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 Company in 2004 and a Non-Executive Director of RPMI in 2009.

15. Dave Tyson

Dave was appointed as a Trustee Company Director in February 2001 and was a Non-Executive Director of RPMI from 2009 until 4 August 2017. Dave 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.

16. 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 Company in 2008.



... the bad days

The Trustee Company's Directors during 2016



6 7

John Chilman

Chairman of the Trustee

Appointed by:
Passenger Train Operating Companies

Term of office ending: 2018



18 20

Tony Cotgreave

Nominated by:
British Transport Pensioners' Federation

Term of office ending: 2020



13 16

Meliha Duymaz

Nominated by:
Network Rail

Term of office ending: 2020



8 11

Mark Engelbretson

Nominated by:
Network Rail

Term of office ending: 2018



13 15

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



11 14

John Hamilton

Appointed by:
Passenger Train Operating Companies

Term of office ending: 2020



14 14

Chris Hannon

Chairman of the Integrated Funding Committee

Appointed by:
Freight Train Operating Companies & Support Services

Term of office ending: 2022



9 11

Charles Harding

Nominated by:
Confederation of Shipbuilding & Engineering Unions (CSEU)

Term of office ending: 2020



11 11

Richard Jones

Nominated by:
All employers

Term of office ending: 2022



14 15

Christine Kernoghan
Nominated by: Passenger Train Operating Companies
Term of office ending: 2022



8 14

Mick Lynch
Appointed by: National Union of Rail, Maritime & Transport Workers (RMT)
Term of office ending: 2022



7 7

John Mayfield
Chairman of the Audit and Risk Committee
Nominated by: Retired Railway Officers' Society
Term of office ending: 2020



15 20

Stephen Richards
Chairman of the Case Committee
Nominated by: Transport Salaried Staffs' Association (TSSA)
Term of office ending: 2018



10 11

Gary Towse
Nominated by: British Railways Superannuation Fund (BRSF) Management Committee and British Transport Police Federation
Term of office ending: 2022



13 14

Dave Tyson
Nominated by: Associated Society of Locomotive Engineers and Firemen (ASLEF)
Term of office ending: 2022



22 24

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 2017

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	4	5
Meliha Duymaz	4	5
Mark Engelbretson	3	5
Dave Gott	5	5
John Hamilton	3	5
Chris Hannon	5	5
Charles Harding	4	5
Richard Jones	5	5
Christine Kernoghan	5	5
Mick Lynch	3	5
John Mayfield	5	5
Stephen Richards	3	5
Gary Towse	5	5
Dave Tyson	4	5
John Wilson	5	5

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

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 ARC, and relevant directors and officers of RPMI and RPMI Railpen also attend as appropriate. Membership and attendance during 2017 are shown in the following table:

Member	Number of meetings attended	Number of meetings eligible to attend
John Mayfield (Chairman)	2	2
John Chilman	1	2
Meliha Duymaz	2	2
Charles Harding	2	2
Richard Jones	2	2
Gary Towse	2	2

In addition to the above scheduled ARC meetings, there were also four 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;
- approving the scope and planned programme of work of Business Assurance, and monitoring delivery;
- reviewing the effectiveness of external audit and Business Assurance; and
- overseeing the control and risk management systems of the Trustee and operating companies.

The ARC is scheduled to meet up to 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 2017, the ARC met on two occasions. It considered the Annual Report of Business Assurance covering its internal audit and assurance activities during 2016, received reports on the progress of the 2017 audit plans, and considered and approved the internal audit plan for 2017.

In addition, the ARC 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 2017 and is attended by representatives of the ARC.

Financial reporting matters considered by the ARC in 2017 included the Annual Report and Financial Statements of RHL and the Trustee, the railways pension schemes and pooled funds and the operating companies (RPMI and RPMI Railpen). The ARC also received and considered the Report by the External Auditor on the 2016 Report and Financial Statements and the External Audit Strategy for 2017.

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 majority of the pooled fund's quoted 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 pooled fund 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 page 14.

Other matters considered by the ARC 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 2016 to 31 December 2016, Trustee Expenses and Hospitality & Gifts Policy, an analysis of pooled fund costs, the provision of legal and actuarial services and the progress of the current transformation programme. The ARC 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 IFC was established in 2014 to manage and agree integrated funding plans for the railways pension schemes and their sections, incorporating integrated risk management 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 IFC during the year is shown in the following table:

Member	Number of meetings attended	Number of meetings eligible to attend
 Chris Hannon (Chairman)	9	9
 Tony Cotgreave	8	9
 Meliha Duymaz ¹	5	7
 Mark Engelbretson ²	1	2
 John Hamilton	8	9
 Mick Lynch	5	9
 Stephen Richards	7	9
 Dave Tyson	9	9
 John Wilson	9	9

Notes

1. Meliha Duymaz resigned from the Committee with effect from 31 October 2017
2. Mark Engelbretson joined the Committee with effect from 1 November 2017

In addition to the nine scheduled IFC meetings, there were six additional meetings scheduled throughout the year.

Valuation

The actuarial valuation of the RPS as at 31 December 2016 is well underway. Following the consultation exercise which started towards the end of 2016, the assumptions were settled and used to produce indicative draft results in early March 2017 and full draft results by early June 2017.

For the 2016 valuation, the Trustee has developed further its integrated funding approach which addresses funding, investment and employer covenant matters together. For sections which are closed to new entrants, the Trustee is adopting a term-dependent approach to setting discount rates which reflects the anticipated progression of the investment strategy as sections mature.

By the end of 2017, the IFC had agreed integrated funding proposals with several employers. Settling the valuation for each section is expected to dominate the IFC workload during 2018.

A report from the Scheme Actuary is included on pages 48 to 49 which refers to the requirement to produce individual Statements of Funding Principles and Schedules of Contributions for each section as at 31 December 2016. 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.

Employer covenant

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

The IFC 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 other security-enhancing arrangements.

As well as assessing employer strength for valuation purposes, the IFC 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 IFC agreed a range of benefit and contribution changes for individual sections of the RPS. 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 IFC 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 IFC reviews section-specific investment strategy and allocations to pooled funds. As part of the integrated funding approach, the IFC considers strategy within a framework which 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 Case Committee during the year is shown in the following table:

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

Notes

1. Meliha Duymaz resigned from the Committee with effect from 1 March 2017
2. Mark Engelbretson joined the Committee with effect from 1 March 2017

In 2017, the Case Committee held six scheduled meetings.







As at 31 December 2017, the Case Committee had responsibility for 85 sections of the Railways Pension Scheme.

During 2017, the Case Committee considered and made decisions on 101 cases which can be categorised as follows:

- 37 applications and reviews of incapacity benefits
- 30 applications for payment of lump sum death benefit
- 3 applications for spouse's, children's and dependant's pensions
- 5 appeals under stage 2 of the internal disputes resolution procedure
- 11 applications for early payment of preserved benefits
- 2 reviews of eligible dependant's pension after being in payment ten years
- 11 Clause 7E - forfeiture of benefits cases
- 1 opted in auto-enrolment member
- 1 request for continued membership upon secondment exceeding five years

Defined Contribution Committee

The purpose of the DCC is to ensure appropriate management and governance of the AVC and DC arrangements of the railways pension schemes. These comprise BRASS, AVC Extra, the IWDC Section and the RPS Defined Contribution Arrangement (collectively the 'DC arrangements'). The membership and attendance of the DCC during 2017 is shown in the following table:

Member	Number of meetings attended	Number of meetings eligible to attend
 John Wilson (Chairman)	4	4
 Dave Gott ¹	3	4
 Charles Harding	3	4
 Richard Jones	4	4
 Christine Kernoghan ¹	4	4
 Gary Towse	3	4

Note

1. With effect from 1 January 2017

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 DCC'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.

An 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 commenced in 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 annual governance statement by the Trustee Chairman attached to this Report at Appendix H. This requirement, introduced by legislation in 2015, 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. Work is underway to aim to deliver further improvements in value for members in the next few years, as part of the updating of the pensions administration system being delivered by Chrysalis.

In addition, during 2017 the DCC has discussed and drafted a framework for the Trustee's DC Vision, which was approved by the Trustee at its meeting on 20 March 2018. The main purposes of the DC Vision are to: improve the articulation of the Trustee's DC objectives; assist the Trustee with evaluating whether it has succeeded in delivering the DC arrangements required by members and employers; and help with the assessment of whether the arrangements deliver good value. The Trustee's DC Vision Statement is 'for the railways pension schemes to be the DC offering of choice for rail employers and their members, to provide good outcomes for members at retirement'. The DC Vision Statement is supported by a framework of core principles, which set out the key areas to focus on to deliver the overall DC vision statement, and sub-principles, which support the achievement of each of the core principles and give direction to RPMI and RPMI Railpen about the operation of the DC arrangements in practice.

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 railways pension schemes to ensure that they remain both compliant and attractive to employers and members.

The RPS IWDC Section retained its PQM READY status following a reassessment in June 2017. 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 IWDC 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 IWDC Section was awarded 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.



A woman in the foreground is holding a smartphone to take a photo of a family sitting at a table in a restaurant. The family is smiling and eating. The background is blurred, showing other people at tables. The lighting is warm and golden, suggesting an evening setting. A blue banner with white text is overlaid on the right side of the image.

The Trustee Investment Report

For time with the family

Introduction

The Trustee is responsible for ensuring that suitable investment strategies are agreed for all sections of the RPS. The policies that guide how the assets of each section of the RPS are invested are set out in the SIP. An overview of the provisions of the SIP are shown in Appendix F.

The mission of the Scheme is to pay members' pensions securely, affordably and sustainably. To achieve these aims the assets of the Scheme are invested to generate strong returns over the long term.

Investment strategy for each section is set taking account of, amongst other factors, the specific liability profile of that section. The Trustee has a sub-committee, the IFC, responsible for carrying out this work, sometimes working with a Pensions Committee where established with delegated investment responsibilities.

The Trustee has two wholly owned operating subsidiaries, RPMI and RPMI Railpen, to which it delegates the day-to-day operation of the Scheme.

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 HMRC. Each section holds units in some or all of the pooled funds. The use of these pooled funds 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 comparator 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 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.

The focus for pooled fund management in 2017 has been efficient implementation of investments consistent with the agreed strategic portfolios.

This included further developing the in-house asset management capabilities of RPMI Railpen, notably in equities and property.

Within the Growth Pooled Fund we have implemented internally managed portfolios for ARP strategies, including single ARP factor portfolios and a multifactor composite portfolio. Also within the equity portion, we have gradually increased the allocation to the FGP, a concentrated portfolio investing in industry leading, innovative companies with sustainable structural earnings growth.

Another change in the Growth Pooled Fund is the development of an in-house property management team and the transfer of management of all commercial property assets from the external manager Orchard Street Investment Management. This significant development will facilitate better control of Scheme assets, improved strategic planning and cost efficiencies.

There have been changes to the De-Risking Fund Platform, with a new Short Duration Index Linked Bond Pooled Fund established and management of Long Duration Index Linked Bond Pooled Fund bought in-house.

The Illiquid Growth Pooled Fund made further allocations during the course of the year, with a particular emphasis on opportunistic investments focused on the communication and innovation sectors. Examples included two direct investments in UK fibre broadband and co-investment in a portfolio of US wireless spectrum. We continued to build our exposure to private debt (lending to private companies) and made an allocation to impact investing in a new fund strategy focused on small/medium size UK opportunities with a clear social/environmental benefit.

The Long Term Income Pooled Fund made a new investment in managed ground rents and further allocations to lifetime mortgages and the Pensions

Infrastructure Platform.

Investment strategy

The IFC 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 RRL of investments. This is referred to as the RRL framework and takes into account covenant strength and maturity of pension liabilities. The IFC 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 a portion held in illiquid assets where appropriate. The De-risking Platform and Long Term Income Pooled Fund are 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 IFC 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), 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 2017, the global economy finally experienced a year of coordinated robust growth, albeit still below the levels seen before the global financial crisis. UK growth however slowed through the year and the outlook remains uncertain as negotiations on trade continue with the EU. Both consumer and wage inflation remain low globally which is somewhat atypical of this seemingly late cycle stage of growth

where the economy nears full employment. As growth expectations rose throughout the year, risk assets once again enjoyed stellar returns, helped by a period of unusually low volatility.

Central banks broadly acted as expected at the start of the year with monetary policy remaining very loose by historical standards. The Bank of England raised rates from the post EU referendum low of 0.25% late in 2017 to 0.5% and the Federal Reserve raised rates to 1.5% in December while improving their outlook on US growth for 2018. The ECB extended its asset purchase programme but from January 2018 monthly purchases are set to halve. 2018 may be a year of increased volatility if central banks increase interest rates and reduce their balance sheets as expected. The impact of 'quantitative tightening' on markets and the economy is unclear.

Global bond yields barely moved through 2017 but were sold off sharply in early 2018 on late cycle inflation fears. The US remains well ahead of the UK, Eurozone and Japan in terms of their monetary tightening cycle and US government bond yields reflect that with the US 10 year ending the year at 2.4% against the UK at 1.2% and Germany at 0.4%.

Global equities had a strong year with Emerging markets equities (+30.6% in local currency) outperforming developed markets (+19.8% in local currency). The US tax cut bill, equivalent to \$1.5 trillion worth of tax cuts, was a further fillip to markets. Corporate bond investors also enjoyed positive returns as credit spreads tightened throughout the year. The Dollar was the main FX story over 2017, falling 7% in trade-weighted terms, despite continued policy tightening from the Federal Reserve. Closer to home, the Pound strengthened over 2017 reversing some of the losses associated with the EU referendum.

Finally, 2017 was the year that cryptocurrencies entered the zeitgeist with many experiencing 10 times gains in 2017. It is too early to tell whether these currencies will forever change the way we transact and store information or whether they will be remembered as another bubble reminiscent of the Dutch Tulip Mania in the 17th Century. We remain focused on assets with clear tangible value and invest for the long term.

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. The asset allocation of the Growth Pooled Fund is flexible and will vary, taking into account changing market valuations, consistent with the Trustee's investment beliefs. The aim is to produce an investment return of 4% in excess of UK RPI over the long run. 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. This position 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 2017 of 11.6% was above the RPI+4% comparator return and slightly behind the return for the reference portfolio. Over the past 3 years, the Growth Pooled Fund return of 10.5% per annum was ahead of the RPI+4% comparator and the reference portfolio.

The Passive Equity Pooled Fund is invested in line with a global index weighted by market capitalisation and produced a return of 18.7% in 2017 and 9.6% per annum over the past three years. The Global Equity Pooled Fund has fixed weights in major geographic regions and produced a return for the year of 17.6% and 12.5% per annum over the past three years.

The Private Equity Pooled Fund provides exposure to a highly diversified range of private market 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 8.6% in 2017 and 16.9% per annum over the past three years. 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 return of (2.5%) for the year and 15.8% per annum over the past three years. 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.

The Private Equity and Infrastructure 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 the Illiquid Growth Pooled Fund and the Long Term Income Pooled Fund. These funds are still in the early stages of committing capital for investment.

The De-risking Fund Platform has a range of sub-funds with specific characteristics. These include the Government Bond Pooled Fund, Non Government Bond Pooled Fund, Long Duration Index Linked Bond Pooled Fund and Short Duration Index Linked Bond Pooled Fund.

The Government Bond Pooled Fund is a UK government bond portfolio, managed internally by RPMI Railpen on a buy and maintain basis. The Government Bond Pooled Fund achieved a return of 0.3% for the year and 2.4% per annum over the past three years.

The Non Government Bond Pooled Fund is managed on a buy and maintain portfolio by an external fund manager and achieved a return of 5.1% for the year and 3.8% per annum over the past three years.

The portfolio management arrangements for the Index Linked Bond Pooled Fund changed in October 2017 from an externally managed passive fund to an internal portfolio. The Fund was renamed the Long Duration Index Linked Bond Pooled Fund and is now managed on a buy and maintain basis with an average duration of approximately 30 years. The return in 2017 was 2.7% and 10.7% per annum over the past three years.

The Short Duration Index Linked Bond Pooled Fund was launched in October 2017. It is managed internally on a buy and maintain basis with an average duration of approximately five years.

Information on the returns of all pooled funds 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 2017, the investment return produced by section assets ranged between 0% and 15%, 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 7% to 12%.

Over a three-year period, the investment returns of RPS sections ranged from 6% to 12% per annum, while over a five-year time horizon the range of returns was 7% to 12% per annum. Over a ten-year time horizon, the range of returns was 3% to 9% per annum, with most section returns in a narrower range from 4% to 6% 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 pooled funds receive 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 pooled funds receive revenues. The custodians also operate indemnification programmes which protect the pooled funds against defaulting borrowers. The pooled funds retain economic exposure to the lent securities, for example by receiving dividends, but lose 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 BRB'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 2017 was £1,533m (2016: £1,458m).

The total value of these pooled funds as at 31 December 2017 was £1,540m (2016: £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 contributing members of the RPS defined benefit sections. AVC Extra is the second contribution top-up arrangement for contributing members of the RPS 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 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 comparators for the self-select funds in the RPMI Pension Saver Fund Range are shown in the table below:

Fund	Comparator
Global Equity Fund	FTSE World index (Developed markets hedged into £)
Aggregate Bond Fund	Composite comprising British Government and global corporate bond indices
Long Term Growth Fund	UK RPI +4% p.a.
Index Linked and Global Bond Fund	Composite comprising Index Linked Gilt and corporate bond indices
Deposit Fund	1 Month Sterling London Interbank Offer Rate ('LIBOR')





Report on
Actuarial Liabilities

For helping them out

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 relevant Employer and set out in a Statement of Funding Principles, which is available to Scheme members on request.

Most of the sections of the RPS are subject to the Pensions Act 2004, the exceptions to this being the 1994 Pensioners Section and the BR Shared Cost Section. Nevertheless, the valuations for these two sections are also 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	1	43	35
31 December 2013	99	20,556	18,995
31 December 2015	2	31	32
31 December 2016	4	129	120

In addition, an initial actuarial valuation is being undertaken as at 31 December 2015 for one section which has been established since 31 December 2013 but where no formal actuarial valuation has yet taken place. For those sections that have not already completed a valuation as at 31 December 2016, such valuations are underway.

Method

The method and assumptions adopted for determining the technical provisions for each section are consulted on by the Scheme Actuary and ultimately agreed between the Trustee and relevant employers. While 'standard' methods and assumptions are adopted as far as possible, as summarised below, some sections have different assumptions. All assumptions adopted will be 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

The 'standard' actuarial assumptions that have been proposed by the Actuary and Trustee for valuations as at 31 December 2016 are as follows:

Discount rates:

- For sections which are sponsored by employers classified as passenger Train Operating Companies: a single nominal discount rate of 5.68% pa.
- For other sections which are open to new entrants: 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
Other Covenant Category 1 Sections	5.78	4.03
Open Covenant Category 2 Sections	5.27	3.41

- For sections which are closed to new entrants: a flexible discount rate structure, to allow any long-term investment plans that may be in place for particular sections to be reflected more explicitly, so that each closed section has an individual discount rate structure. This comprises an initial discount rate based on the section's short-term investment strategy and an ultimate discount rate based on the section's expected long-term investment strategy when all members have retired. After an initial period during which the initial discount rate is assumed to be maintained, the discount rate is assumed to change annually in equal steps from the initial to the ultimate discount rate over an appropriate transition period.

Future Retail Price inflation: 3.00% per annum

Future Consumer Price inflation: 2.00% per annum

Pay increases: general pay increases of 3.00% per annum. Promotional pay increases of 0.4% per annum.

Mortality base tables

To set the mortality base tables, members have been segmented into groups that are expected to experience similar levels of mortality depending on category of member, postcode and pension amount. The base table assumptions (including resulting cohort life expectancy) for each mortality group are summarised below:

Category	Combined group by postcode/pension amount	Mortality base table	Base table multiplier	Expected age at death for 65 year old at 31 December 2016
Male pensioners	1	S2 normal males	89%	88.4
	2	S2 normal males	103%	87.3
	3	S2 normal males - heavy	94%	86.2
	4	S2 normal males - heavy	102%	85.5
	5	S2 normal males - heavy	113%	84.7
	6	S2 normal males - heavy	131%	83.5
Female pensioners	1	S2 normal females	106%	89.1
	2	S2 normal females - heavy	133%	86.7
Widows	1	S2 normal females	103%	89.3
	2	S2 normal females - heavy	108%	88.3
	3	S2 normal females - heavy	124%	87.2
Male ill-health pensioners		S2 ill-health males	133%	81.7
Female ill-health pensioners		S2 ill-health females	126%	85.5
Widowers		S2 normal males - heavy	120%	84.2

Notes

- S2 refers to the SAPS (self-administered pension schemes) mortality tables published by the CMI in February 2014 based on its mortality investigation over the period 2004-2011.
- 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 overall resulting life expectancy assumed for each section depends on the proportion of members in each mortality group, which differs significantly between sections.

Future mortality improvements

Allowance for future improvements in mortality from 1 January 2016 onwards has been made in line with the 2016 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 1 January 2007 to 31 December 2015 allowance for future improvements in mortality has been made in line with the 2015 version of the 'CMI core projection' model.



**Glossary
of Common Terms**

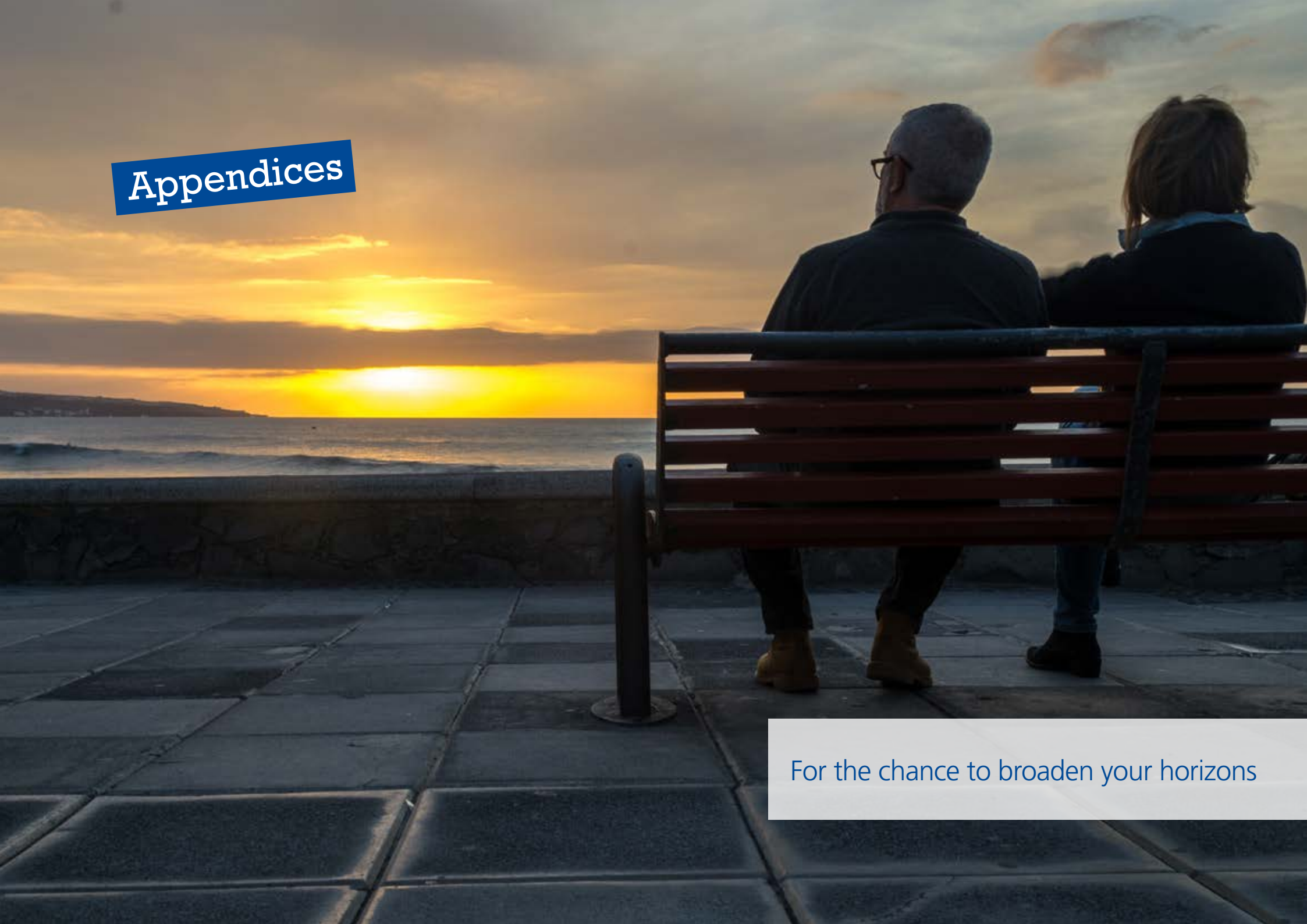
For peace of mind

Glossary of Common Terms

Abbreviation	Description
AAF	Audit and Assurance Faculty
ACCA	Association of Certified Chartered Accountants
AMC	Annual Management Charge
ARC	Audit and Risk Committee
ARP	Alternative Risk Premia
ASB	Accounting Standards Board
ASLEF	Associated Society of Locomotive Engineers & Firemen
AVC	Additional Voluntary Contribution
AVC Extra	AVC arrangement for RPS
BRASS AVC	AVC arrangement for RPS
BRB	British Railways Board
BRSF	British Railways Superannuation Fund
BTPA	British Transport Police Authority
CMI	Continuous Mortality Investigation
CPI	Consumer Price Index
CSEU	Confederation of Shipbuilding and Engineering Unions
DC Arrangements	Defined Contribution Arrangements
DCC	Defined Contribution Committee
DfT	Department for Transport
DWP	Department for Work and Pensions
ECB	European Central Bank
ESG	Economic, social and governance
FCA	Financial Conduct Authority
FGP	Fundamental Growth Portfolio
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
FX	Foreign exchange
ICAEW	Institute of Chartered Accountants in England and Wales
IFC	Integrated Funding Committee
IoD	Institute of Directors

ISAE	International Standard on Assurance Engagement
ITP	Investment Transformation Programme
IWDC	RPS Industry-Wide Defined Contribution Section
LIBOR	London Interbank Offered Rate
Omnibus	Section open to employers with fewer than 50 employees
OTC	Over the counter
PAF	Pension Assured Fund
Pensioners' Federation	British Transport Pensioners' Federation
PPF	Pension Protection Fund
PQM	Pension Quality Mark
PRI	Principles for Responsible Investment
PRP	Pensionable Restructuring Premiums
RHL	Railtrust Holdings Limited
RIB	Railpen Investment Board
RMC	Risk Management Committee
RPMI	RPMI Limited
RRL	Return, risk and liquidity
RMT	National Union of Rail, Maritime and Transport Workers
RPMI Railpen	Railway Pension Investments Limited
RPS	Railways Pension Scheme
RROS	Retired Railway Officers' Society
S2P	Second State Pension
s75	Section 75 employer debt
SEE	Social, environmental and ethical
SIP	Statement of Investment Principles
SRA	Strategic Rail Authority
TKU	Trustee Knowledge and Understanding
TOC	Train Operating Company
TPA	Transport Professionals Association
TPAS	The Pensions Advisory Service
Trustee	Railways Pension Trustee Company
TSSA	Transport Salaried Staffs' Association
TUPE	Transfer of undertakings (protection of employment)

Appendices



For the chance to broaden your horizons

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A photograph of a family of five sitting on a light-colored sofa in a bright room with large windows. An elderly man in a blue and white checkered shirt sits on the left, smiling. Next to him is a woman in a pink shirt, also smiling. In the center, a young girl in a blue and white checkered dress is looking at an open book held by an elderly woman in a light green shirt. To the right of the girl is a young boy in a pink shirt, resting his chin on his hand. On the far right, a man in a light blue shirt is looking at the book. The overall atmosphere is warm and nostalgic.

Appendix A:
Principal advisers to the Trustee

For the memories

Scheme and investment administrator	RPMI
Investment manager and manager of investment managers	RPMI Railpen Aviva
Actuaries	James Wintle, Willis Towers Watson Martin Clarke, the Government Actuary (joint actuary for the 1994 Pensioners Section and BR Section)
External auditor	KPMG LLP
Legal advisors	Eversheds Sutherland Irwin Mitchell Linklaters Pinsent Masons Simmons & Simmons Herbert Smith Freehills (until September 2017) Slaughter and May (from September 2017)
Principal custodians	BNY Mellon
Clearing bankers	The Royal Bank of Scotland plc
Tax advisors	PwC



A photograph of an older man and woman riding a carousel horse. The man is on the left, wearing a light blue button-down shirt over a white t-shirt, and the woman is on the right, wearing a red and white checkered sleeveless top. Both are smiling broadly. The background is a blurred fairground with colorful stalls and people.

Appendix B:
Payment of contributions

For the ride

Participating employers

The Trustee collects contributions from most employers participating in the Scheme. As at the year end, there were 156 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 2017, 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 contribution 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.

An elderly couple is captured in a joyful moment, laughing together at a table. The man, on the left, is wearing a light blue button-down shirt and has his eyes squeezed shut in laughter. The woman, on the right, has short white hair and is wearing a grey sweater with a yellow collar; she has her hand on the man's shoulder and is also laughing heartily. The background is a bright, out-of-focus outdoor setting, possibly a cafe or restaurant patio, with other people and structures visible. The overall mood is warm and happy.

**Appendix C:
Custody arrangements**

For the shared moments

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 BNY 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 ICAEW 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 the Scheme's external auditors as part of their annual audit procedure.

A photograph of an elderly woman with blonde hair swimming in a pool. She is smiling and looking towards the camera. The water is a vibrant blue, and there are lane lines visible in the background. The pool deck and a person's legs are partially visible on the right side.

**Appendix D:
Sustainable Ownership**

For keeping active

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 SIP the extent to which 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 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.

The activities undertaken by the RPMI Railpen Sustainable Ownership team span three areas:

Integration in portfolio management

Our goal is to incorporate ESG considerations into the portfolios we manage on behalf our beneficiaries. We apply a Sustainable Ownership framework to all our investments, which considers the impact of extra-financial factors through four lenses:

- Improves investment returns
- Reduces investment risk
- Impacts the reputation of the Trustee as a responsible investor
- Impacts the world the beneficiaries of the RPS retire into

Active ownership

In 2017 we voted at around 3,500 meetings of our portfolio companies. Thoughtful voting alongside constructive engagement with portfolio companies supports our objective of enhancing long-term investment returns for our beneficiaries.

RPMI Railpen is an active and lead participant in several national, regional and global investor networks, alliances and trade bodies. These include, but are not limited to, the UK Pensions and Lifetime Savings Association, the International Corporate Governance Network, and various other investor corporate governance bodies, including the Council of Institutional Investors in the USA, Eumedion in the Netherlands, the Australian Council of Superannuation Investors and the Asian Corporate Governance Association in the Far East. We are also a supporter of the 30% Club Investor Group, the Workforce Disclosure Initiative and participated in engagements convened by the UK Investor Forum.

We are a signatory to the UK and Japanese Stewardship Codes, and the United Nations PRI.

Longer term risks and opportunities

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 2015, TruCost was commissioned to conduct a carbon footprint analysis of the Scheme's equities portfolio. In 2016, the data and analysis was brought in house to better our understanding of the footprinting process. This was built upon further in 2017 when we acquired additional data to explore the fossil fuel revenues exposure of our holdings.

One of the key issues around assessing climate risk is the availability of climate data. Carbon

disclosure was first championed by the NGO Carbon Disclosure Project ('CDP') which we have supported since 2000. We built upon this support in 2017, as a founding supporter of the Transition Pathway Initiative ('TPI') alongside 12 other leading international asset owners.

In 2017, RPMI Railpen signed up to Climate Action 100+, a five year climate risk initiative intended to co-ordinate pressure on companies to cut greenhouse gas emissions, and improve disclosure and oversight of climate-related risks. Climate Action 100+ is aligned with the Task Force on Climate-related Financial Disclosures ('TCFD'), which asks companies to disclose their governance, strategy, risk management and metrics and targets related to climate risk.

Pooled fund equity holdings

The largest ten direct equity holdings within the pooled fund investments as at 31 December 2017 were as follows:

	£m
Apple	104.50
Johnson & Johnson	53.48
Pfizer	53.45
Roche Holding	53.06
Wal-Mart	51.78
Novartis	49.49
Alphabet	49.12
Amazon	49.07
Tencent Holdings	48.57
Samsung Electronics	47.26

A close-up photograph of a young girl with long, wavy blonde hair. She has vibrant, multi-colored butterfly face paint on her cheeks and forehead. The paint features a rainbow gradient (red, orange, yellow, green, blue, purple) with black outlines and small white dots. She has a wide, open-mouthed smile, showing her teeth and tongue. She is wearing a pink top. The background is a blurred green field.

Appendix E:
Risk statement

For the smiles on their faces

The following risk management process operated throughout the year ended 31 December 2017.

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 ARC. Internal audit output, in terms of any significant findings or risks identified, together with planned actions to mitigate them, are reported to the ARC.

In respect of the pensions administration service provided by RPMI, an internal controls assurance report has been prepared for the year ended 31 December 2016. 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 ICAEW 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 and has unrestricted access to the Chairman of the ARC and the Trustee Board Chairman should the need arise. Internal audit activity is governed by the Audit Charter, which is reviewed periodically by the ARC.

Throughout 2017 the RMC was chaired by the Director of Trustee and Client Services; the Chief Operating Officer took over the chair from January 2018. The RMC 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**

For the day-to-day essentials

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 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 and will be reviewed by the Trustee in 2018.

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 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 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 comparators 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 the 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 comparators 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 performance information, are set out in the pooled fund accounts in Appendix J.

Performance measurement

The performance of each section, pooled fund portfolios and fund managers are measured by Ortec. The investment performance of the pooled funds is measured by RPMI 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 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 RPMI Railpen Investment Business 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 DC assets. This includes members' AVCs and contributions in respect of members of the DC schemes, including the 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.

A person with long hair, seen from behind, sits on a stone wall overlooking a vast, hazy mountain landscape at sunset. The sun is low on the horizon, casting a warm glow over the scene. The mountains are layered, with the foreground being a lush green valley and the background being a hazy, distant range. The sky is a mix of blue and orange. The person is wearing a dark jacket. The stone wall they are sitting on is made of rough, grey stones. The overall mood is peaceful and contemplative.

Appendix G:
Summary of the main
provisions of the Scheme

For the quiet times

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 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 RPM1 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.

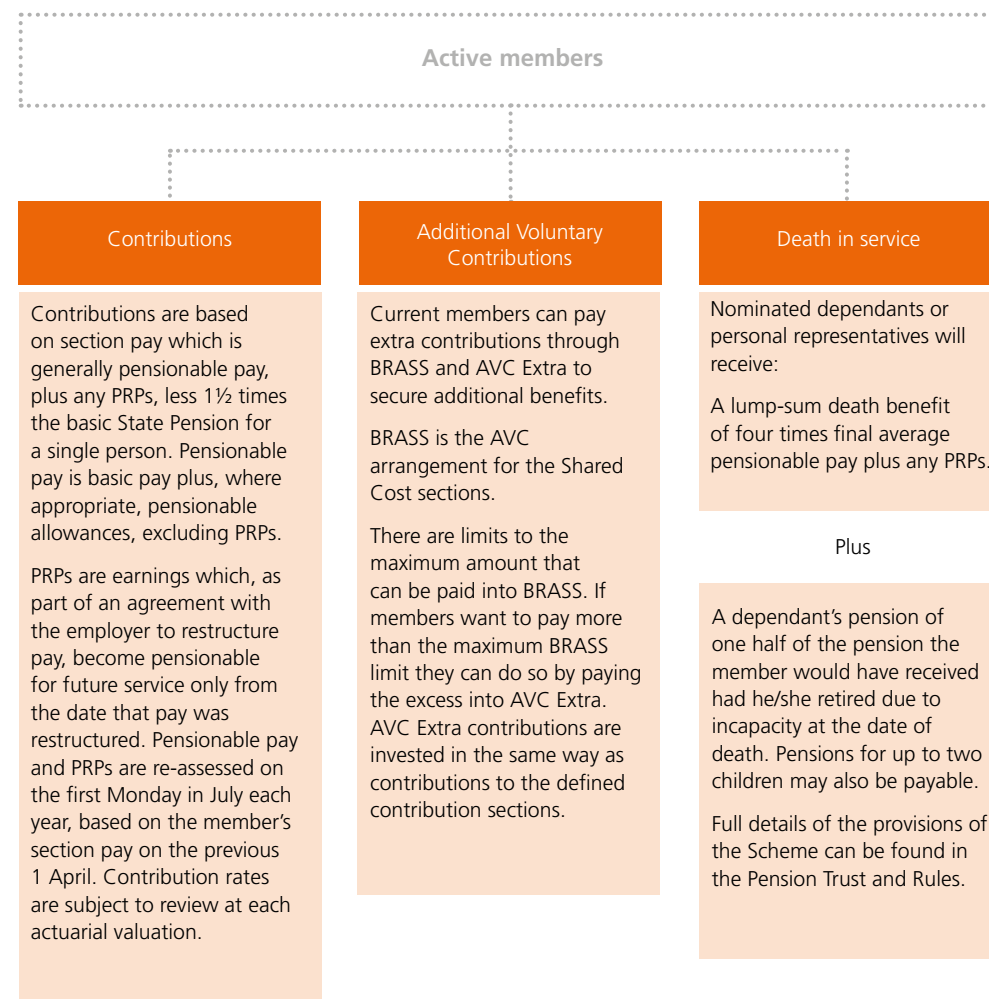
The outline of the main provisions of sections covers the standard situation whereby a section remains ongoing with a solvent employer backing the section. In the event of the employers in a section suffering a qualifying insolvency event, the benefits available from that section will depend on the assets 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.

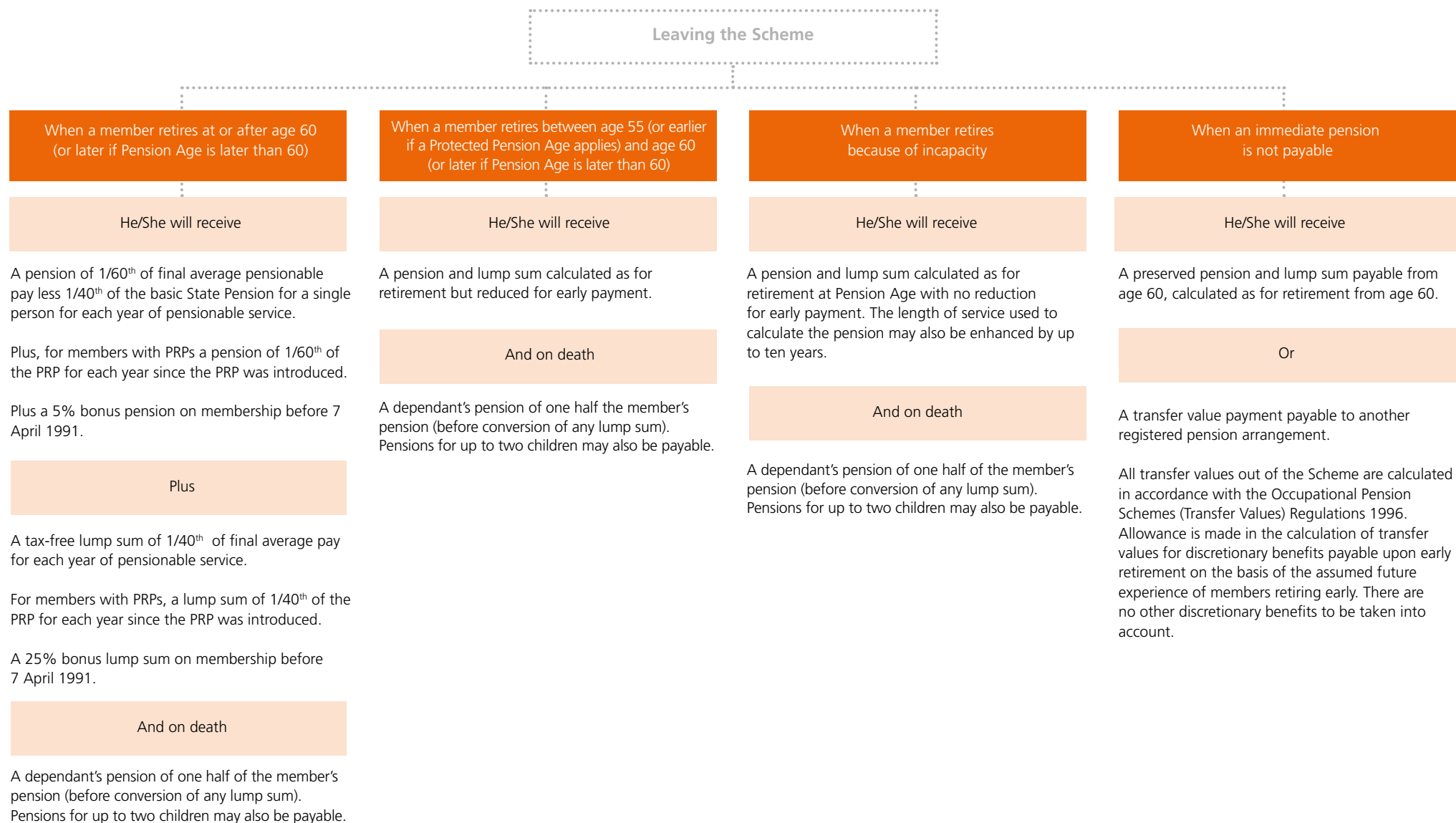
IWDC Section


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 HMRC 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 CPI inflation figure, which measures changes in the prices of goods and services, as at September 2016. Pensions in payment and deferment in the Scheme 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**

For things you've always wanted to do

Introduction

As the Trustee Chairman, it is my responsibility to provide you with an annual statement explaining what action has been taken by the Trustee Board, with help from our professional advisers, to meet the governance standards that apply to the DC Arrangements of the Scheme. The law sets out what information must 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, administration and adoption of good practice. More information about the sub-committees is on pages 37 to 41 of the Annual Report.

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

Default investment arrangements

Default investment arrangements are provided for members who join the DC Arrangements and do not actively choose their own investment options. Members can also elect to invest in the default arrangements. Currently, more than 60% of members have some or all of their contributions invested in the default arrangements. The default investment arrangements are reviewed regularly by the Trustee to ensure they remain appropriate for members, taking into account the characteristics of the various DC Arrangements and the demographics of the members investing in them.

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 provide the following lifestyle strategies as the default investment options.

DC Arrangement	Growth Portfolio	Portfolio at Target Retirement Age	Length of Switching Period
IWDC Section and DC 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 SIP. This document is included as an appendix to the Annual Report, and the consolidated 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 are therefore invested in the default option. 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 his or her age and planned retirement date. When choosing the default investment 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.

Despite the majority of members not making an active decision with regard to their investment fund choices, the Trustee remains committed to

supporting ongoing efforts to raise awareness levels of the investment choices on offer and to provide education to members to support informed decision making. This is evidenced through the Trustee's support of the RPS Communications strategy, one objective of which is to support member outcomes through DC and investment education on topics including, but not limited to, investment risk.

All day-to-day investment functions are delegated to RPMI Railpen, or to fund managers appointed by them. RPMI Railpen is regulated by the FCA. 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's and/or 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 the performance of the default investment arrangements at regular intervals and, in any event, at least once every three years;
- review the investment strategy and performance of the default investment arrangements without delay after any significant change in investment policy or the demographic profile of the members;
- review the investment strategy and performance of the default investment arrangements without delay after any significant change in investment policy or the demographic profile of the members;
- take into account the needs of the membership when designing the default arrangements.

The DCC reviews the investment objectives and the performance of the default arrangements at least once a year, on the advice of RPMI, the Trustee’s investment adviser. The DCC also carries out a more in-depth review of the DC investment options offered to members at least every three years.

Full transparency is given to the DCC on the underlying costs making up the AMCs such as investment management costs, internal staff costs, legal costs and IT costs. RPMI Railpen is also at the forefront of obtaining full transparency from investment managers with regard to costs in underlying investment funds (indirect costs) that the DC funds may invest in.

The last investment strategy review was considered by the DCC on 2 March 2017. Following this

review, the DCC has approved various pieces of work for further investigation by RPMI, which is currently ongoing. This includes the consideration of different default portfolios at target retirement age, to reflect how distinct member cohorts might choose to take their benefits following Freedom and Choice in Pensions, and the potential to offer post-retirement flexibility within the Scheme.

The DC funds are invested alongside the Scheme’s defined benefit arrangements, using the same pooled funds where possible. This means that DC members benefit from many of the same investment opportunities and transaction cost controls as members of the defined benefit arrangements.

The Trustee monitors the use of the default investment strategies and the choices being made by members when benefits come into payment. This helps 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 and assess the extent to which those charges and transaction costs represent good value for members (as discussed in further detail overleaf).

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	2017 fees %
Long Term Growth Fund	0.60
Global Equity Fund	0.19
Aggregate Bond Fund	0.27
Index Linked and Global Bond Fund	0.28
Deposit Fund	0.21
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 2018. However, the table overleaf 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	2017 transaction costs	2017 transaction costs as % of assets under management	Asset value	Proportion of fund for which information is available
	£	%	£m	%
Long Term Growth Fund	646,950	0.076	895.9	94
Global Equity Fund	26,799	0.014	206.9	100
Aggregate Bond Fund	828	0.004	20.2	50
Index Linked and Global Bond Fund	275	0.001	26.1	50
Deposit Fund	-	0.000	311.2	100
Pension Assured Fund	-	Not available	161.2	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. RPMI Railpen is recognised as being at the forefront of initiatives to drive transparency and control costs.

The Trustee minimises transaction costs arising from buying and selling assets, as far as possible, through the pooling arrangements within the railways 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.

In recent years the Trustee has 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 2017 than they were in 2016, and had been lower in 2016 than they

had been in 2015. 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.

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 reviewed the level of charges in each fund and the investment returns 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 arrangements and how they reflect 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. As part of assessing these items, we have considered how some of these factors rated against other options available in the market.

Another important area of consideration is the ease and ability by which members can view or make changes to their investments. In the last 12 months RPMI has expanded the functionality in its secure online portal, www.railwayspensions.co.uk, to provide a secure personal online account for all DC active members who register for this service. The account provides members with an overview of their investment holdings, the ability to view recent contributions (both member and employer) and the ability to initiate investment fund switching.

Based on our assessment, we concluded that the DC Arrangements represent good value for members. While some areas offer excellent value, work continues to be 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. In future statements, we aim 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.

To underpin the Trustee's commitment to continuous improvement, we have developed a framework for the Trustee's DC Mission and Vision, which was approved by the Trustee at its meeting on 20 March 2018. The main purposes of the DC Mission and Vision are to: improve the articulation of the Trustee's DC objectives; assist the Trustee with evaluating whether it has succeeded in delivering the DC arrangements

required by members and employers; and help with the assessment of whether the arrangements deliver good value. The Trustee's DC Vision Statement is 'for the railways pension schemes to be the DC offering of choice for rail employers and their members, to provide good outcomes for members at retirement'. The DC Vision Statement is supported by a framework of core principles, which set out the key areas to focus on to deliver the overall DC Vision Statement, and sub-principles, which support the achievement of each of the core principles and give direction to RPMI and RPMI Railpen about the operation of the DC arrangements in practice.

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.

RPMI provides regular reports to the 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 ('TKU')

The law requires the Trustee Board to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively and explain how the combined knowledge and understanding of the Trustee Board, together with the advice which is available to it, enables it to properly exercise its function as the Trustee of the Scheme. 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. RPMI also continues to develop its TKU offering to ensure it remains relevant and accessible for those in receipt of this training, ensuring Trustee Directors obtain and retain the knowledge required to effectively carry out their duties on behalf of members.

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 the Scheme 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 their 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 RHL. 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 RHL within the relevant electoral group.

The Trustee Board has been kept informed of developments relating to the Pensions Regulator's authorisation and supervision regime being introduced by the Pension Schemes Act 2014 and the Occupational Pension Schemes (Master Trusts) Regulations 2018 and has participated in the consultation process. The Trustee is planning to seek authorisation from the Pensions Regulator to the extent that it is required to do so for the DC Arrangements and is working with RPMI on plans for this.

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 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 arrangements 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 DCC 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 DCC 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:

- Long Term Growth Fund
- Global Equity Fund
- Aggregate Bond Fund
- Index Linked and Global Bond Fund
- 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 Long Term Growth Fund and Global Equity Fund to exceed price inflation. The long-term returns on the bond and deposit funds are expected to be lower. However, the bond funds are expected to more closely match the price for annuities, giving some protection in the amount of secured pension for members closer to retirement. The Deposit Fund is expected to provide protection against changes in short-term nominal capital values, and may be appropriate for members close to their target retirement age who 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 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 DCC provides oversight to the performance of the Funds. The Railpen Investment Board oversees

the performance of 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 Railway Pensions website www.railwaypensions.co.uk.

John Chilman,
Chairman of the Trustee Company

A close-up photograph of a cafe table. In the foreground, a white ceramic mug is filled with a latte topped with a thick layer of whipped cream. To the left of the mug, a cinnamon roll sits on a white saucer, decorated with a wavy pattern of chocolate drizzle. In the background, a chocolate brownie is on a white plate with a fork. A glass of beer is also visible in the background. The scene is lit with warm, ambient light.

Appendix I:
Where to go for help

For the guilty pleasures

Trustee and RPMI Railpen

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

T: 020 7330 6800
E: enquiries@rpmico.co.uk
W: www.rpmico.co.uk
W: www.rpmirailpen.co.uk

RPMI

Further information about the Scheme 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 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:

The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB

T: 0300 123 1047
Online enquiry:
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
10 South Colonnade
Canary Wharf
London
E14 4PU

T: 0800 917 4487
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 0707
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 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:

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

T: 0800 731 0193
W: www.gov.uk/find-lost-pension

RPS Registration number: 10203279

A woman with grey hair, wearing a light-colored long-sleeved shirt, a bright green apron, and dark green rubber boots, is watering a garden. She is holding a silver metal watering can and pouring water onto a tomato plant. The garden is lush with various plants, including yellow and orange flowers in the foreground and green foliage in the background. A stone building is visible in the background, partially obscured by greenery.

Appendix J:
Pooled fund accounts

For what you want

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 2017. 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 2017 was £28,110.64m (2016: £26,084.06m). There are in addition £920.16m (2016: £917.85m) of assets held directly by the railways pension schemes not included in the pooled fund arrangements, bringing total assets to £29,030.80m (2016: £27,001.91m).

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.

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 the railways pension schemes whilst also allowing assets to be invested, as far as possible, as if they belonged to a single pension fund.

The focus for pooled fund management in 2017 has been the efficient implementation of investments, including further developing in-house capabilities of RPMI Railpen, particularly in equities and property. The in-house property

management team was developed during 2017 and all commercial property assets were transferred from external management to the in-house team. This significant development will facilitate better control of assets and cost efficiencies.

The Index Linked Pooled Fund was renamed the Long Duration Index Linked Bond Pooled Fund during the year and a new pooled fund, the Short Duration Index Linked Bond Pooled Fund, was launched. The assets of both of these pooled funds are all being managed in-house.

Within the Growth Pooled Fund, we have implemented internally-managed portfolios for ARP strategies, including single ARP factor portfolios and a multifactor composite portfolio. We have also gradually increased the allocation to the FGP, a concentrated portfolio investing in industry leading, innovative companies with sustainable structural earnings growth.

The Illiquid Growth Pooled Fund made further allocations during the course of the year, notably in the communication and innovation sectors; for example, investments in UK broadband and the Long Term Income Pooled Fund made a new investment in managed ground rents and further allocations to lifetime mortgages and the Pensions Infrastructure Platform.

The table on page 81 summarises the investments of each of these pooled funds as at 31 December 2017. The notes on pages 87 to 101 analyse the total pooled assets of £28,110.64m 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 89, and the unit prices on page 88.



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. 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, which 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. Loans and deposits, current assets and current liabilities are included at book cost, which the Trustee considers represents a reasonable estimate for fair value.

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 2017

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	7,925.31	701.99	381.04	-	4,846.99	98.55	(11.17)	3,054.93	50.69	(20.69)	1,964.72	18,992.36
Private Equity	1.48	-	-	-	2,161.20	0.07	(0.01)	88.10	5.33	(0.90)	-	2,255.27
Property	-	-	-	1,818.41	-	-	-	178.04	41.31	(73.08)	-	1,964.68
Government Bond	-	1,763.51	-	-	-	-	-	187.09	11.41	(0.69)	-	1,961.32
Defined Contribution	-	83.54	-	-	216.41	-	-	230.24	0.73	(1.82)	931.16	1,460.26
Passive Equity	-	-	-	-	909.83	-	-	0.58	-	(0.53)	-	909.88
Global Equity	-	-	-	-	677.97	11.71	(1.90)	108.56	0.07	(0.62)	-	795.79
Non Government Bond	-	587.45	-	-	-	5.85	(0.16)	23.22	6.87	(0.61)	-	622.62
Infrastructure	-	-	-	-	602.95	-	-	5.72	-	(0.30)	-	608.37
Illiquid Growth	69.71	-	-	-	337.82	-	-	62.06	0.02	(0.56)	-	469.05
Long Term Income	-	0.77	-	-	305.91	-	-	23.39	0.03	(0.20)	-	329.90
Cash	-	-	-	-	-	-	-	302.83	0.08	(0.09)	-	302.82
Long Duration Index Linked Bond	-	-	221.03	-	-	-	-	0.35	0.16	(0.15)	-	221.39
Short Duration Index Linked Bond	-	-	111.48	-	-	-	-	1.25	0.09	(0.01)	-	112.81
Cross Holdings											(2,895.88)	(2,895.88)
Total	7,996.50	3,137.26	713.55	1,818.41	10,059.08	116.18	(13.24)	4,266.36	116.79	(100.25)	-	28,110.64
%	28.5	11.2	2.5	6.5	35.8	0.4	(0.1)	15.2	0.4	(0.4)	-	100

The accounting policies on page 80 and the notes on pages 87 to 101 form part of these accounts.

Analysis of cross holdings

	Growth	Long Duration Index Linked Bond	Property	Private Equity	Non Government Bond	Total Cross Holdings
Pooled Fund	£m	£m	£m	£m	£m	£m
Growth	-	-	1,964.68	0.04	-	1,964.72
Defined Contribution	895.01	13.11	-	-	23.04	931.16
Total	895.01	13.11	1,964.68	0.04	23.04	2,895.88

The accounting policies on page 80 and the notes on pages 87 to 101 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	17,015.30	291.94	(289.79)	1,793.96	180.95	-	18,992.36
Private Equity	2,488.69	42.45	(415.53)	141.63	(1.97)	-	2,255.27
Property	2,071.32	10.00	(130.00)	(69.79)	83.15	-	1,964.68
Government Bonds	2,059.17	110.50	(215.06)	(23.24)	29.95	-	1,961.32
Defined Contribution	1,349.49	162.58	(176.90)	126.77	(1.68)	-	1,460.26
Passive Equity	780.55	0.27	(16.18)	146.15	(0.91)	-	909.88
Global Equity	757.65	-	(86.54)	124.18	0.50	-	795.79
Non Government Bond	626.59	25.07	(60.05)	9.57	21.44	-	622.62
Infrastructure	908.12	0.30	(334.80)	35.41	(0.66)	-	608.37
Illiquid Growth	282.83	155.50	-	33.06	(2.34)	-	469.05
Long Term Income	102.17	225.63	(0.03)	3.06	(0.93)	-	329.90
Cash	320.39	0.33	(18.70)	-	0.80	-	302.82
Long Duration Index Linked Bond	225.68	1.81	(11.95)	5.28	0.57	-	221.39
Short Duration Index Linked Bond	-	112.90	-	(0.33)	0.24	-	112.81
Cross Holdings	(2,903.89)	-	-	-	-	8.01	(2,895.88)
Total	26,084.06	1,139.28	(1,755.53)	2,325.71	309.11	8.01	28,110.64

Approved on behalf of the Trustee Company on 10 May 2018

John Chilman Chairman, Trustee Company

John Mayfield Director and Chairman, Audit and Risk Committee

The accounting policies on page 80 and the notes on pages 87 to 101 form part of these accounts.

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	62.43	(176.97)	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	7.57	(5.95)	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
Long Duration Index Linked Bond	-	-	-	-	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	70.20	(190.35)	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 80 and the notes on pages 87 to 101 form part of these accounts.

Analysis of cross holdings

	Growth	Long Duration Index Linked Bond	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 80 and the notes on pages 87 to 101 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 Bonds	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)	118.16	0.50	-	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
Long Duration Index Linked Bond	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)	3,546.06	338.70	121.66	26,084.06

The accounting policies on page 80 and the notes on pages 87 to 101 form part of these accounts.

1.1 Fund statement as at 31 December 2017

Assets	Note	2017 £m	2016 £m
Equities			
UK quoted		354.56	319.82
UK unquoted		69.80	0.09
Overseas quoted		7,572.14	5,605.21
Overseas unquoted		-	4.99
		7,996.50	5,930.11
Fixed interest securities			
UK quoted - public sector		2,238.60	2,293.39
UK quoted - non-public sector		-	116.32
UK unquoted - non-public sector		129.40	0.48
Overseas quoted - public sector		-	331.43
Overseas quoted - non-public sector		769.26	1,220.54
		3,137.26	3,962.16
Index linked securities			
UK quoted - public sector		332.51	-
Overseas quoted - public sector		381.04	343.17
		713.55	343.17
UK Property		1,818.41	1,845.04
Pooled investment vehicles	1.5	10,059.08	10,388.64
Derivative contracts			
Futures - exchange traded	1.6	35.05	25.59
FX contracts - OTC	1.6	81.13	44.61
		116.18	70.20
Other assets			
Other investment assets	1.7	102.21	102.53
Current assets	1.8	14.36	12.24
		116.57	114.77
Cash deposits and cash instruments	1.9	4,266.36	3,688.14
Total assets		28,223.91	26,342.23

Liabilities	Note	2017 £m	2016 £m
Derivative contracts			
Futures – exchange traded	1.6	(7.41)	(15.66)
FX contracts - OTC	1.6	(5.83)	(174.69)
		(13.24)	(190.35)
Other liabilities			
Other investment liabilities	1.10	(38.40)	(5.04)
Current liabilities	1.11	(61.63)	(62.78)
		(100.03)	(67.82)
Total liabilities		(113.27)	(258.17)
Net assets attributable to unit holders		28,110.64	26,084.06



1.2 Pooled fund unit prices as at 31 December 2017

	2017 £/unit	2016 £/unit
Growth Pooled Fund	18.69	16.74
Property Pooled Fund	87.59	87.00
Government Bond Pooled Fund	13.30	13.27
Passive Equity Pooled Fund	18.59	15.65
Global Equity Pooled Fund	98.76	84.00
Non Government Bond Pooled Fund	14.51	13.80
Infrastructure Pooled Fund	18.03	18.49
Illiquid Growth Pooled Fund	12.42	11.55
Long Term Income Pooled Fund	8.48	8.42
Cash Pooled Fund	10.31	10.29
Long Duration Index Linked Bond Pooled Fund*	93.95	91.47
Short Duration Index Linked Bond Pooled Fund (from October 2017)	9.99	-
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995	5,090.68	5,104.38
Direct Investment Pooled Fund 1997	180.31	184.25
Direct Investment Pooled Fund 1999	39.07	40.87
Direct Investment Pooled Fund 2000	15.62	21.28
Private Equity Pooled Fund 2001	41.27	42.82
Private Equity Pooled Fund 2004	36.68	41.04
Private Equity Pooled Fund 2005	36.87	34.41
Private Equity Pooled Fund 2007	27.64	26.09
Private Equity Pooled Fund 2009	31.59	30.79
Private Equity Pooled Fund 2011	24.08	22.27
Private Equity Pooled Fund 2013	16.21	14.68
Defined Contribution Pooled Fund		
DC Global Equity Fund	15.44	13.02
DC Long Term Growth Fund	15.24	13.68
DC Deposit Fund	10.12	10.10
DC Index Linked and Global Bond Fund	14.17	13.65
DC Aggregate Bond Fund	13.21	12.70

*Formerly known as Index Linked Pooled Fund

1.3 Value of the Pooled Funds

	2017 £m	2016 £m
Growth Pooled Fund	18,992.36	17,015.30
Private Equity Pooled Fund**	2,255.27	2,488.69
Property Pooled Fund	1,964.68	2,071.32
Government Bond Pooled Fund	1,961.32	2,059.17
Defined Contribution Pooled Fund**	1,460.26	1,349.49
Passive Equity Pooled Fund	909.88	780.55
Global Equity Pooled Fund	795.79	757.65
Non Government Bond Pooled Fund	622.62	626.59
Infrastructure Pooled Fund	608.37	908.12
Illiquid Growth Pooled Fund	469.05	282.83
Long Term Income Pooled Fund	329.90	102.17
Cash Pooled Fund	302.82	320.39
Long Duration Index Linked Bond Pooled Fund *	221.39	225.68
Short Duration Index Linked Bond Pooled Fund (from October 2017)	112.81	-

Cross holdings

Property Pooled Fund	(1,964.68)	(2,071.32)
Growth Pooled Fund	(895.01)	(799.67)
Non Government Bond Pooled Fund	(23.04)	(20.34)
Long Duration Index Linked Bond Pooled Fund	(13.11)	(12.51)
Private Equity Pooled Fund	(0.04)	(0.05)
Net assets attributable to unit holders	28,110.64	26,084.06

* Formerly known as Index Linked Pooled Fund

** See breakdown into pooled fund segments right.

	2017 £m	2016 £m
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995	0.15	0.15
Direct Investment Pooled Fund 1997	0.20	0.21
Direct Investment Pooled Fund 1999	0.22	0.23
Direct Investment Pooled Fund 2000	6.36	11.51
Private Equity Pooled Fund 2001	51.14	78.84
Private Equity Pooled Fund 2004	37.74	58.51
Private Equity Pooled Fund 2005	82.24	125.99
Private Equity Pooled Fund 2007	880.94	1,063.93
Private Equity Pooled Fund 2009	234.51	272.58
Private Equity Pooled Fund 2011	731.38	698.09
Private Equity Pooled Fund 2013	230.39	178.65
	2,255.27	2,488.69

Defined Contribution Pooled Fund

DC Long Term Growth Fund	895.88	800.63
DC Deposit Fund	311.20	338.01
DC Global Equity Fund	206.87	169.55
DC Index Linked and Global Bond Fund	26.09	24.81
DC Aggregate Bond Fund	20.22	16.49
	1,460.26	1,349.49

1.4 Investment income

	2017 £m	2016 £m
Dividends from equities	176.25	153.74
Income from fixed interest securities	83.56	130.87
Income from UK property	97.21	102.14
Interest from cash deposits	12.11	14.43
Income from index linked securities	11.46	9.89
Income from pooled investment vehicles	0.13	1.67
Income from preferred securities	-	0.06
Other income	6.10	6.15
	386.82	418.95
Irrecoverable withholding tax	(7.39)	(6.61)
Total income	379.43	412.34
Administration, custody and other expenses	(24.08)	(24.42)
Investment management fees - base	(15.61)	(21.41)
Investment management fees - performance	(0.01)	(2.10)
RPMI fees	(30.61)	(25.62)
Tax	(0.01)	(0.09)
	(70.32)	(73.64)
Reinvested net income (accrued in unit prices)	309.11	338.70

1.5 Pooled investment vehicles

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

	2017 £m	2016 £m
UK unquoted - unitised insurance policies	4,354.98	5,160.86
UK unquoted - partnerships	861.24	667.51
UK unquoted - other managed funds	638.91	348.46
UK quoted - other managed funds	83.64	33.23
UK unquoted - property partnerships	-	0.15
Overseas unquoted - partnerships	2,904.44	3,341.26
Overseas unquoted - other managed funds	1,115.03	535.44
Overseas unquoted - hedge funds	100.84	178.67
Overseas quoted - other managed funds	-	123.06
	10,059.08	10,388.64

The pooled funds are the sole investor in 11 (2016: ten) pooled investment vehicles included within the above analysis. The assets underlying these sole investor pooled investment vehicles are:

	2017 £m	2016 £m
Private equity	268.99	239.58
Fixed interest securities	149.29	63.95
	418.28	303.53

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 2018	2,438.44	-	(1.52)
S&P indices	Mar 2018	850.82	7.93	-
MSCI EM indices	Mar 2018	413.00	19.02	-
Japanese topix index	Mar 2018	400.00	8.02	-
Euro Stoxx index	Mar 2018	262.47	-	(5.89)
Other equity indices	Mar 2018	6.23	0.08	-
		4,370.96	35.05	(7.41)

Included within cash balances is £130.72m 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 / US dollar	Jan – Apr 2018	3,741.39	4,981.86	64.24
Sterling / Euro	Jan – Feb 2018	1,202.65	1,345.90	6.96
Sterling / Yen	Jan 2018	286.58	42,634.84	6.70
Sterling / Swiss franc	Jan – Feb 2018	175.57	227.84	2.40
Other	Jan 2018			0.83
				81.13
Liabilities				
US dollar / Yen	Jan 2018	483.48	55,000.00	(3.63)
US dollar / Sterling	Jan – Feb 2018	130.94	98.10	(1.40)
US dollar / Korean won	Jan 2018	12.09	13,686.97	(0.53)
Other	Jan – Feb 2018			(0.27)
				(5.83)

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 £43.58m 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 £1.80m of cash in respect of collateral deposited with counterparties relating to open FX contracts at the year end.

1.7 Other investment assets

	2017 £m	2016 £m
Asset in respect of investment settlements	24.64	20.88
Investment income accrued	36.83	51.39
Recoverable tax	11.24	5.93
Rent receivable	29.50	24.33
	102.21	102.53

1.8 Current assets

	2017 £m	2016 £m
Asset in respect of unit trades	0.59	0.43
Trade debtors	11.45	8.59
Tax	0.34	0.34
VAT and other	1.98	2.88
	14.36	12.24

1.9 Cash deposits and cash instruments

	2017 £m	2016 £m
Cash held in liquidity funds	4,028.32	3,156.06
Cash held at brokers in respect of futures margin	130.72	261.17
Cash at bank	105.52	100.34
Cash collateral held by counterparties	1.80	170.57
	4,266.36	3,688.14

1.10 Other investment liabilities

	2017 £m	2016 £m
Liability in respect of investment settlements	(37.81)	(3.84)
Tax payable	(0.59)	(1.20)
	(38.40)	(5.04)

1.11 Current liabilities

	2017 £m	2016 £m
Accrued management fees and expenses	(24.89)	(20.88)
Property income received in advance	(22.44)	(18.30)
Trade creditors	(6.49)	(8.13)
Liability in respect of unit trades	(2.40)	(1.42)
Tax	(4.35)	(12.93)
VAT and other	(1.06)	(1.12)
	(61.63)	(62.78)

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 2017, the market valuation of stock that had been lent in the market was £196.70m (2016: £145.78m).

Collateral held in respect of the stock on loan at 31 December 2017 had a total value of £206.30m (2016: £152.37m).

1.13 Reconciliation of investments held at beginning and end of year

	Value at 31 December 2016	Units issued/ (redeemed)	Net income	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 December 2017
	£m	£m	£m	£m	£m	£m	£m
Directly held assets							
Equities	5,930.11	-	-	5,668.27	(4,210.44)	608.56	7,996.50
Fixed interest securities	3,962.16	-	-	1,375.72	(2,144.40)	(56.22)	3,137.26
Index linked securities	343.17	-	-	388.40	(15.06)	(2.96)	713.55
Pooled investment vehicles	10,388.64	-	-	1,972.21	(3,247.52)	945.75	10,059.08
UK property	1,845.04	-	-	66.05	(22.90)	(69.78)	1,818.41
	22,469.12	-	-	9,470.65	(9,640.32)	1,425.35	23,724.80
Derivatives							
Futures	9.93	-	-	24.40	(500.81)	494.12	27.64
FX contracts	(130.08)	-	-	1,677.86	(1,798.33)	325.85	75.30
Options	-	-	-	-	(0.10)	0.10	-
Swaps	-	-	-	0.06	(0.05)	(0.01)	-
	(120.15)	-	-	1,702.32	(2,299.29)	820.06	102.94
Cross holdings	2,903.89	-	-	31.63	(147.26)	107.62	2,895.88
Other							
Cash and current assets	3,735.09	(616.25)	309.11	(11,204.60)	12,086.87	(27.32)	4,282.90
	28,987.95	(616.25)	309.11	-	-	2,325.71	31,006.52
Cross holdings	(2,903.89)						(2,895.88)
Net assets	26,084.06						28,110.64



1.14 Transaction costs

Included within the pooled funds' purchases and sales in note 1.13 are direct transaction costs of £13.16m (2016: £10.02m) 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 £0.05m (2016: £0.53m) relating to legal and due diligence fees.

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

Year to 31 December 2017	Fees £m	Commission £m	Stamp duty land tax £m	Legal and other £m	Total £m
Equities	3.22	3.10	-	-	6.32
Futures	-	0.59	-	-	0.59
Pooled investment vehicles	-	4.72	-	1.27	5.99
UK property	-	-	0.05	0.26	0.31
	3.22	8.41	0.05	1.53	13.21

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

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 shown to the right.

At 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Directly held assets				
Equities	7,921.72	3.65	71.13	7,996.50
Fixed interest securities	2,933.05	204.21	-	3,137.26
Index linked securities	713.55	-	-	713.55
Pooled investment vehicles	83.65	5,818.50	4,156.93	10,059.08
UK property	-	-	1,818.41	1,818.41
Derivatives				
Futures	27.64	-	-	27.64
FX contracts	-	75.30	-	75.30
Other				
Cash and current assets	4,282.90	-	-	4,282.90
	15,962.51	6,101.66	6,046.47	28,110.64

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

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 to the right 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 2017	Investment grade	Non investment grade	Unrated	Total
	£m	£m	£m	£m
Fixed interest securities	2,897.37	237.81	2.08	3,137.26
Index linked securities	713.55	-	-	713.55
Pooled investment vehicles	-	-	10,059.08	10,059.08
FX contracts	75.30	-	-	75.30
Futures	-	-	21.36	21.36
Cash	3,974.25	-	-	3,974.25
Stock lending	192.91	-	-	192.91
	7,853.38	237.81	10,082.52	18,173.71

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

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:

	2017 £m	2016 £m
Unitised insurance policies	4,354.98	5,160.86
Partnerships	3,765.68	4,008.77
Other managed funds	1,837.58	1,040.19
Hedge funds	100.84	178.67
Property partnerships	-	0.15
	10,059.08	10,388.64

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 £1,437.63m (2016: £1,166.92m).

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:

	2017 £m	2016 £m
Currency		
US dollar	6,977.98	5,346.56
Euro	999.74	872.52
Japanese yen	456.89	195.61
Other	2,872.13	2,683.44
	11,306.74	9,098.13

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:

	2017 £m	2016 £m
Direct		
Fixed interest securities	3,137.26	3,962.16
Index linked securities	713.55	343.17
Fixed interest futures	(1.52)	(9.44)
Indirect		
Fixed interest pooled investment vehicles	1,437.63	1,166.92
	5,286.92	5,462.81

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:

	2017 £m	2016 £m
Direct		
Equities	7,996.50	5,930.11
UK property	1,818.41	1,845.04
Equity futures	29.16	19.37
Indirect		
Equity pooled investment vehicles	4,428.57	5,083.51
Private equity pooled investment vehicles	2,954.82	2,876.23
Infrastructure pooled investment vehicles	602.95	890.28
Other managed funds	534.26	192.88
Hedge funds	100.84	178.67
UK property pooled investment vehicles	-	0.15
	18,465.51	17,016.24

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:

	2017 £m	2016 £m
RPMI Railpen*	10,040.38	6,286.07
Legal & General Investment Management	4,039.95	4,855.88
Northern Trust Asset Management	3,262.06	1,807.37
AQR Capital Management	1,880.46	1,693.14
Blackstone Alternative Asset Management	952.64	594.20
Unigestion	945.60	988.43
Russell Investments	915.69	815.59
Insight Investment	636.52	640.01
Horsley Bridge Partners	464.36	508.88
BlackRock Advisors (UK)	431.33	566.88
Capital Fund Management (from March 2017)	337.43	-
Wellington Management International	329.47	747.83
Intermediate Capital Group	301.48	348.46
Arcus Infrastructure Partners	275.58	251.31
Credit Suisse ILS Limited (from November 2017)	184.81	-
Goldman Sachs Asset Management	179.77	193.04
OneFamily Lifetime Mortgages Limited	149.29	63.95
Sequoia Capital	142.14	129.37
Innisfree Limited	130.06	142.37
HarbourVest Partners	116.01	165.85
HealthCare Royalty Partners	104.95	107.40
Kobalt Music Group (from July 2017)	103.79	-
Long Harbour	99.97	57.05
Morningside Ventures	89.34	82.94
Pensions Infrastructure Platform	84.53	35.57
Riverside Europe Fund Associates	82.89	88.04
Accel Partners	74.94	74.90
Maddox Capital (from September 2017)	72.88	-
Adams Street Partners	72.72	106.53
Carried forward	26,501.04	21,351.06

*Included in this balance is cash invested in Liquidity Funds totalling £3,696.19m (2016 : £2,674.65m)

	2017 £m	2016 £m
Brought forward	26,501.04	21,351.06
Bain Capital	71.76	73.68
Westbridge Capital Partners	66.15	59.24
Columbia Capital	64.42	52.17
Venor Capital Management	63.33	25.12
Standard Life Investments	61.96	77.12
Pantheon Ventures	56.66	77.71
Apax Partners	56.22	75.65
Cinven	56.01	82.71
Dalmore Capital Limited	49.09	40.20
Khosla Ventures	47.30	55.23
Great Hill Partners	45.58	52.62
Grosvenor Capital Management	44.24	96.65
Thoma Bravo	41.63	39.14
Owl Rock Capital Advisors (from April 2017)	39.78	-
General Atlantic	37.67	34.07
H.I.G. Capital	36.89	20.32
Hony Capital	36.26	43.22
Warburg Pincus	35.03	40.96
Balderton Capital	34.74	36.27
Orion Energy Partners	34.12	20.46
Scale Venture Partners	32.45	39.78
Highland Capital Partners	31.71	28.87
Limerston Capital Partners	31.37	34.28
Anacap Financial Partners	31.19	22.33
Innovation Works	29.15	23.58
Institutional Venture Partners	29.14	41.65
Charlesbank Capital Partners	29.04	30.45
Clearsight Investments	28.92	25.87
Private Advisors	27.96	21.36
Ares Management	26.52	31.85
Innova	22.43	19.97
ClearVue Partners	22.36	24.38
Carried forward	27,822.12	22,697.97

	2017 £m	2016 £m
Brought forward	27,822.12	22,697.97
KPS Capital Partners	20.46	17.16
Sankaty Advisors	19.90	28.14
Archer Capital	17.58	17.75
Bessemer Venture Partners	17.51	18.25
Peak Rock Capital	16.53	10.28
WP Global Partners	16.26	17.93
Index Ventures	16.25	14.74
Andreessen Horowitz	16.23	15.57
Domain Partners	15.52	18.90
CI Capital Investors	13.74	20.31
Oaktree Capital Management	13.29	22.25
Berkshire Partners	12.66	15.32
Navis Capital Partners	12.52	14.13
Blakeney General Partners	12.02	13.25
Alinda Capital Partners	11.74	298.68
Southern Cross Group	10.19	11.75
General Catalyst	9.88	8.77
Headland Capital Partners	9.30	11.33
EQT Funds Management	8.73	15.82
Triton Partners	8.40	4.57
Abry Partners	4.53	7.04
Palatine Private Equity (from September 2017)	3.68	-
Amplo Partners (from December 2017)	1.48	-
Governance For Owners Group	0.09	0.09
Bridges Community Ventures	0.03	0.17
Orchard Street (to November 2017)	-	1,889.68
Lazard Asset Management (to September 2017)	-	362.61
Epoch Investment Partners (to June 2017)	-	333.81
Bridgewater Associates (to November 2017)	-	192.88
Indicus Advisors (to January 2017)	-	4.83
William Blair & Company (to April 2017)	-	0.08
	28,110.64	26,084.06

1.18 Performance

At the start of 2017 the method of presenting pooled fund performance was amended. Performance is now calculated by RPMI based on changes in the relevant pooled fund unit prices, which are net of fees over the period. The five-year, or since inception, performance numbers quoted in these accounts have therefore been restated under this new method. As part of this exercise, benchmarks and targets have been reviewed and replaced with comparators. Where the pooled fund comparator is different to the benchmark previously stated, the five-year, or since inception, comparator has also been restated.

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

	2017 %	2016 %
FTSE North America Index	25.00	25.00
FTSE All Share Index	20.00	20.00
FTSE Developed Europe (ex UK) Index	20.00	20.00
FTSE Developed Asia Pacific Index	20.00	20.00
MSCI Emerging Markets Index (50% hedged to GBP)	15.00	15.00
	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 comparators that all other pooled funds were measured against during the year are shown in the table below:

Pooled fund	Comparator
Growth	UK Retail Price Index plus 4% per annum
Private Equity	MSCI All Countries World Index plus 1% per annum
Property	IPD UK Monthly Properties Index
Government Bond	Citigroup World Government Bond UK Index 3 – 7 Years GBP
DC Global Equity	FTSE World Index with Developed Markets hedged to UK GBP
DC Long Term Growth	Composite comparator comprising: 75% MSCI All Country World Index Net (50% hedged to GDP) 25% Citigroup World Government Bond Index (hedged to GBP)
DC Deposit	GBP 1 month LIBOR
DC Index Linked and Global Bond	Composite comparator comprising: 50% FTSE UK Gilts Index Linked >15 years Index 50% Barclays Global Aggregate Corporation index (GBP hedged)
DC Aggregate Bond	Composite comparator comprising: 50% FTSE UK Gilts Index Linked >15 years Index 50% Barclays Global Aggregate Corporation Index (GBP hedged to UK Sterling)
Infrastructure	UK Retail Price Index plus 4% per annum
Passive Equity	FTSE All World Index with Developed Markets 100% hedged to UK Sterling
Non Government Bond	Bloomberg Barclays Global Aggregate Corporate Index (100% hedged to UK Sterling)
Cash	GBP 1 month LIBOR
Illiquid Growth	UK Retail Price Index plus 4% per annum
Long Duration Index Linked Bond	Barclays UK Government Inflation Linked Over 15 Years Index
Long Term Income	UK Retail Price Index
Short Duration Index Linked Bond	Barclays UK Government Inflation Linked 1-10 Years Index

The return of each pooled fund as measured by RPMI Railpen is shown in the table below:

Pooled fund	Actual 2017	Comparator 2017	Actual last 5 years	Comparator last 5 years
	(%)	(%)	(%)	(%)
Growth	11.6	8.3	10.0	6.8
Private Equity	8.6	13.2	16.2	14.9
Property	0.7	11.0	7.9	11.2
Government Bond	0.3	0.2	3.1	3.1
Infrastructure	(2.5)	8.3	17.6	6.5
Passive Equity	18.8	18.2	12.9	12.5
Global Equity	17.6	17.1	13.3	12.6
Non Government Bond	5.1	4.6	3.9	3.7
Cash	0.3	0.3	0.4	0.5
Illiquid Growth ¹	7.5	8.3	9.6	7.4
Long Duration Index Linked Bond	2.7	3.1	12.0	12.1
Long Term Income ¹	0.7	4.1	(0.5)	3.8
DC Long Term Growth ¹	11.4	12.1	9.1	9.5
DC Deposit ¹	0.1	0.3	0.3	0.5
DC Global Equity ¹	18.6	18.2	9.2	8.8
DC Aggregate Bond ¹	4.0	4.0	5.8	6.2
DC Index Linked and Global Bond ¹	3.8	3.8	7.0	7.4

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.

Short Duration Index Linked Bond performance is not stated in the above table as this pooled fund only launched in October 2017 so has less than three months' performance reporting.

