

# **RAILWAYS PENSION TRUSTEE COMPANY LIMITED (“THE TRUSTEE”)**

## **STATEMENT OF INVESTMENT PRINCIPLES (“SIP”)**

### **Introduction**

1. Railways Pension Trustee Company Limited is the trustee body (the “Trustee”) for the railway pension schemes listed in Schedule 1 (the “Schemes”) and for each separate Section within the Railways Pension Scheme (a “Section”). The Trustee notes that it is required to produce and maintain a SIP to outline its investment principles and policies (“investment policy”) for each Scheme under law – the Trustee considers each Scheme individually and collectively and this document represents the combined SIP for the Schemes.
2. The Schemes are occupational pension schemes providing defined benefit (“DB”) and defined contribution (“DC”) benefits. The main body of the SIP relates to DB and DC elements of the Schemes (unless otherwise stated), whereas Schedules 2 and 3 apply to the DC elements only.
3. The Trustee has, following consultation with the employers, drawn up this SIP to comply with the requirements of the Pensions Act 1995 (as amended) and subsequent legislation, including The Occupational Pension Schemes (Investment) Regulations 2005 (the “Investment Regulations”). The Trustee has received written advice from the Trustee’s wholly owned subsidiary RPMI Railpen before adopting this SIP. The Trustee has two wholly-owned operating subsidiaries, RPMI and RPMI Railpen, to which it delegates the day-to-day operation of the Schemes.

### **Responsibilities and Process**

4. The Trustee is responsible under the Pensions Act 1995 for determining the overarching investment principles used across the Schemes. These are outlined in this document and supporting documents which can be found online at <https://www.rpmirailpen.co.uk/investment/>. Investment strategy for the DB elements of each Scheme and/or Section is set taking account of, amongst other factors, the specific liability profile of that Scheme and/or Section. The Trustee has a sub-committee, the Integrated Funding Committee (“IFC”), responsible for carrying out this work. The performance objectives and asset allocation strategies for each Scheme and/or Section are included in their respective individual Investment Policy Document. See Schedules 2 and 3 for details of the Trustee’s investment strategy in respect of the Schemes’ DC elements.
5. In the case of Sections where the employer has elected to establish a “Pensions Committee”, and those Schemes where a Management Committee has been established, the power to set investment strategy lies with the committees (with the exception at the time of adoption of this SIP, of the British Transport Police Force Superannuation Fund, RPS Govia Thameslink Railway Section and RPS London Overground Section). In the case of these committees, the Trustee retains legal responsibility for implementation of investment policy and ensuring that any policy adopted and set out in the relevant Investment Policy Document complies with the statutory requirements. This function has been delegated in turn by the Trustee to RPMI Railpen.
6. The SIP is reviewed following each triennial actuarial valuation and following any significant change in investment policy. The Trustee will consult with the relevant employers about any changes to the SIP. However, the employers have agreed that where changes are proposed to any specific Investment Policy Document, the Trustee only needs to consult with the employers which participate in the Scheme and/or Section to which that Document relates.

## **Investment Beliefs**

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

## **Investment Objectives**

8. The Trustee's mission is to pay members' pensions securely, affordably and sustainably. It achieves this through investing the assets of each Scheme and each Section in a way that enables them to be used to pay the benefits promised when they fall due, whilst balancing this against the cost that must be met by the employers and members.
9. To facilitate achieving this objective, the Trustee adopts an integrated approach to covenant, funding and investment policy in respect of the DB elements. Due to the different maturity profiles of the liabilities of the individual Schemes and Sections, along with the strength of covenant of each sponsoring employer and any other specific characteristics, investment strategies and therefore expected investment returns will vary widely. Investment objectives therefore have to be set separately for each Scheme and/or Section, with a consistent framework used for evaluation. The agreed approach takes account of return, risk and liquidity requirements (within a "RRL framework"), to enable suitable investment strategies to be adopted for each Scheme and/or Section.
10. The RRL framework outlines the expected investment strategy for each Scheme and broad Section groupings (effectively grouped by covenant strength and maturity profile). The individual components of the RRL framework are considered as follows:
  - 10.1. Expected investment return is considered taking into account risk and affordability, making use of the Pooled Fund range to accommodate individual Scheme and/or Section requirements. The expected return of the proposed investment strategy is judged over the long-term and evaluated with reference to the financial assumptions adopted by the Trustee. The technical provisions funding basis used in triennial valuations is considered with reference to these expected returns;
  - 10.2. Investment risk is considered using several measures with a focus on downside risk, consistent with the Trustee's belief that investment risk is multi-faceted. The level of investment risk will take account of the strength of covenant;
  - 10.3. Liquidity requirements are evaluated with reference to maturity, the strength of covenant of the sponsoring employer and whether the Scheme and/or Section is deemed open or closed to new members.
11. The resultant portfolios and investment strategy for each Scheme and/or Section are expressed as a mix of return-seeking, defensive and matching assets. Each of these portfolios, in aggregate, is expected to generate a long-term return that will match or exceed the discount rates used in the funding assumptions for the respective Scheme and/or Section.

## **Management of Pooled Funds**

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

13. The Schemes and Sections invest in a number of HMRC approved pooled funds (the “Pooled Funds”) operated by RPMI Railpen on behalf of the Trustee. These funds are used to construct each investment portfolio agreed under the RRL framework and are intended to accommodate the differing investment requirements of the Schemes and Sections.
14. As such, each Pooled Fund has distinct return, risk and liquidity characteristics and is either multi-asset or single-asset class by design. The Trustee recognises that the use of a range of traditional and alternative asset classes with distinct return drivers may offer diversifying characteristics. Accordingly, the default offering is to use predominantly multi-asset Pooled Funds which invest in a wide range of assets and strategies. However, Pensions Committees and/or employers can request to make use of other Pooled Funds offered by the Trustee consistent with the agreed investment strategy. The investment performance of each Pooled Fund is measured against an agreed objective and the objective and investment guidelines for each Pooled Fund are set out in the individual fund product particulars.
15. Under the RRL framework, the proportion of the Scheme and/or Section assets to be held in a particular Pooled Fund is not fixed and may, therefore, be changed from time to time by the Trustee (or RPMI Railpen under delegated authority) in order to comply with the RRL framework in the manner the Trustee considers appropriate. Where the rules of a Scheme or a Section require the investment policy to establish the proportion of Scheme and/or Section assets to be held in each of the Pooled Funds, that policy will be recorded in the relevant Investment Policy Document.
16. The Trustee regularly reviews the Pooled Fund range and is free to change the range of Pooled Funds, the associated objectives and investment guidelines from time to time, as it considers appropriate, in accordance with the rules of the Schemes.
17. The investment of the assets within each Pooled Fund, including day-to-day investment decisions, are delegated under an Investment Management Agreement to RPMI Railpen, the internal manager for the railway pension schemes, or to fund managers appointed by RPMI Railpen (together the “Fund Managers”). The investment arrangements are overseen by the Railpen Investments Board (“RIB”) who ensure adherence to the Trustees’ investment policy. More information on the delegated structure can be found in the annual report and accounts under <https://www.rpmirailpen.co.uk/report-accounts/>.
18. The Trustee delegates investment powers to RPMI Railpen under the terms of the Investment Management Agreement which sets out the parameters and policies within which RPMI Railpen operates. The Trustee reviews and monitors performance (and fees) to ensure that the activities of RPMI Railpen continue to be aligned with the Trustee’s investment policy. More information on RPMI Railpen’s obligations to disclose information to the Trustee under the Shareholder Rights Directive (SRD II) can be found on the RPMI Railpen website under <https://www.rpmirailpen.co.uk/shareholder-rights-directive-ii/>.
19. In turn, RPMI Railpen is responsible for ensuring that the Fund Managers invest scheme assets in line with the Trustee's investment policy and that the Fund Managers stewardship, ESG (including climate change) and responsible investment policies (where relevant) align with the Trustee's own policies – this includes assessing how the relevant Fund Manager makes investment decisions based on the medium to long-term financial and non-financial performance of investee companies and engages with investee companies to improve their performance.
20. RPMI Railpen reviews and monitors the contractual arrangements with Fund Managers, including their remuneration and length of appointment, on at least an annual basis through relationship meetings and investment reporting to ensure that they are consistent with the Trustee’s investment policy and that Fund Managers' investment decisions and approach are

aligned with the Trustee's investment policy and role as a responsible investor. More information on how RPMI Railpen ensures that remuneration structures are aligned with the long-term perspective of beneficiaries can be found on the RPMI Railpen website under <https://www.rpmirailpen.co.uk/shareholder-rights-directive-ii/>.

21. The Trustee is satisfied that RPMI Railpen has the appropriate knowledge and experience for managing the investments of the Schemes and it carries out its role in accordance with the criteria for investment set out in "Investment Regulations", the principles contained in the this SIP, the Trustee's investment policy and any applicable investment guidelines and restrictions agreed with the Trustee.
22. The multi-asset Pooled Funds are managed within a strategic framework, agreed on a regular basis with the RIB. The single-asset Pooled Funds are managed to specific objectives with permitted tolerances. Where relevant, RPMI Railpen and the Fund Managers are responsible for deviations from agreed asset allocations within delegated authority limits. Active management is not used by default but will be considered when it is judged to be the most efficient implementation of a given strategy.
23. RPMI Railpen and the Fund Managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and product particulars. This includes the power to rebalance funds from available cash or make transfers in order to keep within stipulated asset allocations or restrictions.
24. In addition to the Pooled Funds, the Schemes and Sections may invest assets with an insurance company regulated by the Prudential Regulation Authority in order to accomplish a transfer of risk.

### **Performance Measurement**

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

### **Risk Management**

26. The Trustee recognises that there are various investment and operational risks to which any pension scheme is exposed, and gives qualitative and quantitative consideration to such risks. A number of steps are taken to manage such risks including:
  - 26.1. an Integrated Funding Committee with specific responsibilities including agreeing integrated funding plans for each Scheme and/or Section, using the RRL framework (as described in paragraphs 9, 10 and 15), and monitoring performance against their agreed funding plans;
  - 26.2. an Audit and Risk Committee with specific responsibilities including review of financial control and risk management systems;

- 26.3. appointing a global custodian to hold assets and RPMI Railpen monitoring the custodian's service provision and credit-worthiness;
- 26.4. appointing the Railpen Investments Board (RIB) with specific responsibilities including oversight of the management of the Pooled Funds;
- 26.5. the establishment of the Investment Risk Committee and Operational Risk Committee to oversee monitoring of investment and operational risks.

### **Defined Contribution Assets**

27. The Schemes provide DC benefits in the form of additional voluntary contributions ("AVCs"), commonly known as BRASS, in the defined benefit Sections and the Industry-Wide Defined Contribution Section ("IWDC"), a standalone DC Section of the Railways Pension Scheme. The IWDC Section is the authorised master trust within the Railways Pension Scheme. The Trustee is responsible for investing DC assets in the best interests of members and beneficiaries, providing appropriate fund choices and ensuring good value for members. The Trustee's strategy and approach to the DC elements are set out in Schedules 2 and 3, to the extent they differ to the DB elements.
28. The range of funds made available for the DC fund arrangements is reviewed regularly and may be changed by the Trustee from time to time in accordance with applicable rules of the Schemes. The intention is to ensure an investment philosophy consistent across both defined benefit and defined contribution arrangements to the extent possible.
29. Further information on AVC Funds can be found in Schedule 2 and further information on the IWDC Section can be found in Schedule 3.

### **Costs**

30. The Trustee recognises that strict control of costs is important in contributing to good investment returns. As such, RPMI and RPMI Railpen are asked to ensure that all aspects of cost from the responsibilities and mandates exercised by those involved in the investment process, both internal and external, are kept under regular review. The aim is to implement Scheme and/or Section strategy in the most efficient manner possible, using internal resources wherever appropriate. Investments within the Pooled Funds are considered in terms of the most efficient way to access desired return drivers. As part of this process, fees payable to external Fund Managers and costs relating to the investment, management, custody and realisation of Pooled Fund assets are kept under regular review.
31. RPMI and RPMI Railpen give full transparency to the Trustee on the underlying costs making up the annual management charges including, but not limited to, investment management costs, internal staff costs, legal costs and IT costs. The Trustee also monitors the level of transaction costs incurred by the funds on a yearly basis. These costs include, but are not limited to, broker commissions, commissions of futures, transfer taxes, and other fees such as bank fees, search fees, legal fees, and stamp duty. More information on the breakdown of costs can be found in the annual report and accounts published on the RPMI Railpen website <https://www.rpmirailpen.co.uk/report-accounts/>.
32. The Trustee does not have a target portfolio turnover range but instead reviews costs in conjunction with net of fees performance figures for the Pooled Funds and Fund Managers are encouraged to take a long-term approach to investing in order to align with the Trustees' investment beliefs and investment policy.

## **Environmental, social and governance considerations**

33. The Trustee recognises its legal duty to consider factors that are likely to have a financially material impact on investment returns over the period during which benefits will need to be funded by the Schemes' investments.
34. These factors include, but are not limited to, environmental, social and governance (ESG) factors, including, but not limited to climate change.
35. The Trustee expects RPMI Railpen and Fund Managers to take account of ESG factors in the selection, retention and realisation of investments. In addition, RPMI Railpen takes into account the Fund Managers' policies in relation to ESG factors when selecting Fund Managers and also monitors Fund Managers' compliance with such policies.
36. The Trustee will continue to monitor and assess ESG factors and the risks and opportunities arising from them, as follows:
  - 36.1. the Trustee will undertake annual training on ESG considerations in order to understand fully how ESG factors including climate change could impact investments;
  - 36.2. the Trustee will require RPMI Railpen and Fund Managers to provide information annually about their ESG policies and how they integrate ESG into their investment processes.

## **Non-financial matters**

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

## **Voting and Engagement Policy**

39. The Trustee believes that companies with robust corporate governance structures are more likely to achieve superior long-term financial performance and will manage their risks and opportunities effectively. It signals its expectations to companies through RPMI Railpen's voting and engagement activities.
40. RPMI Railpen's global voting policy sets out expectations for issuers, and may be read in conjunction with RPMI Railpen's engagement policy and other market specific guidance, which can be found on RPMI Railpen's website under <https://www.rpmirailpen.co.uk/active-ownership/>. Thoughtful voting alongside constructive engagement with portfolio companies supports the Trustee's investment objectives.
41. RPMI Railpen, on behalf of the Trustee, is a signatory to the UK Stewardship Code, and engages with its external Fund Managers to encourage them to adopt practices in line with the spirit of this Code as appropriate. Compliance with the UK Stewardship Code can be found on the RPMI Railpen website at <https://www.rpmirailpen.co.uk/active-ownership/>.
42. The Trustee expects RPMI Railpen to:

- 42.1. exercise rights attaching to investments and to undertake engagement activities in accordance with RPMI Railpen's global voting policy and current best practice, including the UK Stewardship Code;
  - 42.2. select Fund Managers which have appropriate ESG policies and to monitor their compliance with those policies;
  - 42.3. evaluate all financially material considerations, including ESG factors (including, but not limited to, climate change) as part of the decision-making process around its stewardship activities;
  - 42.4. provide, at least annually, details of its ESG policies and stewardship activities and those of Fund Managers.
43. The Trustee's delegation to RPMI Railpen of the exercise of rights attaching to investments and engagement activities includes the delegation of the functions of engaging with and the monitoring of "relevant persons", including (but not limited to) the Fund Managers and, if applicable, investee companies and other stakeholders about "relevant matters", including (but not limited to) matters concerning investee companies, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. RPMI Railpen exercises these functions in line with RPMI Railpen's global voting policy and current best practice, including the UK Stewardship Code.
44. The Trustee expects RPMI Railpen to update the Trustee periodically (and at least annually) on its ESG policies and its stewardship activities and on those of Fund Managers.

**Adopted by the Trustee on 17 September 2020**

## **Schedule 1**

### **RAILWAYS PENSION SCHEMES**

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

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

## Schedule 2

### ADDITIONAL VOLUNTARY CONTRIBUTION (“AVC”) FUNDS

#### 1. Introduction

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

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

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

#### 2. Objective

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

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

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

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

#### 3. Investment strategy

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

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

life and approach retirement. This is achieved by switching from return seeking assets, which aim for long-term growth in excess of inflation, to lower risk assets as a member approaches their nominated target retirement age.

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

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

#### **4. Fund choices**

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

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

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

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

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

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

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

#### **5. Default arrangements**

The aim of the default arrangements for each of the BRASS and AVC Extra arrangements is to generate long-term growth in excess of inflation over members’ working lifetimes.

The BRASS arrangement is a “top-up” or additional benefit to the main Scheme DB benefit, and as such the default aims to seek growth with some volatility mitigation due to diversification by investing in the Long-Term Growth Fund during the earlier years. The “at retirement” portfolio has been constructed on the basis that BRASS members will draw 100% of their benefits as cash. The asset allocation therefore de-risks to the Deposit Fund over the five years prior to target retirement age. This default strategy is intended to ensure that assets are invested in the best interests of relevant members and beneficiaries in BRASS

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

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

## 6. Fund annual charges

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

## 7. Risks

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

- Risk of inadequate long-term returns, in particular that fund values don’t increase with inflation. To manage this, the Trustee includes funds that have an expected long-term return above inflation although this is not guaranteed over any given period;
- Risk of deterioration in investment conditions near retirement. To address this the Trustee has made available lower estimated risk funds and lifestyle options that default into lower estimated risk funds as members approach target retirement age;
- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;
- Risk of underlying Fund Managers and/or RPMI Railpen not meeting their objectives. The Defined Contribution Committee provides oversight to the performance of the funds. The Railpen Investments Board oversees the performance of RPMI Railpen and the Fund Managers on a regular basis; and
- Risk of inappropriate member decisions. This is addressed by making a default option available which the Trustee believes appropriate for the majority of members.

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

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

## Schedule 3

### INDUSTRY-WIDE DEFINED CONTRIBUTION SECTION

#### 1. Introduction

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

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

#### 2. Objective

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

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

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

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

#### 3. Investment strategy

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

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

After taking advice, the Trustee has made lifestyle options available to members, matching various degrees of risk. These options offer a changing investment programme designed to meet a typical member’s perceived changing financial needs as they move through their working life and approach retirement. This is achieved by switching from return seeking assets, which aim for long-term growth in excess of inflation, to lower risk assets as a member approaches their nominated target retirement age.

One of the lifestyle options operates as a default vehicle, should a member not wish to make their

own selection from the available fund range. The default lifestyle option is designed to be appropriate for a typical member with a predictable target retirement age.

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

#### **4. Fund choices**

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

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

The IWDC Section also offers two lifestyle options:

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

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

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

#### **5. Default arrangement**

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

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

## 6. Fund annual charges

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

## 7. Risks

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

- Risk of inadequate long-term returns, in particular that fund values don't increase with inflation. To manage this, the Trustee includes funds that have an expected long-term return above inflation, although this is not guaranteed over any given period;
- Risk of deterioration in investment conditions near retirement. To address this the Trustee has made available lower estimated risk funds and lifestyle options that default into lower estimated risk funds as members approach target retirement age;
- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;
- Risk of underlying Fund Managers and/or RPMI Railpen not meeting their objectives. The Defined Contribution Committee provides oversight to the performance of the funds. The Railpen Investments Board oversees the performance of RPMI Railpen and the Fund Managers on a regular basis; and
- Risk of inappropriate member decisions. This is addressed by making a default option available which the Trustee believes appropriate for the majority of members.

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

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