

**BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND**

Pensions registration number: 100541628

**ANNUAL REPORT & ACCOUNTS  
2010**

**REPORT AND ACCOUNTS  
2010**

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## CHAIRMAN'S INTRODUCTION

I'm honoured to be able to present for a fourth time the Annual Report and Accounts of the British Transport Police Force Superannuation Fund ('BTPFSF') for its year ended 31 December 2010.

The period under review has been another challenging year in the world of pensions. The new Coalition Government wasted no time in making modifications to the UK regulatory and tax regime under which the Fund operates, and many of these changes will affect members of the BTPFSF. One of the most publicised developments is the Government's change to the basis on which public sector pensions are increased from the Retail Prices Index ('RPI') to the Consumer Prices Index ('CPI'). The rules of the BTPFSF provide that pensions will rise in line with Orders made under the Pension (Increase) Act 1971, which mirrors an approach used by public sector schemes. CPI has historically usually been lower than RPI, and it is generally expected to be lower in most years in future. Although this is expected to lead to lower pensions, the corollary is that the scheme should be more affordable.

2010 was a better year for investment returns, both generally and for the BTPFSF in particular. The performance of most of the Fund's asset classes was positive in absolute terms and ahead of market benchmarks in the majority of cases.

The strongest performance was again from the Commodities Pooled Fund, which achieved a return of over 21% during the year. The Commodities Pooled Fund was introduced during 2009 as part of a major review of the investment strategies and asset classes made available to the Fund for investment. During 2010 the review of the pooled funds available to the BTPFSF for investment continued. The Global Bond (Hedged) Pooled Fund was replaced with two new pooled funds – the Government and Non-Government Bond Pooled Funds – in order to facilitate separate investment in either or both of these asset classes.

There were four changes in the membership of your Board during the year. Peter Duff retired as a director in October 2010 and was replaced by David Simpson, nominated by the Network Rail electoral group, in December 2010. Russell Mears joined the Trustee Board in July 2010, nominated by the freight train operating companies & support services electoral group. Russell replaced James Jerram CBE, who retired in January 2010. As I highlighted in last year's report, members benefited from James's outstanding contribution to the Fund for almost 20 years, including 11 years as your Chairman. We would again express our gratitude to James, and indeed to all those who have served as your Trustee Company directors during the past year. The collective knowledge, experience and guidance they bring to the Scheme are invaluable.

I would like, as always, to end by taking this opportunity to thank all the staff at RPMI for their hard work in the interests of the Fund's members and other stakeholders. The excellent service they continue to provide makes a huge contribution to the well being of the Fund.



**Derek Scott**  
Chairman of the Trustee Company

## FINANCIAL STATEMENTS

### FUND ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £000	2009 £000
<b>Contributions and benefits</b>			
Contributions receivable	3	36,519	33,156
Individual transfer values received		1,725	3,249
		<b>38,244</b>	36,405
<hr/>			
Pensions		(28,641)	(27,863)
Annuities purchased		(45)	(11)
Lump-sum retirement benefits		(9,359)	(7,615)
Individual transfer values paid		(588)	(400)
Payments to and on account of leavers		(53)	(7)
Death benefits		(416)	(465)
Fund benefits payable		<b>(39,102)</b>	(36,361)
<hr/>			
Administrative expenses	4	(1,044)	(622)
PPF levies		(212)	(309)
		<b>(40,358)</b>	(37,292)
<hr/>			
<b>Net withdrawals from dealings with members</b>		<b>(2,114)</b>	(887)
<b>Returns on investments</b>			
Change in market values	5	90,749	111,133
Interest on loans and deposits		2	4
<b>Net returns on investments</b>		<b>90,751</b>	111,137
<hr/>			
<b>Net increase in the Fund during the year</b>		<b>88,637</b>	110,250
Net assets at the start of the year		736,751	626,501
<b>Net assets at the end of the year</b>		<b>825,388</b>	736,751

The accompanying notes numbered 1 to 8 form an integral part of these financial statements. The financial statements show the consolidated position of the three sections of the BTPFSF. The extraction accounts of the individual sections are shown in Appendix J.

## FINANCIAL STATEMENTS

### NET ASSETS STATEMENT AS AT 31 DECEMBER 2010

	Notes	2010 £000	2009 £000
Investments	5	823,011	736,999
Net current assets/(liabilities)	6	2,377	(248)
<hr/>			
Net assets at the end of the year		825,388	736,751
<hr/>			

Approved by the directors of the Trustee Company on 25 May 2011.

Derek Scott



\_\_\_\_\_  
(Chairman)

John Mayfield



\_\_\_\_\_  
(Director)

The financial statements summarise the transactions and net assets of all the sections of the Fund. They do not take account of the obligations to pay pensions and other benefits in the future. The ability to pay future pensions is addressed in the actuarial review of the Fund, which is summarised on pages 27 and 28 and should be read in conjunction with these financial statements.

The accompanying notes numbered 1 to 8 form an integral part of these financial statements. The financial statements show the consolidated position of the three sections of the BTPFSF. The extraction accounts of the individual sections are shown in Appendix J.

## **FINANCIAL STATEMENTS**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

#### **1. Basis of preparation**

The financial statements have been prepared in accordance with applicable United Kingdom law, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, 'Financial Reports of Pension Schemes (revised May 2007)'.

#### **2. Accounting policies**

The principal accounting policies of the Fund are as follows:

##### **Investments**

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

- (a) The majority of the assets of the Fund 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 year-end unit prices of the units held by the Fund in each pooled fund at the year end. Unit prices reflect the 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 pooled fund accounts in Appendix N.
- (b) Additional voluntary contribution ('AVC') investments (BRASS) are stated at market values at the year-end date as advised by the provider. The Pension Assured Fund ('PAF') is valued at the market values of assets within the fund as advised by the provider, Aviva. Members holding units in the PAF aged 55 or more are 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 dependent on their age.
- (c) Loans and deposits and net current assets/(liabilities) are included at book cost, which the Trustee Company considers represents a reasonable estimate of accounting fair value.

##### **Change in market values**

Change in market values mainly comprises gains or losses arising in the year on investments.

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

**FINANCIAL STATEMENTS  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2010 (CONTINUED)**

**Change in market values (continued)**

Realised and unrealised gains and losses on 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, including AVCs, and benefits are accounted for in the year in which they fall due.

Benefits are accounted for from the period in which the member notifies the Trustee of his/her decision on the type or amount of benefit to be taken or, if there is no member choice, from the date of retirement or leaving.

**Administrative expenses**

All administrative expenses are accounted for in the year in which they fall due.

**Pension Protection Fund ('PPF') levies**

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

**Transfer values**

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

**Benefit support**

Amounts receivable as benefit support under the Transport Act 1980 to extinguish future liabilities are accounted for when the future liability is discharged.

**FINANCIAL STATEMENTS**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31**  
**DECEMBER 2010 (CONTINUED)**

**3. Contributions receivable**

	<b>2010</b>	2009
	<b>£000</b>	£000
Members' contributions :		
Normal	<b>13,141</b>	11,858
Additional voluntary	<b>730</b>	782
Employer's contributions		
Normal	<b>20,778</b>	18,523
Benefit support:		
Government support	<b>1,863</b>	1,986
Transport for London	<b>7</b>	7
	<b>36,519</b>	33,156

**4. Administrative expenses**

	<b>2010</b>	2009
	<b>£000</b>	£000
Non-recoverable VAT	<b>370</b>	216
Pensions administration	<b>284</b>	188
Actuarial fees	<b>224</b>	106
PPF levies	<b>212</b>	309
Trustee governance	<b>70</b>	63
Legal fees	<b>41</b>	6
Communications	<b>20</b>	19
Other professional fees	<b>13</b>	7
Other	<b>12</b>	8
Audit fees	<b>10</b>	9
	<b>1,256</b>	931

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

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



**FINANCIAL STATEMENTS**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31**  
**DECEMBER 2010 (CONTINUED)**

**5. Net returns on investments**

(a) Value of investments

	Market values at 31.12.09	Purchases at cost	Sales proceeds	Change in market values	Market values at 31.12.10
	£000	£000	£000	£000	£000
<b>Pooled funds</b>					
Global Equity	365,774	33,286	(8,560)	49,508	<b>440,008</b>
Property	64,027	-	(51)	9,233	<b>73,209</b>
Hedge Funds	67,789	-	-	5,415	<b>73,204</b>
Private Equity	87,380	6,665	(36,727)	11,651	<b>68,969</b>
Commodities	34,248	422	-	7,068	<b>41,738</b>
Non-Government Bond	-	40,982	(720)	1,361	<b>41,623</b>
Government Bond	-	42,616	(813)	(275)	<b>41,528</b>
Infrastructure	23,435	-	-	523	<b>23,958</b>
Index-Linked	11,012	-	(889)	1,379	<b>11,502</b>
Short Bond	1,231	-	(146)	44	<b>1,129</b>
Global Bond (Hedged)	75,370	2,632	(82,416)	4,414	-
	<b>730,266</b>	<b>126,603</b>	<b>(130,322)</b>	<b>90,321</b>	<b>816,868</b>
BRASS and AVCs	6,381	1,526	(1,758)	428	<b>6,577</b>
	<b>736,647</b>	<b>128,129</b>	<b>(132,080)</b>	<b>90,749</b>	<b>823,445</b>
Other cash and cash instruments	352				<b>(434)</b>
	<b>736,999</b>				<b>823,011</b>

BRASS investments include 2,351,961 units in the PAF. The PAF provider, Aviva, guarantees that a member's unit will be worth at least £1 each on the guarantee date, which is the member's 55th birthday or next birthday if over 55 or on earlier death. On early retirement or transfer, the member may receive a discounted amount.

(b) Analysis of the Fund's pooled fund investments

Income from pooled fund investments is capitalised within the price of the pooled fund units and, therefore, reflected within the market values of investments in note 5(a). Although income is not distributed, the pooled fund regulations allow the Fund

**FINANCIAL STATEMENTS**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31**  
**DECEMBER 2010 (CONTINUED)**

**5. Net returns on investments (continued)**

(b) Analysis of the Fund's pooled fund investments (continued)

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. The underlying movement of assets within pooled funds can be found in the pooled fund accounts in Appendix N.

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. These charges and the fees incurred in relation to the management of the assets within the pooled funds are shown in Appendix N.

Further analysis of investments by pooled fund is provided in an extract in the pooled fund accounts in Appendix N. The percentages of the pooled funds' assets that relate to BTPFSF investments are shown in the table below.

	<b>% of pooled fund owned</b>	% of pooled fund owned
	<b>31.12.10</b>	31.12.09
<b>Pooled Funds</b>		
Commodities	<b>43.7</b>	21.0
Hedge Funds	<b>17.6</b>	6.5
Property	<b>9.1</b>	5.0
Global Equity	<b>8.5</b>	4.8
Index-Linked	<b>5.9</b>	1.6
Non-Government Bond	<b>5.7</b>	-
Government Bond	<b>5.5</b>	-
Private Equity	<b>4.4</b>	4.2
Infrastructure	<b>3.1</b>	3.1
Short Bond	<b>3.0</b>	0.7
Global Bond (Hedged)	<b>-</b>	3.8

**FINANCIAL STATEMENTS**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31**  
**DECEMBER 2010 (CONTINUED)**

**6. Net current assets/(liabilities)**

	<b>2010</b>	2009
	<b>£000</b>	£000
Contributions due from employer	<b>2,334</b>	50
Benefits paid in advance	<b>332</b>	-
Benefit support due	<b>149</b>	160
Benefits payable	<b>(12)</b>	(13)
Investment creditor	<b>(36)</b>	(68)
Other	<b>(101)</b>	(78)
Taxation and social security	<b>(289)</b>	(299)
	<b>2,377</b>	(248)

Contributions due from the employer were paid in accordance with the due date in the schedule of contributions in force at the year-end.

**7. Related party transactions**

The Trustee Company and its subsidiaries provide services to the Fund. The charges, including those payable to external service providers, are detailed in note 4. At 31 December 2010 net current assets included a liability of £100,000 in respect of these charges (2009 – a liability of £77,000).

One director of the Trustee Company is a member of the Fund and is also a non-executive director of RPMI. No other directors of RPMI are members of the Fund. Certain directors of the Trustee Company and its subsidiaries receive remuneration, which is disclosed in the financial statements of those companies. The Fund bears its share of this remuneration. Contributions are paid in accordance with the schedule of contributions.

**8. Employer-related investments**

There was no self investment at any time during the year, or during the previous year.

## **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND ('the Fund')**

We have audited the financial statements of the Fund for the year ended 31 December 2010 set out on pages 4 to 11. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Fund Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Fund Trustee those matters we are required to state to them 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 Fund Trustee, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Trustee and Auditor**

As explained more fully in the Statement of Trustee's responsibilities set out on page 14, the Fund Trustee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### **Opinion on financial statements**

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Fund during the fund year ended 31 December 2010 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 fund year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



**Kevin Clark**  
**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
15 Canada Square, Canary Wharf  
London, E14 5GL  
25 May 2011

## **TRUSTEE'S RESPONSIBILITIES IN RESPECT OF CONTRIBUTIONS AND SUMMARY OF CONTRIBUTIONS PAYABLE IN THE YEAR**

### **Statement of Trustee's responsibilities in respect of contributions**

The Fund's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Fund, by or on behalf of the employer and the active members of the Fund and the dates on or before which such contributions are to be paid.

### **Trustee's Summary of Contributions payable under the schedules in respect of the Fund year ended 31 December 2010**

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Fund under the schedule of contributions certified by the Actuary in respect of the Fund year ended 31 December 2010. The Fund Auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

<b>Contributions payable under the schedule in respect of the Fund year</b>	£'000
Employer:	
Normal contributions	20,778
Member:	
Normal contributions	13,141
<b>Contributions payable under the schedule</b>	<u>33,919</u>

### **Reconciliation of contributions**

Reconciliation of contributions payable under the schedule to contributions reported in the accounts in respect of the Fund year:

	£'000
Contributions payable under the Schedule (as above)	33,919
Other contributions payable under Fund rules:	
Government support	1,863
Members' additional voluntary contributions	730
Transport for London	7
Total contributions reported in the accounts	<u>36,519</u>

Signed on behalf of the Trustee on 25 May 2011:



**Derek Scott Chairman**

**INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS, MADE UNDER REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR) REGULATIONS 1996, TO THE TRUSTEE, OF THE BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND ('the Fund')**

We have examined the summary of contributions payable under the schedule of contributions to the Fund in respect of the Fund year ended 31 December 2010 which is set out on page 13.

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

**Respective responsibilities of Trustee and Auditor**

As described on page 13, the Fund's Trustee is responsible, under the Pensions Act 2004, for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund. The Trustee has a general responsibility for procuring that contributions are made to the Fund in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid to the Fund and to report our opinion to you. We read the Trustee's report and the other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions to the Fund and to report our opinion to you.

**Basis of statement about contributions**

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the relevant requirements. For this purpose, the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments. Our statement about contributions is required to refer to those exceptions which come to our attention in the course of our work.

**INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS, MADE UNDER REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR) REGULATIONS 1996, TO THE TRUSTEE, OF THE BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND ('the Fund') (CONTINUED)**

**Statement about contributions payable under the schedule**

In our opinion contributions for the Fund year ended 31 December 2010 as reported in the summary of contributions and payable under the schedule have in all material respects been paid at least in accordance with the schedule of contributions certified by the Actuary at Appendix H.



**Kevin Clark**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
KPMG  
15 Canada Square  
Canary Wharf  
London E14 5GL  
25 May 2011

## **STATEMENT OF TRUSTEE RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS**

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'), are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Fund members, beneficiaries and certain other parties, audited financial statements for each Fund year which:

- show a true and fair view in accordance with UK GAAP of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified in the Schedule to 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. They are also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Fund 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's responsibilities accompanying the Trustee's summary of contributions.

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

### **Approval of the accounts**

The financial statements have been prepared and audited in accordance with regulations made under sections 41 (1) and (6) of the Pensions Act 1995. The directors of the Trustee Company approved this report on 25 May 2011.



## **THE TRUSTEE COMPANY**

### **Railways Pension Trustee Company Limited**

The Railways Pension Trustee Company Limited (‘Trustee Company’) is the trustee to 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.

As a corporate trustee, trust law, the Pensions Acts and the Companies Acts govern the activities of the Trustee Company. The Trustee Company has overall fiduciary responsibility for the effective operation of the BTPFSF and the other pension 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, preserved pensioners, pensioners and employers.

	Total membership at 31.12.10
Railways Pension Scheme	338,560
British Railways Superannuation Fund	4,323
British Transport Police Force Superannuation Fund	5,837
BR (1974) Fund	3,406
	<hr/> <u>352,126</u>

### **Railtrust Holdings Limited**

The Trustee Company is owned by Railtrust Holdings Limited (‘RHL’), a company limited by guarantee. Designated employers of sections in the RPS are 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.

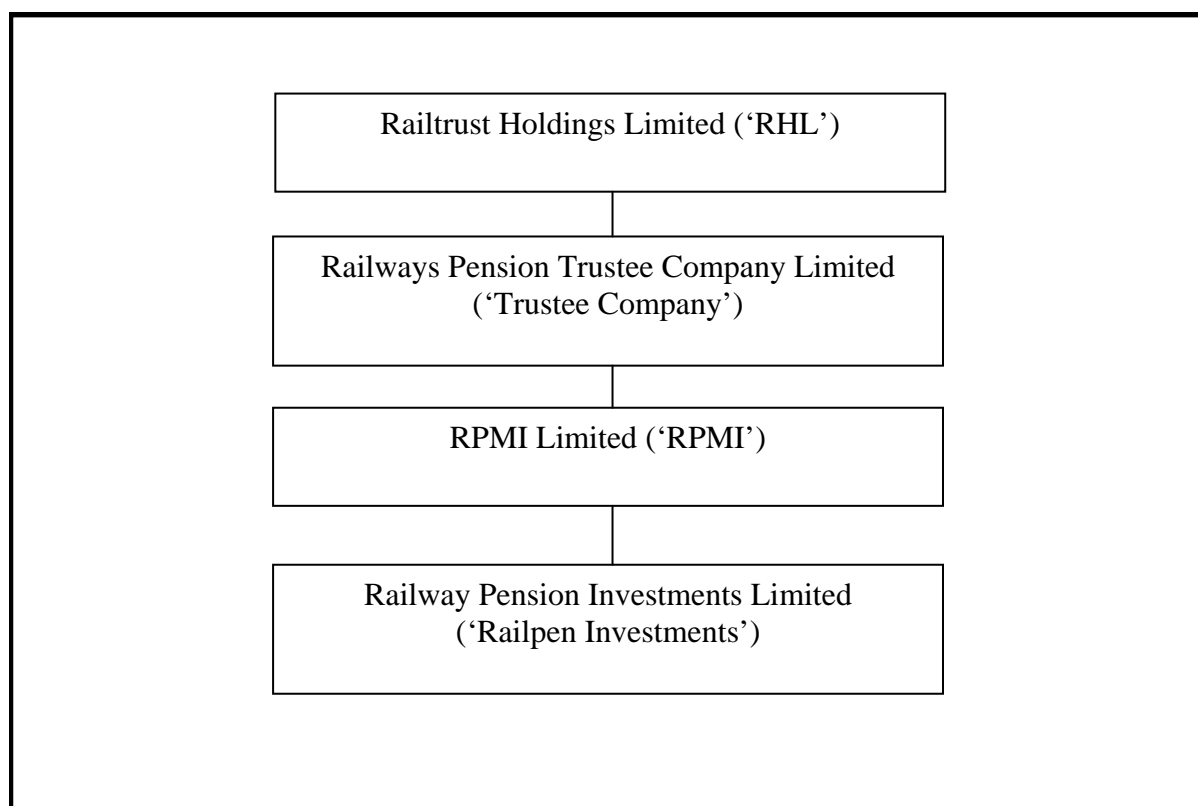
The primary purpose of RHL is to provide governance controls and appoint the directors of the Trustee Company. The Articles of Association set out the procedure for the appointment of directors. The aim is to achieve a balanced representation of the different employers and the members (or their representatives)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

There are sixteen directors in total, eight elected by the employers in the railway industry (‘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. 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 TRUSTEE COMPANY (CONTINUED)

### The structure of the Trustee group



### Employer director appointment procedure

A review of the Trustee's employer director appointment procedure was carried out in 2009 and changes implemented from June 2010. The aim of the review was to find a procedure which was more representative of the current structure of the railway industry. The previous arrangement had been in place for over 12 years.

The new procedure is based on industry subsector constituencies. The nominating constituency groups and the number of directors to be appointed by each constituency are set out in the table below.

<b>Nominating constituency</b>	<b>Number of Directors</b>
Passenger train operating companies	3
Network Rail	2
Support services (infrastructure, freight and other support services)	2
All employers	1

## THE TRUSTEE COMPANY (CONTINUED)

### Employer director appointment procedure (continued)

The new procedure is relatively straightforward and provides consistency and continuity in the make-up of the constituencies.

The voting arrangements recognise all members whilst giving the most emphasis to active members. If there are more nominations than vacancies, voting within the constituency groups is on the basis of the number of employee members and pensioner members associated with the employer. One vote for each active member and half a vote for each pensioner and deferred pensioner. The 'All Employers' group continues to be one employer, one vote.

The two-yearly retirement by rotation of Trustee directors occurred in 2010. Both of the current employer directors due for retirement were nominated for re-election and were re-appointed for a further six years, in one case after a ballot: these were Derek Scott and Richard Goldson. The following chart shows the current employer Trustee directors as at the end of December 2010, their date of retirement by rotation and deemed nominating constituency.

<b>Name</b>	<b>Deemed Nominating Constituency</b>	<b>Date of Retirement by Rotation</b>
Derek Scott	All employers	2016
John Chilman	Franchise operator	2012
Richard Goldson	Franchise operator	2016
John Hamilton	Franchise operator	2014
Chris Hannon	Network Rail	2012
Russell Mears	Support services	2016
David Simpson	Network Rail	2014
John Wilson	Support services	2014

### 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 Committees.

Nominations for the two directors representing the pensioner members 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 and pensioners, as appropriate, in the railway pension schemes. Again, the successful nominees will be those with the most votes.

The two-yearly retirement by rotation of Trustee directors occurred in 2010. All the current employee directors due for retirement were nominated for re-election and were re-appointed for a further six years after a ballot: these were Mick Cash, Gary Towse and David Tyson.

## THE TRUSTEE COMPANY (CONTINUED)

### Employee director appointment procedure (continued)

The following chart shows the current employee Trustee directors as at the end of December 2010, their date of retirement by rotation and deemed nominating constituency.

<b>Name</b>	<b>Deemed Nominating Constituency</b>	<b>Date of Retirement by Rotation</b>
Mick Cash	National Union of Rail, Maritime and Transport Workers (RMT)	2016
Tony Cotgreave	British Transport Pensioners' Federation (Pensioners Federation)	2014
Dave Gott	National Union of Rail, Maritime and Transport Workers (RMT)	2012
Charles Harding	Confederation of Shipbuilding and Engineering Unions (CSEU)	2014
John Mayfield	Retired Railway Officers' Society (RROS)	2014
Stephen Richards	Transport Salaried Staffs' Association (TSSA)	2012
Gary Towse	British Railways Superannuation Fund Management Committee (BRSF)	2016
Dave Tyson	Associated Society of Locomotive Engineers & Firemen (ASLEF)	2016

### 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 way of working. Directors attend between 13 and 25 board and committee meetings a year. Attendance is reported to the Board and published in this report and accounts.

Directors have a comprehensive training programme on induction and throughout their tenure. They complete Training Skills Analyses and have individual, tailor-made training programmes. Our objective is that all Trustee directors should have completed a minimum standard which meets the Pensions Regulator's and the Trustee Company'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, which is Pensions Management Institute accredited. 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 their website which provides one easily accessible location for everything they need to assist them in their role. In 2009 and 2010 the Trustee Company received the Engaged Investor award for trustee training and in 2009 received the Professional Pensions trustee development award.

## **THE TRUSTEE COMPANY (CONTINUED)**

### **Governance (continued)**

The Trustee Board has a Committee structure to aid its decision-making and make the most of Trustee directors' skills and experience. The Trustee Board retains high-level oversight and concentrates on key Trustee reserved functions. It is supported by five Committees (Audit, Benefits & Funding, Case, Executive and Investment). The Committees have delegated powers which are reflected in their terms of reference and allocation of responsibilities charts.

Trustee directors carry out annual self-assessment of the Trustee Board individually and collectively. Performance assessment is recommended best-practice in the pensions industry and is a valuable tool to help the Trustee board assess how it is performing and where improvements may be made. A summary of the results is considered by the Trustee Board and appropriate actions taken.

The Trustee Board aims to maintain and, where possible, improve the standards to which it operates. An independent review was carried out during 2009 of Trustee Board and Committee effectiveness. A working party was then set up to consider the findings and a number of changes have been made to improve aspects of the ways the Board works. These include formal confirmation of a high level strategy, improved performance monitoring, an updated and extended conflicts of interest policy, additional external expertise on the Investment Committee and the preparation of a Trustee Communications Plan to address relationships between the Trustee and its stakeholders.

In addition to ensuring high standards of fiduciary governance, the Trustee also reviews compliance with the Myners principles which codify best practice in investment decision-making. The current six principles were issued at the end of 2008 and cover: effective decision-making, clear objectives, risk and liabilities, performance assessment, responsible ownership, and transparency in reporting. The Trustee Board is pleased to confirm continuing compliance with the Myners principles. There is also a separate report on responsible investment at Appendix D.

### **The operating subsidiaries**

RPMI provides services to railway pension schemes. RPMI is based in Darlington and London and is responsible for: pensions administration; communication with members; strategic investment advice; investment manager monitoring; contribution collection; treasury management; investment, company and scheme accounting; and company secretarial, governance, legal and compliance matters. RPMI is also authorised by the Financial Services Authority ('FSA') to carry out third-party administration services for insurance companies and others.

Railpen Investments, a subsidiary of RPMI, is authorised by the FSA to carry out certain regulated investment business under an Investment Management Agreement with the Trustee Company.

## TRUSTEE COMPANY REPORT

### Creation of the British Transport Police Authority

The principal employer of the Fund is the British Transport Police Authority, which was established by statute to supersede the Strategic Rail Authority ('SRA') with effect from 1 July 2004. The SRA was the principal employer for the period 1 February 2001 to 30 June 2004, superseding the British Railways Board ('BRB').

### Membership

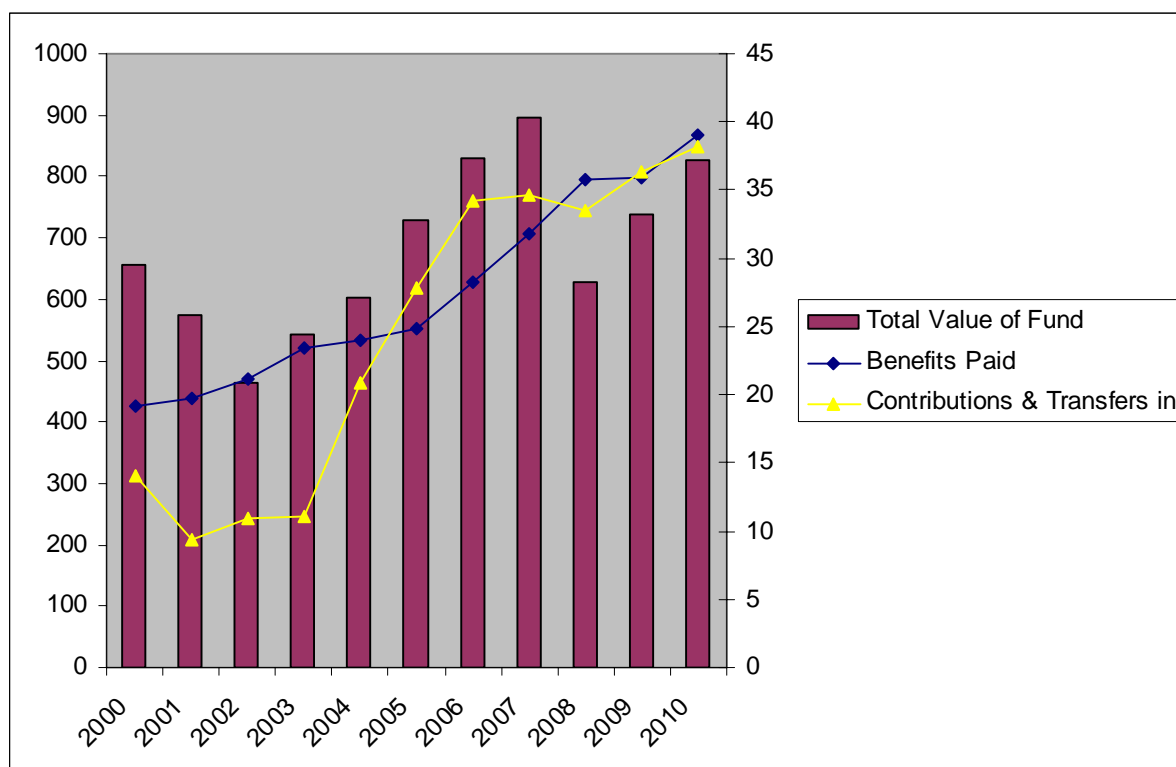
Total membership rose slightly during the year increasing by 1.3% (2009 – 2.1%).

### Financial information

During the year the net return on investments of the Fund as a whole was a gain of £90.7m (2009 – gain of £111.1m).

The Fund paid benefits of £38.5m in 2010 (2009 – £36.0m) and received contributions of £36.5m (2009 – £33.1m). Allowing for transfer values and expenses, there was a net withdrawal from dealings with members of £2.1m (2009 – net withdrawal of £0.9m).

The movement over the last ten years is shown in the following graph :



### Actuarial valuation

The most recent valuation of the Fund was carried out at 31 December 2009 by the Fund Actuary, Arthur Zegleman of Towers Watson Limited. Information about the results of the

## **TRUSTEE COMPANY REPORT (CONTINUED)**

### **Actuarial valuation (continued)**

valuation can be found in the Actuary's Report on pages 27 – 28 and the summary funding statement in Appendix I.

### **Safe custody of assets**

The Trustee Company gives particular attention to the safekeeping of its assets, including the efficiency of transaction settlement, income collection, foreign exchange dealing and tax records. The appointed custodian supplies the Trustee Company with reports, attested by their external auditors, on the effectiveness of internal controls. Regular visits are made to the custodian and an independent custody-efficiency monitoring service is retained. Foreign exchange dealing is also monitored.

### **Operational risk**

The Trustee Company was one of the first trustees to introduce a risk management process over ten years ago. The risk management process, which has been reviewed during the year, identifies risks, assesses their potential impact and likelihood and determines the appropriate action to reduce their likelihood and consequences. The risk management process is explained in more detail in Appendix E.

## **MANAGEMENT COMMITTEE REPORT**

### **Responsibilities**

The Trustee Company has delegated powers to the Management Committee to make day-to-day management decisions. The Committee has in turn agreed to sub-delegate to RPMI many activities to ensure the smooth running of the Fund. The Committee has agreed a Service Level Agreement with RPMI which sets out the scope of the service and the performance targets the Committee and members can expect. The Committee is pleased to report that the majority of service targets were achieved throughout the year.

### **Meetings**

There were four meetings of the full Management Committee in 2010. These took place on 28 January, 29 April, 13 July and 6 October. In addition, there were five meetings of the Valuation Working Party, which was specifically set up to consider matters relating to the actuarial valuation of the Fund as at 31 December 2009. Members of the Working Party were drawn from the Management Committee and the Chairman of the Railways Pension Trustee Company Limited, Derek Scott also joined the Working Party. These took place on 24 May, 6 July, 12 July, 6 September and 6 October. During 2010 Committee members also participated in training as part of a commitment to meet the Pensions Regulator's Trustee Knowledge and Understanding requirements.

### **Changes to Committee**

There are 12 Committee members. Six members of the Committee are appointed by the principal employer, the British Transport Police Authority. Three members of the Committee are appointed by the British Transport Police Federation, two members are elected by the pensioners and one is appointed by the Chief Constable after consultation with representatives of the ranks not represented by the British Transport Police Federation.

Elizabeth Pike and Alex Robertson were elected Chairman and Deputy Chairman respectively for 2010.

During the year there were three changes to the Committee. William Tucker and Alan Pacey were appointed by the Employer following the resignations of Lorraine Jainudeen and Linda Scott, respectively. Andrew Clarke was appointed by the Employer as a temporary replacement for Sharon Burd.

A list of Committee members at 31 December 2010 is shown in the following table, together with details of the number of meetings which each attended during the year. Members of the Valuation Working Party are marked with an \*.



## MANAGEMENT COMMITTEE REPORT (CONTINUED)

### Committee members at 31 December 2010

Name	Appointing body	Appointment date	No. of meetings eligible to attend during 2010	No. of meetings attended
Mr L Adams	Employer	July 2005	4	3
Ms S Burd <i>(temporary absence from May 2010)</i>	Employer	Jan 2008	2	0
Mr S Field*	Employer	Jan 2008	9	9
Ms E Pike*	Employer	Sept 2004	9	9
Mr W Tucker	Employer	February 2010	3	3
Mr A Clarke* <i>(temporary appointment)</i>	Employer	May 2010	7	1
Mr A Pacey	Employer	September 2010	1	1
Mr P Holden	Member representative appointed by Chief Constable after consultation with the ranks not represented by the BTP Federation	March 2009	4	3
Mr A Robertson* <i>(WP attendance shared)</i>	BTP Federation	Nov 1996	8	8
Mr R Randall* <i>(WP attendance shared)</i>	BTP Federation	May 2002	5	4
Mr D Gibson	BTP Federation	March 2006	4	3
Mr J Bryant*	Pensioner elected	April 2007 to March 2012	9	9
Mr E R Lightfoot	Pensioner elected	August 2005 to July 2015	4	4
Mr D Scott* <i>(WP only)</i>	Chairman of RPTCL	May 2010 to March 2012	5	5

## MANAGEMENT COMMITTEE REPORT (CONTINUED)

### Pension Increases

Pensions did not increase in April 2010 and were maintained at current levels. This was due to the negative rate of inflation as measured by the Retail Prices Index in autumn 2009. The increase in April 2011 was 3.1%. This is based on the Consumer Price Index (CPI) inflation figure as at September 2010. The move from RPI to CPI was introduced for the Fund following the decision by the Government that future public sector pensions would be increased by CPI rather than RPI.

### Communications

The Committee is keen to ensure that members are kept up to date with news and developments and to achieve this aim it regularly reviews the communications plan. Mr Tucker has joined a Communications Working Party set up by RPMI to review all the communications provided to members. Annual Pension Estimates are sent to contributing members each year, usually in October or November, and these members also receive a 'Focus' newsletter three times a year. Pensioners receive the 'Penfriend' newsletter twice a year, in spring and winter. Members who no longer contribute but who have deferred benefits in the Fund receive a yearly edition of 'Extra'.

To supplement these publications, for those who have internet access, much useful information continues to be available at [www.railwaypensions.co.uk](http://www.railwaypensions.co.uk) and members may always contact the Fund Secretary at:

RPMI  
PO Box 300  
Darlington  
DL3 6YJ

Or by phoning the Customer Services helpline on 0800 2 34 34 34  
Or by email to: [csu@rpm.co.uk](mailto:csu@rpm.co.uk)

### Budget

The Committee was consulted on the budget for the services of the Trustee Company and its subsidiary, RPMI, to ensure that established standards of service were maintained at cost competitive rates.

### Membership statistics at 31 December 2010

	2010	2009
Active members	2,794	2,826
Pensioners	2,307	2,242
Preserved pensioners	736	693
Total membership	<b>5,837</b>	<b>5,761</b>

## **ACTUARY'S REPORT**

### **The purpose of the Fund**

The assets of the British Transport Police Force Superannuation Fund, plus future contributions and future investment returns, will be needed to pay the benefits as they emerge in the years ahead. The main purpose of the Fund is therefore to provide security for the benefits promised in the future to the members and pensioners and their dependants.

### **Actuarial valuations**

Actuarial valuations of the Fund, involving projections of future income and outgoings, are made periodically to assess the sufficiency of the assets and contribution rates. The projections involve many assumptions, the most important of which are concerned with the extent to which the average future rate of investment return will exceed average future rates of pay and pension increases. Assumptions also have to be made about the ages at which the members will qualify for the various benefits on termination of service and the periods for which pensioners and their dependants will survive to draw their pensions.

The estimated future payments are summarised as 'present values'; these may be thought of as the sums which, if invested at the valuation date at the rate of return assumed to be earned on investments, would exactly provide the projected benefit payments as they fall due. The valuation result then discloses a funding shortfall or surplus, according to whether the present value of the future payments exceeds, or is less than, the market value of the assets of the Fund. The rates of contribution required to finance new accruals of benefit are calculated by a similar method.

The Fund's rules require a separate actuarial valuation to be made of the 1968 Section and the 1970 Section. Within each section separate valuations are required in respect of benefits for periods of membership up to 14 September 1970 and after that date (known as 'preserved or historic benefits' and 'contributory benefits' respectively).

To satisfy the requirements of the Pensions Act 2004, as well as carrying out full valuations every three years, an annual interim update is made for each Section.

### **The 31 December 2009 valuation**

The latest formal valuation of the Fund was made as at 31 December 2009. The main financial assumptions for the contributory benefits part of the 1970 Section were that on average, the investment return earned on assets would exceed pay increases by 2.3% per annum and pension increases by 4.0% per annum. For the preserved benefits part of the 1970 Section and for the 1968 Section an investment return, in excess of pension increases, of 2.3% per annum was assumed. The pension increase assumption is now based on Consumer Price Inflation instead of Retail Price Inflation due to a recent change in legislation. In all sections the existing assets were brought into account at their market value.

Allowance was made in the valuation of the preserved benefits part of the 1970 Section for future payments of Government support on the assumption that they would continue to be made on the present basis.

## **ACTUARY'S REPORT (CONTINUED)**

### **Results of the 2009 valuation**

The 2009 valuation of the 1968 Section revealed a funding surplus which was sufficient to cover the relevant proportion of future pension increases, as required under Section 56 of the Transport Act 1980.

The valuation of the 1970 Preserved Section also revealed a funding surplus. This was carried forward as a contingency reserve.

The valuation of the 1970 Contributory Section revealed a funding deficit of £36 million. It also indicated that the joint rate of contribution required from the members and the employers to fund new benefits building up in this section was 39.1% of Fund salary for members who joined before 1 April 2007 and 25.4% of pensionable salary for members who joined after 31 March 2007.

The Trustees and Authority agreed that the deficit would be met partly by maintaining the ongoing contribution rates at 40% of Fund salary (16% from members and 24% from the employer) for entrants before 1 April 2007; and 30% of pensionable salary (10% from members and 20% from the employer) for later entrants. The balance of the deficit will be funded by additional employer only payments of £5 million per annum commencing from 1 October 2011 and increasing each April, broadly in line with inflation.

### **Actuarial statements**

A formal statement regarding the valuation, confirming that the calculation of the Fund's Technical Provisions was made in accordance with the Pensions Act 2004 has been prepared and appears in Appendix G. A further certificate reproduced in Appendix H confirms that the contributions shown in the Schedule of Contributions are such that the Statutory Funding Objective can be expected to be met over the period the Schedule is in force (until 31 March 2019).

Arthur F Zegleman  
Actuary to the Fund  
Towers Watson Limited  
2 Lochrin Square  
96 Fountainbridge  
Edinburgh EH3 9QA  
UK

January 2011

## **INVESTMENT REPORT**

### **Introduction**

Each section of the BTPFSF has a Statement of Investment Principles, which details the policies that control how the section's assets are invested; copies are available on request.

The Trustee Company and Pensions Committees are responsible for setting investment strategy and the investment management arrangements; in this they are advised by RPMI and other third parties. Railpen Investments provides investment management services to the Trustee and acts as a manager of managers. In this capacity, it is regulated by the Financial Services Authority as an Occupational Pension Scheme firm.

### **Investment process**

The assets of the Fund are invested through a number of different pooled investment funds. In most cases each pooled fund covers a different class of asset. These funds are run as if they are internal unit trusts and approved by HM Revenue and Customs ('HMRC'). Only railway pension schemes may invest in these pooled funds. The Fund holds units in the pooled funds. The use of these pools enables the Fund to hold a broader range of investments than may have been possible through direct ownership.

During 2010 the range of pooled funds and their specifications were subject to a major review. As a result there were some changes to the return, risk and management arrangements of a number of existing pooled funds, as well as the abolition of some pools and the introduction of a number of new pools. The most significant changes were:

- the abolition of the Global Bond (Hedged) Pooled Fund and the introduction of a Government Bond Pooled Fund and a Non-Government Pooled Fund in its place;
- the introduction of a new Growth Pooled Fund to allow a dynamic asset allocation across a wide range of return-seeking assets to generate a real return over the long-term;

Each pooled fund has a performance benchmark and a 'risk budget' which may be used to target additional returns. All pooled funds are managed largely by external fund management companies and are predominantly actively managed, that is, the fund management companies try to add value in addition to the benchmark returns through their skilled management of the underlying investments. Passive management, that is index-tracking, is also used at least to some extent in asset classes where the Trustee considers this appropriate. The intention of active management is to optimise the return generated per unit of risk against the benchmark. Consequently, the active managers are partially remunerated by fees which vary according to their performance against their benchmark.

Exposure to overseas currency risk is limited by currency hedging arrangements. This process removes some of the volatility of sterling returns inherent in investing in overseas markets. During 2010 the hedging policy was amended so that there is no unhedged foreign exchange in the capital exposure in the Hedge Funds, Government and Non-Government Bond Pooled Funds and a 50% hedge of the overseas exposure of the Global Equity Pooled Fund, excluding emerging markets. All other pooled funds were unhedged.

## **INVESTMENT REPORT (CONTINUED)**

### **Investment strategy**

The Trustee's Investment Committee reviews and approves strategies determined by the Management Committee.

Investment strategies have been set either as a fixed asset allocation, based on the expected long-term risk, return and correlation characteristics of the various asset classes that may be selected for investment, or as a risk budget; in both contexts risk is taken to be the expected volatility of returns relative to index-linked gilts.

The Fund's strategy is implemented through investment in the appropriate mix of the pooled funds operated by RPMI for the Trustee.

### **Economic commentary provided by RPMI**

The world economy ended 2009 on a strong note and continued this momentum into the new year. Global industrial production rose by an estimated 3% in both the fourth quarter of 2009 and the first quarter of 2010, having bottomed-out during the first quarter of 2009. The impact of the significant fiscal and monetary easing was still working its way through the global economy, supporting economic growth. World trade – another economic variable that declined significantly during the crisis – also rose strongly, with an increase of 5% in the first quarter. This strengthening in world trade and industrial production translated into improved measures of overall growth: gross domestic product ('GDP') in the Organisation for Economic Co-operation and Development ('OECD') economies increased by 0.8% in the first quarter of 2010, in line with its average of the previous fifty years.

Such improving economic data helped sentiment in financial markets. The Morgan Stanley Capital International All Country ('MSCI AC') World equity index (in local currency terms) had risen by over 6% by mid-April. But concerns over European sovereign debt were intensifying. Indeed, on May 2, a rescue package was agreed for Greece to help it alleviate its funding problems. One week later, the European authorities agreed a range of available financial funding (up to €750bn, of which €440bn represents the European Financial Stability Facility) in order to help any further distressed European sovereign debt. The uncertainty around sovereign risk in Europe was clearly apparent in the cost of insuring sovereign debt (one index that covers Western Europe rose from around 70 basis points at the beginning of the year to around 160 basis points in May and June). These concerns also weighed on global financial markets and the MSCI AC World index fell below its starting level for the year and spreads of corporate bonds widened.

The economic data over the summer months was mixed. Some of the monthly indicators – which can be volatile – recorded a slowdown in activity, such as world industrial production. The JP Morgan Global Purchasing Managers' Index ('PMI'), a survey of manufacturing and services activity in many countries around the world, weakened from April for several months. Certain leading indicators of economic growth showed signs of a renewed weakening. There were growing concerns of a double-dip in the US, especially with the labour market remaining subdued. More generally, however, the global recovery slowed rather than stopped: OECD GDP growth was still 0.6% in the third quarter. Emerging market

## **INVESTMENT REPORT (CONTINUED)**

### **Economic commentary (continued)**

economies also maintained their momentum: China's GDP was almost 10% higher than a year earlier.

By the start of September, equity markets began recovering from their summer weakness. This probably reflected two factors. Firstly, the market judged that although the economic data had slowed slightly, they were still consistent with modest GDP growth. Secondly, there was increasing optimism that the US Federal Reserve ('the Fed') – and possibly other central banks – would resort to increased monetary policy stimulus in order to support the economy. The anticipation that this would occur helped drive equity markets higher but also pushed government bond yields in the US lower. In October, the 10-year US Treasury yield declined below 2.4%, having started 2010 at over 3.8%. Other major economies also saw bond yields decline significantly between April and October, largely on concerns of weakening economic growth and expectations that central banks would keep interest rates low for longer than previously expected.

In early November, the Fed did in fact ease monetary policy by agreeing to purchase \$600bn of government bonds from the private sector by the end of the second quarter of 2011. In deciding to do so, it cited concerns over the high level of US unemployment and the low levels of inflation (excluding food and energy, inflation declined to the lowest on record in the US in October). As a whole, equity markets rallied strongly in the fourth quarter, in part due to the Fed's actions. The bail-out of Ireland due to ongoing debt problems did cause market weakness for a time, but this proved short-lived.

Stronger economic data (for example, the aforementioned JP Morgan Global PMI survey rose back to levels seen earlier in the year) was apparent towards the end of the year. This helped equity markets rally strongly, with the MSCI AC World local index posting a rise of over 7% for the quarter, and slightly higher for the year as a whole. But government bond yields rose sharply in the final quarter of the year, with 10-year Treasury yields recording a rise of around 1% to end the year at 3.3%.

The fourth quarter was also notable for a sustained increase in food prices. Having risen by 16% in the previous quarter, the United Nations World Food Price index rose by a further 14%, and surpassed the previous high recorded in mid-2008. This, along with rising non-food commodity prices, has sharply pushed up inflation in emerging market economies. Chinese inflation rose to around 5% in the fourth quarter of 2010, with food price inflation averaging over 10%. In response, the authorities in China tightened monetary policy three times.

Overall, 2010 was a positive year for financial markets as the economic recovery gained some traction. However, it was also a volatile year and the European sovereign debt crisis acted as a reminder of the fragility of parts of the global economy. Policymakers in the US, Euro area and UK took action during the year in order to help underpin the recovery and support financial markets. Globally, the economic recovery appears to be becoming more entrenched, but there are significant risks remaining, such as continuing sovereign debt problems, ongoing deleveraging in the US and emerging markets inflation.

## **INVESTMENT REPORT (CONTINUED)**

### **Investment performance**

During 2010 financial markets benefited from the improved economic environment and all the asset classes represented by the Trustee's Pooled Funds saw positive investment returns. In addition to good absolute performance the majority of the Pooled Funds also achieved positive performance compared to their bespoke benchmarks.

2010 also saw significant changes to the Trustee's range of Pooled Funds as outlined above in the section on Investment Process. This included the launch of several new Pooled Funds and changes to the benchmarks and names of some existing Funds.

The Global Equity Pooled Fund provides highly diversified exposure to global equities and uses a blend of active and passive management. The Global Equity Pooled Fund produced a return of over 13% in 2010 and this return was ahead of benchmark for the second successive year.

At the start of July 2010 the Trustee replaced the Global Bond (Hedged) Pooled Fund with separate Government and Non-Government Pooled Funds. Overall, global bond markets recorded positive returns during 2010 as yields declined, although yields in some European markets (e.g. Greece, Ireland, Portugal and Spain) were hit by increased concern over sovereign debt. Returns for non-government bonds were enhanced by a narrowing of credit spreads over the year as a whole.

The Short Bond and Index Linked Pooled Funds each experienced modest gains over the year. The management of the Index Linked Pooled Fund was changed to a passive basis from July 2010 and the benchmark was altered to the UK Government Index Linked Over15 Year Index.

The Private Equity Pooled Fund produced a return in excess of 19% in 2010 and ahead of the benchmark. Because of the unquoted nature of these investments there is always a significant time lag for revised information on underlying investments to flow through to the Fund valuation. Therefore the return for 2010 in part reflects the recovery in asset values that occurred in the latter part of 2009. Returns from Private Equity are also ahead of benchmark when measured over longer time periods.

The Infrastructure Pooled Fund had a modestly positive return for the year but was behind the RPI benchmark. The Property Pooled Fund achieved a positive result in absolute and relative terms, with an overall return of over 15%, as the recovery in the UK commercial property market continued.

The Hedge Funds Pooled Fund (previously known as the Cash Plus Pooled Fund) generated a return of 9% in 2010, as many hedge fund strategies made a positive contribution to the overall result. The strongest return from all the Pooled Funds came from Commodities, which saw a return of over 21% return in 2010. This reflected the widely reported increase in a diverse range of commodity futures prices including energy, metals and agriculture. The Fund also produced a return ahead of benchmark for the year.



## **INVESTMENT REPORT (CONTINUED)**

### **Section returns**

All Sections enjoyed good returns in 2010 enhanced by strong performance from most return seeking assets and supported by positive returns from bond holdings.

The 1970 Contributory Section, with its liabilities predominantly in respect of serving members, has a widely diversified strategy, including an allocation of 95% to “return-seeking” assets and 5% to government bonds. Return seeking assets held include global equities, non government bonds, private equity, fund of hedge funds, commodities, infrastructure and property. The return for this Section was 12.6% in 2010, 2.6% per annum over the past 5 years and 3.2% per annum over the past 10 years, net of fees and costs.

The other two Sections are much more mature (i.e. their liabilities are predominantly in respect of pensioners and deferred pensioners). As a result they have a lower strategic target of 30% in equities, funds of hedge funds and property, with 70% in various types of bonds.

The return for the 1970 Preserved Section was 10.6% in 2010, 4.9% per annum over the past 5 years and 4.8% per annum over the past 10 years, net of fees and costs. The return for the 1968 Section was 10.7% in 2010, 4.9% per annum over the past 5 years and 4.8% per annum over the past 10 years, net of fees and costs.

### **Securities lending**

Securities lending forms part of the arrangements sanctioned by the regulatory authorities to maintain an orderly and more liquid securities market. With the approval of the Trustee Company, and 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 Fund receives collateral, in the form of cash or other securities, that meet standards set by the Trustee Company. As a result of operating these securities lending arrangements, the Fund receives a revenue. The custodians also operate indemnification programmes which protect the Fund against defaulting borrowers. The Fund retains economic exposure to the lent securities, for example by receiving dividends, but loses voting rights temporarily. The Trustee Company retains the right, however, to recall securities if an important vote is scheduled.

### **Self investment**

The Pensions Act 1995 requires 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 limited to avoid the prospect of the employees losing their job and part of their pension at the same time, should the employer’s business fail.

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

## **INVESTMENT REPORT (CONTINUED)**

### **BRASS (AVC)**

British Transport Police Force Superannuation Fund holding = £7m

Total value of fund at 31.12.09 = £1,203m

The main AVC arrangement for the BTPFSF, known as 'BRASS', is administered by RPMI and invested in a number of different investment vehicles. The greater part of the fund is invested in the Pension Assured Fund ('PAF') with underlying investments managed by Aviva Investors and Legal & General. Units in the PAF are guaranteed by Aviva to be worth at least £1 each to the unit holders at age 55 or on earlier death. Members retiring before age 55 may receive a discounted value dependent on their age. The fund has been closed to contributions since 2007. Aviva is responsible for the provision of the guarantee and overall management of the PAF, including the issue of bonus units, asset allocation, pricing and administration of dealing in the units, subject to monitoring by RPMI.

The five current BRASS funds into which new members can invest are the Global Equity Tracker Fund, Bond Fund, the Growth Fund, Cautious Fund and the Pension Deposit Fund. The Trustee may change the range of funds made available to the members from time to time.

The remainder of the BRASS is invested in one of six funds that are either closed to future contributions or which will only take new contributions from members who had already invested some money in them prior to 1 September 1996. These are the Pension Managed, Pension Overseas Equity, Pension Property, Pension Fixed Interest, Pension Equity and Pension Index Linked Gilt funds.

The investment benchmarks for the BRASS funds other than the PAF are shown in the following table:

## INVESTMENT REPORT (CONTINUED)

### BRASS (AVC) (continued)

<b>Fund</b>	<b>Benchmark</b>
Pension Deposit Fund	Rolling seven day LIBID
Bond Fund	FTSE All Stocks Gilt Index
Growth Fund	Composite benchmark comprising weighted average of benchmarks for RPTCL Pooled Funds held
Cautious Fund	Composite benchmark comprising weighted average of benchmarks for RPTCL Pooled Funds held
Pension Managed Fund	WM All Funds Index (excluding property)
Global Equity Tracker Fund	50% FTSE All-Share Index 50% Weighted FTSE World Series Regional Indices
Pension Equity Fund	The FTSE All-Share Index
Pension Overseas Equity Fund	Composite index comprising regional indices from the FTSE World Index Series
Pension Property Fund	IPD Total Return Index
Pension Fixed Interest Fund	Composite index comprising the FTSE Government All Stocks and iBoxx Non-Government Bond Indices
Pension Index Linked Gilt Fund	FTSE Over Five-Year Index-Linked Gilt Index

Approximately 50% of the underlying assets are invested in a long-term bond fund managed by Aviva Investors with the balance in a series of index tracking funds managed by Legal & General.

## APPENDICES

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## **APPENDIX A**

### **ADVISORS TO THE TRUSTEE COMPANY AND MANAGEMENT COMMITTEE**

#### **Manager of investment of managers**

Railpen Investments, 2<sup>nd</sup> Floor, Camomile Court, 23 Camomile Street, London, EC3A 7LL

#### **Fund and investment administrator**

RPMI, Stooperdale Offices, Brinkburn Road, Darlington, DL3 6EH

#### **Actuary**

Arthur F Zegleman, Towers Watson Limited

#### **External Auditors**

KPMG LLP

#### **Solicitors**

CMS Cameron McKenna, Dickinson Dees, DWF, Freshfields Bruckhaus Deringer, Herbert Smith (from March 2010), Maclay Murray & Spens

#### **Bankers**

The Royal Bank of Scotland

## **APPENDIX B PAYMENT OF CONTRIBUTIONS**

### **Due dates for payment of contributions**

The Trustee Company collects contributions from every employer participating in the Fund. Under the provisions of the Pensions Act 1995 it is the responsibility of each employer to pay contributions on time. Following the first valuation performed under the new scheme specific funding regime, the Trustee Company is required to prepare, maintain and monitor a schedule of contributions 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.

The schedule sets out as a percentage of pay the rate of contributions payable to the Fund by the employers and members, and also shows the dates on which the contributions are due.

The schedule of contributions that the Trustee Company has prepared for the Fund 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.

The Fund Actuary revalues the Fund every three years. The valuation must be signed off within 15 months of the valuation date. The schedule of contributions must be prepared within 12 weeks of the sign off and must be signed by both the designated employer and the Trustee Company.

### **Late payment of contributions**

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

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

The employer participates in the Trustee Company's direct debit arrangements for normal contributions and AVCs paid by the employer, which greatly reduces the risk of the employer failing to pay contributions on time.

During 2010 there were no instances of late payment of contributions (2009: £nil).

## **APPENDIX C 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. The Trustee Company has appointed custodians to hold the assets, including cash, that make up the various quoted securities portfolios managed by the investment fund managers. 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 segregated from those of the custodians.

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 Company's property lawyers or the Network Rail property deeds depository.

In the case of investments managed by US fund of hedge fund managers, the Trustee Company has appointed PNC Global Investment Servicing Inc (formerly PFPC) 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. In February The Bank of New York Mellon announced its intention to buy this unit of PNC as consolidation in the alternative asset servicing arena continued. The deal completed in 2010.

Core administrative functions performed by the custodians include the following:

- settlement of transactions;
- registration and safe keeping;
- 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.

As part of the service provided to the Trustee Company, 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.

**APPENDIX C**  
**CUSTODY ARRANGEMENTS (CONTINUED)**

In addition, all custodians appointed by the Trustee Company are required to publish an AAF 01/06, SAS70 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 facility of the Institute of Chartered Accountants in England and Wales in its technical release AAF 01/06 'Assurance reports on internal controls of service organisations made available to third parties', or 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 Company will not appoint a custodian that does not produce a report of this type. These reports are reviewed by RPMI's business assurance team and external audit as part of the ongoing monitoring of custodians.



## **APPENDIX D RESPONSIBLE INVESTMENT**

Responsible investment encompasses corporate governance, shareholder activism and social, environmental and ethical ('SEE') considerations, now more generically described as environmental, social and governance ('ESG') issues. The Trustee Company's global approach to responsible investment is founded on a fundamental belief that companies with robust corporate governance structures and interested and involved shareholders may be more likely to achieve superior long-term financial performance than those without.

Trustees of UK occupational pension schemes are required by law to address in their schemes' Statements of Investment Principles ('SIP') the extent (if at all) to which SEE considerations are taken into account in the selection, retention and realisation of investments and their policy (if any) directing the exercise of rights (including voting rights) attached to investments.

### **UK Stewardship Code**

The Trustee Company considers that its fund managers and other intermediaries have a major role to play in ensuring that companies are run in a manner consistent with clients' best interests. In this regard, we support the Financial Reporting Council's UK Stewardship Code published in July 2010, which sets out expectations on how institutional investors can enhance the quality of engagement with investee companies to help improve long term returns to shareholders and the efficient exercise of governance responsibilities and we encourage our fund managers to adopt it.

We expect our external fund managers, where relevant, to comply with the Code and its principles, which have also been incorporated in our own Statement of Investment Principles. We monitor their compliance with it through requiring them to report regularly on its application, and to provide post hoc quarterly reports on voting and other significant matters. This also extends to SEE matters that the fund managers consider are likely to have a material impact on the portfolio.

Our full statement on how we apply the Code and its seven principles together with our approach to responsible investment can be found on our website at [www.rpmi.co.uk](http://www.rpmi.co.uk)

### **Voting and Engagement**

Although the Trustee Company's external UK-based fund managers are expected to advise and report on governance issues, and to engage proactively with companies in line with the Stewardship Code, full voting authority ultimately rests with the Trustee Company. In addition to the monitoring of the activities performed by fund managers and other intermediaries, the Trustee Company, through RPMI/Railpen Investments, will undertake further engagement activities in relation to individual companies, whether independently or with other parties, where it considers it in the best interests of beneficiaries to do so.

## **APPENDIX D RESPONSIBLE INVESTMENT (CONTINUED)**

### **UK Voting and Engagement Alliance**

In 2010, Railpen Investments pooled its corporate governance expertise and resources with the Universities Superannuation Scheme (USS), another major UK pension fund, to establish a voting and engagement alliance in the UK, including the publication of a joint UK corporate governance policy and voting guidelines. The policy was approved in February 2010 and will

continue to be regularly refreshed in light of major governance developments. It can be found on our website at [www.rpmi.co.uk](http://www.rpmi.co.uk).

The policy applies to all UK listed companies including those that participate as employers in railway industry pension schemes. The policy draws heavily on the UK Corporate Governance Code issued by the FRC in May 2010 and which will apply to companies for financial years beginning on or after 29 June 2010. We expect companies to comply with the Corporate Governance Code, or to explain and justify any reasons for non-compliance, and to outline their plans for compliance in future. Our policy document aims to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards. This should help investment managers and company directors to understand our views on these issues.

The Trustee is also supportive of industry guidelines issued by the National Association of Pension Funds (NAPF) and the Association of British Insurers ('ABI'), such as their joint statement on 'Best practice on Executive Contracts and Severance' and the ABI's 'Guidelines on responsible investment disclosure'.

### **UK Voting disclosure**

Voting is a key step in engagement, and the Trustee Company votes on all resolutions at all annual and extraordinary general meetings of UK companies in which it has holdings, and has done so since 1992. We publicly disclose on our website [www.rpmi.co.uk](http://www.rpmi.co.uk) our voting record in respect of all UK company meetings held after 1 January 2010, subject to a waiting period of 3 months from the end of the month in which the meeting is held so that we can balance transparency without undermining our dialogue with companies.

### **Overseas markets**

In addition to our activities in the UK, active voting and engagement has been extended selectively to overseas markets. In 2006, voting was extended to the US, Continental Europe and Japan, to Singapore and Australia in 2007 and Hong Kong in 2008. To support this increased voting activity overseas, a self-standing US corporate governance policy to deal with specific US governance issues was issued in March 2006. Similar self-standing policies were issued for Japan in May 2006, Singapore in May 2007, Australia in August 2007 and Hong Kong in May 2008. These again can be found on our website [www.rpmi.co.uk](http://www.rpmi.co.uk)

## **APPENDIX D RESPONSIBLE INVESTMENT (CONTINUED)**

The Trustee Company's investment managers and custodians are expected to implement these policies and to provide detailed voting reports which are closely monitored by RPMI/Railpen Investments on behalf of the Trustee Company. The Trustee will continue to maintain its own corporate governance policies for these markets and to refresh them at regular intervals.

The Trustee Company intends to extend voting to other overseas markets and reaffirms that the core principles in its UK policy are applicable to other markets, where appropriate. It endorses the International Corporate Governance Network's ('ICGN') Statement on Global Corporate Governance Principles, updated in 2009. These serve as the starting point for future policies, taking into account local corporate governance codes of best practice, where they exist. Consideration will be given to issuing separate policies for other major markets, where appropriate or where no satisfactory local code exists.

In addition, we work informally with other investors and pension funds around the world, as we consider it important to learn from the local market expertise that they bring to our own thinking on ESG matters.

### **General principles**

The Trustee Company seeks to promote best practice in responsible investment and voting by:

- maintaining communications with companies in which substantial interests are held, other investors in those companies, and those shaping the debate on corporate governance policy;
- widening the scope of the corporate governance debate to company strategy and shareholder value
- contributing to the debate at a market level by responding to relevant consultations and other policy development activities;
- promoting compliance with the UK Corporate Governance Code, and other statements of recognised best practice in the other markets in which we invest;
- encouraging the application of the principles of the UK Stewardship Code in other markets where appropriate;
- supporting improvements in the quality and clarity of company reporting; and
- working with other institutional investors to achieve these ends.

Wherever possible, the Trustee Company endeavours, through its external fund managers or directly, to resolve areas of disagreement with the companies in which it invests prior to annual general meetings and strongly supports the principle of comply or explain. In the UK, if not satisfied by the company's explanations, it will generally vote against:

- directors' rolling contracts of more than one year's duration;
- fixed contracts for directors on initial appointment of over two years' duration;
- share option schemes for directors that do not contain demanding performance targets;
- the appointment of a director with no subsequent requirement for re-election;

## **APPENDIX D RESPONSIBLE INVESTMENT (CONTINUED)**

- boards without any independent directors;
- the posts of Chairman and Chief Executive being held by the same person;
- an issue of shares which is not consistent with the ABI's pre-emption guidelines;
- bundled resolutions at general meetings;
- the adoption of the company's report and accounts if they contain material inadequacies;
- a dividend not covered by earnings unless there is a clear justification that this is in the company's and its investors' interest;
- insurance cover of auditors' liability and proposals for fixed cap monetary liabilities; and
- capital raising proposals which depart from established best practice on pre-emption without adequate justification.

This approach is carried to all other markets as far as possible and we particularly seek to raise the bar in jurisdictions where shareholder rights are weak and the accountability of directors is less well developed.

### **Executive remuneration**

Executive remuneration is often perceived as a major issue in corporate governance. Under the Directors' Remuneration Report Regulations 2002, listed companies in the UK have been required, by law, to submit their remuneration reports to an advisory vote of shareholders (informally known as 'Say on Pay') for all financial years ending on or after 31 December 2002. Similar provisions now apply to companies listed in Australia, the Netherlands, Sweden, France and Germany and will be introduced in Switzerland and in the US in 2011.

The Trustee Company has issued general guidance to companies on how it will vote on the level or structure of directors' remuneration packages. We expect to see significant alignment between the interests of directors and shareholders and urge companies to adopt:

- a simple and transparent structure which provides for a basic salary at market levels;
- a deferred element of the remuneration package to encourage loyalty; and
- the use of rigorous performance targets for annual bonuses and longer term incentives appropriate to the company and its sector, which do not encourage excessive risk taking.

It should be noted that the regulatory authorities in the UK and elsewhere are imposing their own requirements for the deferral of annual bonuses as part of their perceived need for more prudent regulation.

### **Shareholder litigation**

The Trustee Company as a major institutional shareholder prefers that disputes between companies and their owners are settled amicably. However, the Trustee Company recognises that the right to go to law is a fundamental right and that securities litigation, particularly in the USA and more occasionally in other jurisdictions, has sometimes succeeded in obtaining

## **APPENDIX D RESPONSIBLE INVESTMENT (CONTINUED)**

recoveries for investors that would not have been possible otherwise. In the event of a major economic loss involving a portfolio company, consideration may be given to joining a class action, an opt out action or a derivatives suit as a lead plaintiff, provided that the case has strong legal merit, a reasonable chance of success and the financial risks of losing are not disproportionately high and taking into account any insurance cover which may apply.

### **Environmental and social issues**

The Trustee Company has clear views on ESG issues and, whilst it considers that the board of directors should be accountable primarily to its shareholders, it recognises that it is very much in the shareholders' own interests that directors should also consider the significance of other stakeholders to the company's long-term prosperity.

The publication of a Corporate Social Responsibility Report, whether incorporated in the annual accounts or as a stand-alone document, is strongly encouraged as part of the commitment to better disclosure. We support the concept of integrated reporting and commend the International Integrated Reporting Committee initiative of the Prince's Accounting for Sustainability Trust to oversee the development of an international connected and integrated approach to corporate reporting.

### **Anti - Corruption Initiatives**

Bribery and corruption has a detrimental effect on citizens in developing and developed countries but it is also harmful to companies and investors too in terms of increasing costs and preventing fair competition. There are obvious benefits for companies and their investors in mitigating political, financial and reputational risks by adopting rigorous anti-bribery and anti-corruption measures.

Support for anti-corruption measures has been an important part of our responsible investment stance and we are, for example, a long standing investor supporter for around 10 years of the Extractive Industries Transparency Initiative which seeks to set a global standard for transparency in the oil & gas and mining sectors in terms of payment streams to governments. The EITI is a coalition of governments, companies, investors and civil society groups. Most if not all respectable extractives companies have signed up and it is also an engagement issue for investors like us. Further information is available on [www.eiti.org](http://www.eiti.org)

It is also becoming a public policy imperative for governments in the developed world as the recent enactment of the Bribery Act 2010 in the UK demonstrates. We co-signed a joint investor letter in November 2010 to the Ministry of Justice ('MoJ') to demonstrate our general support for the intentions of the Bribery Act in deterring corruption at home and abroad and to respond to the MoJ's consultation on guidance for commercial organisations on bribery prevention.

In addition, RPMI has robust internal policies on the prevention of bribery and corruption underpinned by zero tolerance of corrupt practices in relation to the activities of its own staff.

## **APPENDIX E RISK STATEMENT**

### **Risk policy**

The Trustee Company has overall responsibility for internal control and risk management. It is committed to identifying, evaluating and managing risk and uncertainty, and to implementing and maintaining control procedures to reduce significant risks to an acceptable level. The policy takes note of the guidance and principles of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 and the guidance within the Pensions Regulator's Code of Practice on Internal Controls issued in November 2006.

The objective of the Trustee Company's risk policy is to limit the exposure of the Fund 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, RPMI/Railpen Investments. The risk policy is reviewed regularly by management and annually by the Trustee Company, and provides a framework for managing risk on a day-to-day basis.

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

The Trustee Company strongly encourages its investment managers to publish internal control assurance reports, (AAF 01/06, SAS70 or equivalent style reports), on the effectiveness of their 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 the investment managers retained by the Trustee Company.

### **Risk identification and management**

Risks are identified and regularly reviewed by management and directors in a formal process facilitated by the Business Assurance team, which is separate from operational management. 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 each operating company, RPMI and Railpen Investments. Actions include implementing or adapting internal controls, risk transfer, risk sharing and contingency planning. These actions are monitored by the Business Assurance team.

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 Company and operating companies. The internal audit plan is approved by the Audit Committee. Internal audit output, in terms of any significant findings or risks identified, together with planned actions to mitigate them, are reported to the Audit Committee.

## **APPENDIX E RISK STATEMENT (CONTINUED)**

In respect of the pensions administration service provided by RPMI, an internal control assurance report has been prepared for the year ended 31 December 2010. 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 Institute of

Chartered Accountants in England & Wales Technical Release, 'Assurance reports on internal controls of service organisations made available to third parties (AAF 01/06)'.

Internal audit services are provided to the Trustee Company by the in-house Business Assurance team. The Business Assurance Manager reports to the Chief Executive of the Trustee Company and the Audit Committee, and has unrestricted access to the Chairman of the Audit Committee and the Trustee Board Chairman should the need arise. Internal audit activity is governed by the Audit Charter, which is reviewed periodically by the Audit Committee. The Risk Management Committee is chaired by the Chief Executive of the Trustee Company and includes representatives of executive management and is open to Trustee Directors. It meets regularly with the Business Assurance team and the 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.

Because of the limitations that are inherent in any system of internal control, the Trustee Company's risk management process is designed to manage and mitigate the risk of failure to achieve business objectives, and therefore can only provide reasonable, not absolute, assurance against material misstatement or loss.

The risk management process operated throughout the year-ended 31 December 2010.

## **APPENDIX F**

### **TRUSTEE LIABILITY INSURANCE**

Trustee liability insurance is a variant of directors' and officers' insurance which covers some of the insured's liabilities to third parties. Under the strict application of the law of trust, trustees are personally responsible to the full extent of their own wealth for the financial consequences of a breach of trust. This represents a significant risk exposure for the individuals who serve as pension fund trustees and the funds.

Trust deeds typically provide significant protection to trustees through exoneration and indemnification. In many cases individual trustees are protected from liability for any breach of trust 'not due to personal conscious wrongdoing or recklessness'. This is known as exoneration. The costs are then borne by the fund rather than by individuals serving as trustees. If the fund is unable to bear the cost, the sponsoring employer may have to meet it. This is known as indemnification.

Trustee liability insurance protects the fund as well as the trustee. The protection of individual trustees is important and can be a factor in encouraging the best candidates to serve as trustees. However, the fund assets are still vulnerable even though the trustees themselves have been exonerated. Insurance adds the external resources of the underwriter while exoneration and indemnification provisions merely shift the liabilities among the trustees, the beneficiaries and the employers.

In 1999 the Trustee Company, in recognising the potential benefits of trustee liability insurance, agreed a policy and became a full member of the Occupational Pensions Defence Union whose insurance policy is underwritten by ACE. The policy has been renewed each year since then.

The Trustee Company continues to believe that trustee liability insurance is a significant risk-mitigation measure that offers protection against otherwise irrecoverable losses.



**APPENDIX G**  
**ACTUARY'S STATEMENT**

**Actuarial statement made for the purposes of the Occupational Pension Schemes  
(Scheme Funding) Regulations 2005**

**Name of fund**

British Transport Police Force Superannuation Fund

**Calculation of Technical Provisions**

I certify that, in my opinion, the calculation of the Fund's Technical Provisions as at 31 December 2009 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Fund and set out in the Statement of Funding Principles dated 17 February 2011.

Arthur F Zegleman  
Fellow of the Faculty of Actuaries  
Watson Wyatt Limited

Princes Exchange  
1 Earl Grey Street  
Edinburgh  
EH3 9AY

21 March 2011

**APPENDIX H  
ACTUARY'S CERTIFICATE**

**Actuary's certificate of Schedule of Contributions**

**Name of fund:**

British Transport Police Force Superannuation Fund

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of the contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected at 31 December 2009 to be met by the end of the period specified in the recovery plan dated 17 February 2011.
2. I certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had the responsibility for preparing or revising the Schedule and the Statement of Funding Principles.

**Adherence to statement of funding principles**

3. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 17 February 2011.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Fund's liabilities by the purchase of annuities, if the Fund were to be wound up.

Arthur F Zegleman  
Fellow of the Faculty of Actuaries  
Partner  
Watson Wyatt Limited  
Princes Exchange  
1 Earl Grey Street  
Edinburgh  
EH3 9AY

21 March 2011

## **APPENDIX I SUMMARY FUNDING STATEMENT**

The Fund Trustee is required to produce and provide to members a regular 'Summary Funding Statement' intended to include important financial information concerning the Fund. This statement was issued in June 2011.

### **Planning for the future**

A pension scheme is a long-term arrangement, designed to pay pensions over many years. For a shared cost arrangement, such as the British Transport Police Force Superannuation Fund, it is a partnership between the employer and pension scheme members. The Trustee Company looks after the assets of the Fund, which are built up by contributions and investment returns and are used to pay benefits in the future.

Many members will not take their benefits until some time in the future and pensions will continue to be paid over many years. This means that to work out the appropriate amount of assets that the Fund should hold now we need to make a number of assumptions about the future – such as the life expectancy of the members and the investment returns that may be achieved on the Fund's investments.

However, what actually happens in the future may be very different from the assumptions made now; and because pensions are paid over such a long time, the Trustee Company, the employer and the members can make changes over time so that pensions can be paid when they fall due.

The Fund has a formal financial assessment (an actuarial valuation) at least once every three years. The latest valuation was as at 31 December 2009 and its results have recently been published. This statement summarises the results and conclusions and a copy of the full Report on the valuation is available on request from RPMI at the address at the end of the statement.

The Fund includes two sections – the 1968 Section (which is a small historical section) and the 1970 Section. The 1970 Section is itself divided into the preserved benefits part (a closed part mostly comprising pensions in payment) and the contributory benefits part (the open part of the Fund).

The main purpose of an actuarial valuation is to work out the rate of future contributions which must be paid to the Fund. The 2009 actuarial valuation (the results of which are summarised below) concluded that no contributions were required for the 1968 Section and the Preserved part of the 1970 Section but that contributions to the contributory part of the 1970 Section needed to increase.

### **Funding positions assuming that the Fund will continue**

#### **1968 Section**

The latest actuarial valuation of the 1968 Section of the Fund showed that on 31 December 2009:

**APPENDIX I**  
**SUMMARY FUNDING STATEMENT (CONTINUED)**

**1968 Section (continued)**

The value of the 1968 Section's liabilities was:	£2.4 million
The 1968 Section's assets were valued at:	£2.8 million
This means that there was a funding surplus of:	£0.4 million

The funding level at this valuation has improved since the previous actuarial assessment at the end of 2008. This is principally due to the better than expected asset returns over the year and the impact of the change in statutory pension increases from an RPI base to CPI.

The funding surplus at 31 December 2009 was allocated to provide for future pension increases, as required under Section 56 of the Transport Act 1980.

In conclusion, as the 1968 Section had enough assets to meet its expected commitments no contributions are therefore required.

**1970 Preserved Section**

The latest valuation of the Preserved part of the 1970 Section of the Fund showed that as at 31 December 2009:

<b>The value of the 1970 Preserved Benefits Section's liabilities was:</b>	<b>£39.1 million</b>
<b>The 1970 Preserved Benefits Section's assets (including Government support) were valued at:</b>	<b>£41.3 million</b>
<b>This means that there was a funding surplus of:</b>	<b>£2.2 million</b>

The result meant that the assets were enough to cover 108% of the benefits that would need to be paid in the future. This represents an improved funding level relative to the position as at 31 December 2008, the effective date of the previous summary funding statement. This improvement is again due to better than expected asset returns over the year and the impact of the change in statutory pension increases from an RPI base to CPI. No contributions are required for this part of the 1970 Section.

**1970 Contributory Section**

The latest valuation of the Contributory part of the 1970 Section of the Fund showed that as at 31 December 2009:

<b>The value of the 1970 Contributory Benefits Section's liabilities was:</b>	<b>£738 million</b>
<b>The 1970 Contributory Benefits Section's assets (excluding BRASS) were valued at:</b>	<b>£702 million</b>
<b>This means that there was a funding shortfall of:</b>	<b>£36 million</b>

The above result meant that the assets were enough to cover 95% of the benefits that would need to be paid in the future.

**APPENDIX I**  
**SUMMARY FUNDING STATEMENT (CONTINUED)**

**1970 Contributory Section (continued)**

The joint normal rates of contribution needed to fund the accrual of benefits over the period to the next valuation date are

- 39.1% of Scheme Salary for members who joined prior to 1 April 2007
- 25.4% of Pensionable Salary for members who joined after 31 March 2007

Although the funding level has improved since the 2008 statement, due to better than expected asset returns over the year and the impacts of lower expected salary increases and the change in statutory pension increases, a funding deficit remains.

To address the shortfall a Recovery Plan has been agreed between the Trustee and BTPA. Under this plan, in addition to continuing joint contributions at the current rates of 40% of Scheme Salaries for members who joined the Fund prior to 1 April 2007 and 30% of Pensionable Salaries for subsequent entrants, BTPA will fund all of the additional cost of funding the deficit by a series of monthly lump sum contributions commencing 1 October 2011. These contributions will start at the rate of £416,666 per month and will increase each April, broadly in line with inflation, until 31 March 2019.

Contributions at these levels are expected to bring the funding position back into balance by that date but will in any event be reassessed at the next formal valuation due at 31 December 2012.

As the Authority is funding all of the additional lump sum contributions it has been agreed that it will have a first call on any future surplus that might arise. In those circumstances the funding surplus, up to the amount of the additional lump sum contributions paid, would be used to reduce the Authority's future payments to the Fund.

**Solvency position if the Fund were to be wound up**

The latest actuarial valuation of the Fund at 31 December 2009 estimated the amount an insurer might charge if the Fund were to cease at that date and benefits secured with them. On this basis the assets were estimated to cover around 62% of the benefits that would need to be paid in the future. This is lower than the ongoing funding level described earlier as insurers are obliged to take a very cautious view of the future and wish to make a profit. By contrast, the ongoing funding valuation assumes that your employer will carry on in business and continue to support its funding of the Fund. This figure is an estimate only and does not represent the actual amount that would need to be paid to any specific insurer to secure the benefits.

The Trustee is required by law to provide you with this information on the Fund's solvency position. It does not imply that there is any intention, on the part of either the Authority or the Trustee Company, to wind up the Fund.

**APPENDIX I**  
**SUMMARY FUNDING STATEMENT (CONTINUED)**

**Investment of the Fund's assets**

The assets for the British Transport Police Force Superannuation Fund are invested in funds in which only railways pension schemes may invest. The Fund has its own investment strategy which determines how assets are invested in each of the pooled investment funds. This investment strategy is kept under regular review by the Trustee Company.

**Payments to the employer**

We are legally required to inform you of any payments that have been made to your Employer from the Fund in the last 12 months.

There have been no such payments.

**Pension Protection Fund**

The Government established the Pension Protection Fund (PPF) to pay compensation to members of defined benefit pension schemes (like the British Transport Police Force Superannuation Fund) if employers become insolvent and if there are not enough assets in the pension schemes. In these situations, the PPF will take over the pension schemes' assets and provide benefits to the schemes' members. However, the benefits provided by the PPF would in almost all cases be lower than the pensions that members would have received from the scheme that has been taken over.

Further information and guidance is available on the PPF's website at [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk). Or you can write to the PPF at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

**If you would like more information**

If you have a question about the Fund or the information in this statement, please contact RPMI by:

**Phone:** 0800 2 343434

**Email:** [csu@rpmico.uk](mailto:csu@rpmico.uk)

**Post:** Customer Services, RPMI, PO Box 300, Darlington, DL3 6YJ

**Website:** [www.railwaypensions.co.uk](http://www.railwaypensions.co.uk)

**Please remember to let RPMI know if you change your address.**

**APPENDIX J  
FUND SECTION EXTRACTION ACCOUNTS**

**British Transport Police 1968 Section (unaudited)**

**Fund account for the year ended 31 December 2010**

	<b>2010</b>	2009
	<b>£000</b>	£000
Benefits payable	<b>229</b>	229
Administrative expenses	<b>1</b>	2
	<b>230</b>	231
Net withdrawals from dealings with members	<b>(230)</b>	(231)
Net returns on investments	<b>297</b>	333
<b>Net movement in the Fund during the year</b>	<b>67</b>	102
Net assets at the start of the year	<b>2,835</b>	2,733
<b>Net assets at the end of the year</b>	<b>2,902</b>	2,835

**Net assets statement as at 31 December 2009**

	<b>2010</b>	2009
	<b>£000</b>	£000
Investments	<b>2,903</b>	2,839
Current (liabilities)assets/	<b>(1)</b>	(4)
<b>Net assets at the end of the year</b>	<b>2,902</b>	2,835

**APPENDIX J**  
**FUND SECTION EXTRACTION ACCOUNTS (CONTINUED)**

**British Transport Police 1970 Section Current (unaudited)**

**Fund account for the year ended 31 December 2010**

	<b>2010</b>	2009
	<b>£000</b>	£000
<b>Contributions and benefits</b>		
Contributions receivable	<b>34,649</b>	31,163
Transfer values	<b>1,725</b>	3,249
	<b>36,374</b>	34,412
Benefits payable	<b>34,235</b>	31,416
Transfer values	<b>588</b>	400
Administrative expenses	<b>1,129</b>	781
	<b>35,952</b>	32,597
Net additions/(withdrawals) from dealings with members	<b>422</b>	1,815
Net returns on investments	<b>87,857</b>	107,911
<b>Net movement in the Fund during the year</b>	<b>88,279</b>	109,726
Net assets at the start of the year	<b>708,822</b>	599,096
<b>Net assets at the end of the year</b>	<b>797,101</b>	708,822

**Net assets statement as at 31 December 2010**

	<b>2010</b>	2009
	<b>£000</b>	£000
Investments	<b>794,816</b>	709,160
Current assets	<b>2,285</b>	(338)
<b>Net assets at the end of the year</b>	<b>797,101</b>	708,822



**APPENDIX J**  
**FUND SECTION EXTRACTION ACCOUNTS (CONTINUED)**

**British Transport Police 1970 Section Historic (unaudited)**

**Fund account for the year ended 31 December 2010**

	<b>2010</b>	2009
	<b>£000</b>	£000
<b>Contributions and benefits</b>		
Benefit support	<b>1,870</b>	1,993
	<b>1,870</b>	1,993
Benefits payable	<b>4,050</b>	4,317
Administrative expenses	<b>126</b>	148
	<b>4,176</b>	4,465
Net withdrawals from dealings with members	<b>(2,306)</b>	(2,472)
Net returns on investments	<b>2,597</b>	2,894
<b>Net movement in the Fund during the year</b>	<b>291</b>	422
Net assets at the start of the year	<b>25,094</b>	24,672
<b>Net assets at the end of the year</b>	<b>25,385</b>	25,094

**Net assets statement as at 31 December 2010**

	<b>2010</b>	2009
	<b>£000</b>	£000
Investments	<b>25,292</b>	25,000
Current assets	<b>93</b>	94
<b>Net assets at the end of the year</b>	<b>25,385</b>	25,094

## **APPENDIX K SUMMARY OF THE MAIN PROVISIONS OF THE FUND**

### **Tax status**

The Fund is now a registered fund under the Finance Act 2004.

### **Contracting-out**

The members of the Fund are contracted-out from the State Second Pension.

### **Eligibility**

All police officers who are not within five years of their maximum pension age (57, 60 or 65 depending on rank) when they join the service are eligible to join the Fund if allowed by their contract of employment.

### **Transport Act 1980**

The Transport Act 1980 provides financial support for the employer's historical obligations. These obligations are met by the payment to the Fund of a fixed proportion, determined by the Secretary of State, of the relevant obligations as they fall due. This proportion is 65.99% of supportable Fund expenditure as it occurs.

Historic obligations relate to preserved membership which is membership prior to 14 September 1970 credited to members on joining the Fund at that time.

### **Pension increases**

Due to the negative rate of inflation as measured by the Retail Prices Index ('RPI') to September 2009, pensions were maintained at current levels and did not increase in April 2010. Pensions in payment and preserved pensions were increased by 3.1% from April 2011 based on the rate of inflation as measured by the Consumer Prices Index ('CPI') in September 2010. The move to increasing pensions by CPI rather than RPI is because pension increases in the BTPFSF are granted in line with Orders increasing pensions under the Pensions (Increase) Act 1971, which has recently been changed by the UK Government to reflect CPI instead of RPI increases.

### **Benefit structure from April 2007**

From 1 April 2007 a revised benefit structure was introduced for new members and is shown in the following table. Details of the old benefit structure are available on request from RPMI.

**APPENDIX K**  
**SUMMARY OF THE MAIN PROVISIONS OF THE FUND (CONTINUED)**

New members post 1 April 2007

**Active member**

<b>Contributions</b>	<b>Additional voluntary contributions ('AVC')</b>	<b>Death in service</b>
<p>Contributions are based on pensionable salary, which is basic pay plus, where appropriate, pensionable allowances such as the London Weighting Allowance.</p> <p>Pensionable salary is re-assessed on the first Monday in January each year, based on the member's pay on the previous 1 November. Contributions cease when the first of the following occurs:</p> <ul style="list-style-type: none"><li>a) on leaving the Fund; or</li><li>b) at maximum pension age of 60 or 65 depending on rank.</li></ul>	<p>Current members can pay extra contributions through AVC extra to secure additional benefits.</p>	<p>Nominated dependants or personal representatives will receive:</p> <p>A lump-sum death benefit of four times pensionable salary averaged over 12 months.</p> <p><b>Plus</b></p> <p>A dependant's pension of one half of the pension the member would have received had he/she retired due to incapacity at the date of death. Pensions for children may also be payable.</p>

Full details of the provisions of the Fund can be found in the Pension Trust and Rules.

**APPENDIX K  
SUMMARY OF THE MAIN PROVISIONS OF THE FUND  
(CONTINUED)**

**Leaving the Fund**

**When a member retires at or after age 55**

**He/she will receive**

A pension of 1/70<sup>th</sup> of average pensionable salary for each year of membership, up to 35 years.

**Plus**

A tax-free lump sum of 4/70<sup>th</sup> of average pensionable salary during the last 12 months for each year of membership, up to 35 years. Lump sums can be converted into pension on a cost neutral basis.

**And on death**

A dependant's pension of one half the member's pension (before conversion of any lump sum). Pensions for children may also be payable.

**When a member retires because of incapacity**

**He/she will receive**

Incapacity retirement benefits, with no reduction for early payment, can be granted at the Management Committee's discretion to members retiring on the grounds of incapacity who have completed at least five years' membership. The length of membership used to calculate the pension may also be enhanced in certain circumstances.

**And on death**

A dependant's pension of one half of the member's pension (before conversion of any lump sum). Pensions for children may also be payable.

**When an immediate pension is not payable**

**He/she will receive either**

**If the member has 2 or more years service:**

A preserved pension and lump sum payable from age 65, or from age 55 at a reduced amount.

**Or**

A transfer value payment payable to another approved pension arrangement.

**if the member has less than 2 years service:**

A refund of contributions less tax and other deductions.

**Transfer values**

All transfer values out of the Fund are paid in full and are calculated in accordance with the Occupational Pension Schemes (Transfer Values) Regulations 1996. Allowance is made in the calculation of transfer values for discretionary benefits payable upon early retirement, on the basis of the assumed future experience of members retiring early. There are no other discretionary benefits to be taken into account.

Full details of the provisions of the Fund can be found in the Pension Trust and Rules.

## **APPENDIX L DISPUTE RESOLUTION PROCESS**

### **Introduction**

Before a formal complaint is considered members should contact RPMI to see if the matter can be resolved informally. However, if this is not possible, there is a formal procedure to settle any disagreements fairly.

### **Who is covered by the procedure?**

The procedure is open to the people listed below who in the six months before making a complaint were:

- (1) members of the Fund;
- (2) preserved pensioners with the Fund;
- (3) pensioners or other beneficiaries from the Fund;
- (4) widows, widowers or surviving dependants of deceased members; or
- (5) prospective members, that is, those who may join the Fund in the future.

### **How does the procedure work?**

The complaint must be in writing and sent to:

Head of Rail Administration  
RPMI  
Stooperdale Offices  
Birnkburn Road  
Darlington  
DL3 6EH

All applications under the procedure must include:

- (1) full name, address, date of birth and National Insurance number;
- (2) if the application is lodged by the member's spouse or surviving dependant, that person's full name, address and date of birth and the relationship with the Fund member;
- (3) the full name and address of any representative acting for the applicant and whether or not replies should be addressed to the representative;
- (4) the facts of the case in sufficient detail to show why the applicant has a disagreement; and
- (5) a signature by or on behalf of the applicant.

If the application does not contain all the above details it may result in delay in the complaint being considered. Within two months of receiving the application the Head of Rail Administration will write to the applicant with his decision. However, if a decision is not possible within two months he will send an interim reply giving the reasons for the delay and the

**APPENDIX L**  
**DISPUTE RESOLUTION PROCESS (CONTINUED)**

expected date of his decision. The decision will be binding unless the applicant appeals.

This decision will include a statement that The Pensions Advisory Service ('TPAS') is available to assist members and beneficiaries in connection with any difficulty with the Fund which remains unresolved and the address where TPAS can be contacted.

**Appeal**

If the applicant is not satisfied with the decision he/she can appeal to the Pensions or Case Committee, as applicable, to reconsider the application. The appeal must be made within six months of the date of the original decision. Within two months of receiving the appeal the Committee will write to the complainant with a final decision. However, if a final decision is not possible within the two months an interim reply will be sent giving the reasons for the delay and an expected decision date.

The notice of the final decision will include:

- (1) a statement that TPAS is available to assist members and beneficiaries in connection with any difficulties with the Fund which have not been resolved with the Committee and the address where TPAS can be contacted; and
- (2) a statement that the Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to the Fund and the address where the Pensions Ombudsman may be contacted.

## **APPENDIX M WHERE TO GO FOR HELP**

### **Trustee Company and Railpen Investments**

Group Company Secretary  
Railways Pension Trustee Company Limited  
2<sup>nd</sup> Floor  
Camomile Court  
23 Camomile Street  
London  
EC3A 7LL

Tel: 020 7220 5000  
Email: [enquiries@rpmi.co.uk](mailto:enquiries@rpmi.co.uk)  
Website address: [www.rpmi.co.uk](http://www.rpmi.co.uk)

### **RPMI**

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

Head of Rail Administration  
RPMI  
Stooperdale Offices  
Brinkburn Road  
Darlington  
DL3 6EH

Tel: 0800 2 343434 (Customer Services Team)  
E-mail: [csu@rpmi.co.uk](mailto:csu@rpmi.co.uk)  
Website address: [www.railwaypensions.co.uk](http://www.railwaypensions.co.uk)

### **The Pensions Advisory Service ('TPAS')**

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

TPAS Headquarters  
11 Belgrave Road  
London  
SW1V 1RB

Tel: 08456 012 923  
Email: [enquiries@pensionsadvisoryservice.org.uk](mailto:enquiries@pensionsadvisoryservice.org.uk)  
Website address: [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

**APPENDIX M  
WHERE TO GO FOR HELP (CONTINUED)**

**Pensions Ombudsman**

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

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

Tel: 020 7630 2200

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

Website: [www.pensions-ombudsman.org.uk](http://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

Tel: 0870 606 3636

E-mail: [customersupport@thepensionsregulator.gov.uk](mailto:customersupport@thepensionsregulator.gov.uk)

Website address: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

**Pension Tracing Service**

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

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

Pension Tracing Service  
The Pension Service  
Whitley Road  
Newcastle upon Tyne  
NE98 1BA

Tel: 08456 002 537

Website address: [www.direct.gov.uk](http://www.direct.gov.uk)

Registration number: 100541628



## **APPENDIX N POOLED FUND ACCOUNTS**

### **INTRODUCTION TO THE POOLED FUND ACCOUNTS**

This appendix represents a consolidated summary of the Annual Report and Accounts of the pooled funds of the railways pension schemes for the year ended 31 December 2010.

The total valuation of the pooled assets as at 31 December 2010 was £17,275.94m (2009 - £15,767.79m). There are in addition £1,704.21m assets held directly by the railways pension schemes not included in the pooled fund arrangements (2009 - £1,646.33m), bringing total assets to £18,980.15m (2009 - £17,414.12m).

The pooled funds operate as internal unit trusts. They comprise a key element of the arrangements that the Trustee Company has put in place for the investment of schemes' and sections' assets and provide the railway pension schemes with a means to invest in UK and foreign equity and bond markets, funds of hedge funds, private equity, property, commodities and infrastructure.

During 2010 the pooled funds were reorganised. The Global Bond (Hedged) Pooled Fund was divided into separate pooled funds for government and non government bonds. At the same time a Growth Pooled Fund was established, which aims to provide a return of 5% above RPI in the long term. The Growth Fund does not run a fixed asset allocation strategy like the other pooled funds. Instead, a dynamic asset allocation process is employed to control investment across the various asset classes, within a risk budget framework.

The Trustee Company also operates a pooled fund for the BRASS AVC arrangement, which invests mainly in the other pooled funds.

The table on page 68 summarises the investments of each of these pooled funds as at 31 December 2010. The notes on pages 72 to 91 analyse the total pooled assets of £17,275.94m 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 75, and the unit prices on page 73.

### **ACCOUNTING POLICIES**

#### **Investments**

The principal bases of investment valuation adopted by the pooled funds for the investments within them are set out below:

- (i) 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.
- (ii) Fixed interest securities are stated at their 'clean' prices, with accrued income accounted for within investment income.
- (iii) Unquoted securities, including most investments in private equity and infrastructure (both direct and via managed funds), are included at the Trustee Company's estimate of accounting fair value based on advice from the investment managers.

## **INTRODUCTION TO THE POOLED FUND ACCOUNTS (continued)**

- (iv) 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.
- (v) 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, DTZ. DTZ are Chartered Surveyors and members of the Royal Institution of Chartered Surveyors.
- (vi) Exchange traded derivatives are stated at market values determined using market quoted prices. Over the counter ("OTC") derivatives are stated at the Trustee Company's estimate of fair value based on advice from the respective fund managers using pricing models and relevant market data at the year end date.
- (vii) Forward foreign exchange contracts are valued at the forward rate at the year end date.
- (viii) All gains and losses arising on derivative contracts are reported within change in market value of investments during the year.
- (ix) Foreign investments, debtors, creditors, cash and cash equivalents have been translated into sterling at the exchange rates ruling at the fund statement date.

### **Foreign currencies**

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

### **Investment income**

Dividend and interest income is included in the accounts on the following bases:

- (i) Dividends from quoted equities are accounted for when the security is declared ex-div.
- (ii) Interest is accrued on a daily basis.
- (iii) Property rental income is accounted for on an accruals basis in accordance with the terms of the lease.
- (iv) Sub-underwriting, commission recapture and stocklending commission are accounted for on a receivable basis.
- (v) 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.
- (vi) Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled investment vehicles, reflected in the price and reported within change in market value.

## **INTRODUCTION TO THE POOLED FUND ACCOUNTS (continued)**

- (vii) Income has been accumulated within the unit prices of the pooled funds and no income distributions have been made to the participating schemes.

## SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2010

	Equities	Fixed interest securities	Index linked securities	UK property	Pooled investment vehicles	Derivative assets	Derivative liabilities	Cash deposits and cash instruments	Other investment Assets	Other investment liabilities	Cross holdings	Net assets attributable to unit holders
<b>Pooled Fund</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Global Equity	4,327.29	341.95	0.09	-	2,767.80	62.47	(96.67)	946.41	14.88	(215.73)	-	<b>8,148.49</b>
Growth	211.26	252.00	1.25	-	282.94	0.28	(2.67)	55.98	4.72	(12.34)	5,235.81	<b>6,029.23</b>
Private Equity	18.48	3.06	-	-	1,530.59	-	(0.04)	28.87	0.02	(1.63)	-	<b>1,579.35</b>
Property	-	-	-	1,216.77	15.41	-	-	234.81	14.14	(28.31)	-	<b>1,452.82</b>
Hedge Funds	62.07	-	-	-	951.27	0.38	(15.38)	143.98	2.38	(2.16)	-	<b>1,142.54</b>
Non Government Bond	-	962.99	-	-	23.64	8.65	(20.85)	74.30	45.32	(27.22)	-	<b>1,066.83</b>
Infrastructure	103.12	-	-	-	655.58	0.09	(3.03)	14.34	1.07	(0.54)	-	<b>770.63</b>
Government Bond	-	734.56	4.20	-	-	5.37	(14.63)	19.82	11.03	(0.61)	-	<b>759.74</b>
Cashflow Matching	-	529.75	-	-	-	-	-	97.76	7.73	(2.55)	-	<b>632.69</b>
Commodities	-	169.51	-	-	138.46	21.32	(0.15)	54.31	0.02	(0.37)	-	<b>383.10</b>
Cash	-	-	-	-	-	-	-	307.37	1.43	(0.03)	-	<b>308.77</b>
Index Linked	-	-	194.23	-	-	-	-	0.76	0.59	(0.08)	-	<b>195.50</b>
BRASS	-	-	-	-	-	-	-	4.72	0.08	-	42.92	<b>47.72</b>
Short Bond	-	28.67	-	-	-	-	-	8.40	0.25	(0.06)	-	<b>37.26</b>
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(5,278.73)	<b>(5,278.73)</b>
<b>Total</b>	<b>4,722.22</b>	<b>3,022.49</b>	<b>199.77</b>	<b>1,216.77</b>	<b>6,365.69</b>	<b>98.56</b>	<b>(153.42)</b>	<b>1,991.83</b>	<b>103.66</b>	<b>(291.63)</b>	<b>-</b>	<b>17,275.94</b>
%	27.33	17.50	1.16	7.04	36.85	0.57	(0.89)	11.53	0.60	(1.69)	-	100.00

The accounting policies in section 1.4 and the notes in Section 2 form part of these accounts.

## SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2010

### MOVEMENT IN UNIT HOLDERS' FUNDS

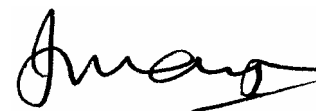
	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested income	Change in cross holdings	Total unit holders' funds
<b>Pooled Fund</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Global Equity	8,452.77	4,526.89	(5,751.38)	829.91	90.30	-	<b>8,148.49</b>
Growth	-	5,514.52	(5.06)	519.09	0.68	-	<b>6,029.23</b>
Private Equity	2,059.97	177.49	(915.72)	258.75	(1.14)	-	<b>1,579.35</b>
Property	1,286.18	628.22	(645.70)	120.46	63.66	-	<b>1,452.82</b>
Hedge Funds	1,045.76	698.92	(686.37)	94.14	(9.91)	-	<b>1,142.54</b>
Non Government Bond	-	1,996.22	(961.94)	9.99	22.56	-	<b>1,066.83</b>
Infrastructure	753.81	-	-	12.91	3.91	-	<b>770.63</b>
Government Bond	-	1,679.80	(922.28)	(9.95)	12.17	-	<b>759.74</b>
Cashflow Matching	-	721.43	(90.80)	(7.91)	9.97	-	<b>632.69</b>
Commodities	163.50	300.73	(140.68)	60.75	(1.20)	-	<b>383.10</b>
Cash	-	1,059.07	(751.44)	-	1.14	-	<b>308.77</b>
Index Linked	684.92	7.51	(527.96)	25.05	5.98	-	<b>195.50</b>
BRASS	21.23	25.18	(2.49)	3.78	0.02	-	<b>47.72</b>
Short Bond	168.81	3.70	(139.54)	1.67	2.62	-	<b>37.26</b>
Global Bond (Hedged)	2,003.60	113.90	(2,233.87)	84.05	32.32	-	-
Cross Holdings	(872.76)	-	-	-	-	(4,405.97)	<b>(5,278.73)</b>
<b>Total</b>	<b>15,767.79</b>	<b>17,453.58</b>	<b>(13,775.23)</b>	<b>2,002.69</b>	<b>233.08</b>	<b>(4,405.97)</b>	<b>17,275.94</b>

Approved on behalf of the Trustee Company on 25 May 2011

Derek Scott  
Chairman



John Mayfield  
Director



The accounting policies in section 1.4 and the notes in Section 2 form part of these accounts.

## SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2009

	Equities	Fixed interest securities	Index linked securities	UK property	Pooled investment vehicles	Derivative assets	Derivative liabilities	Cash deposits and cash instruments	Other investment assets	Other investment liabilities	Cross holdings	Net assets attributable to unit holders
<b>Pooled Fund</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Global Equity	3,804.31	739.84	-	-	2,635.56	144.24	(96.90)	1,315.52	80.14	(169.94)	-	<b>8,452.77</b>
Private Equity	14.57	2.73	-	-	1,177.52	-	(0.08)	10.26	0.22	(2.08)	856.83	<b>2,059.97</b>
Global Bond (Hedged)	0.63	1,532.79	2.01	-	124.78	27.02	(32.75)	321.56	30.88	(3.32)	-	<b>2,003.60</b>
Property	-	-	-	1,046.38	5.14	-	-	202.38	63.98	(31.70)	-	<b>1,286.18</b>
Hedge Funds	44.30	-	-	-	904.62	5.61	(15.28)	181.89	1.89	(77.27)	-	<b>1,045.76</b>
Infrastructure	182.83	-	-	-	554.66	2.32	(0.28)	13.20	1.45	(0.37)	-	<b>753.81</b>
Index Linked	-	107.58	490.62	-	-	14.48	(0.31)	72.63	3.37	(3.45)	-	<b>684.92</b>
Short Bond	-	158.91	-	-	-	-	-	8.62	1.39	(0.11)	-	<b>168.81</b>
Commodities	-	117.16	-	-	-	10.84	(3.34)	39.00	-	(0.16)	-	<b>163.50</b>
BRASS	-	-	-	-	-	-	-	5.25	0.17	(0.12)	15.93	<b>21.23</b>
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(872.76)	<b>(872.76)</b>
<b>Total</b>	<b>4,046.64</b>	<b>2,659.01</b>	<b>492.63</b>	<b>1,046.38</b>	<b>5,402.28</b>	<b>204.51</b>	<b>(148.94)</b>	<b>2,170.31</b>	<b>183.49</b>	<b>(288.52)</b>	<b>-</b>	<b>15,767.79</b>
%	25.67	16.87	3.12	6.64	34.26	1.29	(0.94)	13.76	1.16	(1.83)	-	100.00

The accounting policies in section 1.4 and the notes in Section 2 form part of these accounts.

## SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2009

### MOVEMENT IN UNIT HOLDERS' FUNDS

	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested income	Change in cross holdings	Total unit holders' funds
<b>Pooled Fund</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Global Equity	6,853.37	279.76	(637.13)	1,877.74	79.03	-	<b>8,452.77</b>
Private Equity	1,847.01	3.34	(19.90)	228.54	0.98	-	<b>2,059.97</b>
Global Bond (Hedged)	1,818.52	96.73	(121.03)	135.09	74.29	-	<b>2,003.60</b>
Property	1,213.61	18.39	(12.93)	3.23	63.88	-	<b>1,286.18</b>
Hedge Funds	944.48	39.33	(63.76)	133.69	(7.98)	-	<b>1,045.76</b>
Infrastructure	846.61	-	-	(98.86)	6.06	-	<b>753.81</b>
Index Linked	726.96	0.89	(107.81)	53.56	11.32	-	<b>684.92</b>
Short Bond	162.18	2.26	(3.13)	2.05	5.45	-	<b>168.81</b>
Commodities	-	142.55	-	21.03	(0.08)	-	<b>163.50</b>
BRASS	-	20.81	-	0.42	-	-	<b>21.23</b>
Cross Holdings	(797.89)	-	-	-	-	(74.87)	<b>(872.76)</b>
<b>Total</b>	<b>13,614.85</b>	<b>604.06</b>	<b>(965.69)</b>	<b>2,356.49</b>	<b>232.95</b>	<b>(74.87)</b>	<b>15,767.79</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT

1.1 Fund statement as at 31 December 2010	Note	2010 £m	2009 £m
<b>Assets</b>			
Equities			
UK Quoted		797.01	675.13
UK Unquoted		-	9.88
Overseas Quoted		3,841.36	3,303.37
Overseas Unquoted		83.85	58.26
		<b>4,722.22</b>	<b>4,046.64</b>
Fixed interest securities			
UK quoted - public sector		549.36	118.47
UK quoted - non public sector		138.33	147.60
UK unquoted - non public sector		3.06	2.73
Overseas quoted - public sector		1,195.03	1,284.94
Overseas quoted - non public sector		1,136.71	302.06
Overseas unquoted - non public sector		-	803.21
		<b>3,022.49</b>	<b>2,659.01</b>
Indexed linked securities			
UK quoted - public sector		194.23	447.41
UK quoted - non public sector		0.31	43.21
Overseas quoted - public sector		5.23	2.01
		<b>199.77</b>	<b>492.63</b>
UK Property			
Pooled investment vehicles			
UK unquoted - property partnerships		15.41	5.14
UK unquoted - unitised insurance policies		2,368.62	2,118.19
UK unquoted – partnerships		507.50	575.77
UK quoted - other managed funds		76.64	-
Overseas quoted - hedge funds		0.53	0.63
Overseas quoted - other managed funds		141.26	15.51
Overseas unquoted – partnerships		2,076.37	1,589.78
Overseas unquoted - hedge funds		1,155.72	968.36
Overseas unquoted - other managed funds		23.64	128.90
		<b>6,365.69</b>	<b>5,402.28</b>
Derivative contracts			
Forwards – OTC	1.5	-	0.32
Futures – exchange traded	1.5	44.37	53.50
TBA contracts – OTC	1.5	0.43	1.54
Swaps – OTC	1.5	16.82	12.37
Options – OTC	1.5	0.25	1.00
Options – exchange traded	1.5	2.89	-
FX contracts – OTC	1.5	33.80	135.78
		<b>98.56</b>	<b>204.51</b>
Cash deposits and cash instruments			
Other assets			
Other investment assets	1.7	94.68	104.07
Current assets	1.9	8.98	7.72
		<b>103.66</b>	<b>111.79</b>



## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

<b>1.1 Fund statement as at 31 December 2010 (Continued)</b>	<b>Note</b>	<b>2010 £m</b>	<b>2009 £m</b>
Cross holdings			
Global Equity Pooled Fund		2,966.34	868.09
Hedge Fund Pooled Fund		726.91	0.08
Property Pooled Fund		652.21	-
Non Government Bond Pooled Fund		336.89	-
Cash Pooled Fund		303.05	-
Commodities Pooled Fund		287.65	-
Government Bond Pooled Fund		3.92	-
Index Linked Pooled Fund		1.76	0.83
Global Bond Pooled Fund (Hedged)		-	3.76
		<b>5,278.73</b>	<b>872.76</b>
<b>Total assets</b>		<b>22,999.72</b>	<b>17,006.31</b>
<b>Liabilities</b>			
Derivative contracts			
Forwards – OTC	1.5	-	(1.04)
Futures – exchange traded	1.5	(7.68)	(11.11)
TBA contracts – OTC	1.5	(0.21)	(0.85)
Swaps – OTC	1.5	(13.88)	(3.23)
Options – OTC	1.5	(1.94)	(0.83)
Options – exchange traded	1.5	(1.64)	-
FX contracts – OTC	1.5	(128.07)	(131.88)
		<b>(153.42)</b>	<b>(148.94)</b>
Other liabilities			
Other investment liabilities	1.8	(236.42)	(151.73)
Current liabilities	1.10	(55.21)	(65.09)
		<b>(291.63)</b>	<b>(216.82)</b>
<b>Total liabilities</b>		<b>(445.05)</b>	<b>(365.76)</b>
Cross holdings		<b>(5,278.73)</b>	<b>(872.76)</b>
<b>Net assets attributable to unit holders</b>		<b>17,275.94</b>	<b>15,767.79</b>
<b>1.2 Pooled Fund Unit Prices as at 31 December 2010</b>		<b>2010 £/unit</b>	<b>2009 £/unit</b>
Global Equity Pooled Fund		51.11	45.40
Growth Pooled Fund		11.03	-
Property Pooled Fund		53.10	46.41
Hedge Funds Pooled Fund		12.85	11.90
Non Government Bond Pooled Fund		10.39	-
Infrastructure Pooled Fund		7.28	7.12
Government Bond Pooled Fund		9.98	-
Private Equity Pooled Fund 2007		10.48	8.87

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

<b>1.2 Pooled Fund Unit Prices as at 31 December 2010 (continued)</b>	<b>2010 £/unit</b>	<b>2009 £/unit</b>
Cashflow Matching 2011 Pooled Fund	10.03	-
Commodities Pooled Fund	16.20	13.46
Private Equity Pooled Fund 2001	21.37	17.08
Cash Pooled Fund	10.02	-
Private Equity Pooled Fund 2005	16.16	13.23
Index Linked Pooled Fund	42.77	37.84
Private Equity Pooled Fund 2004	20.09	17.42
Cashflow Matching 2012 Pooled Fund	10.08	-
Cashflow Matching 2010 Pooled Fund	9.99	-
Direct Investment Pooled Fund 2000	16.68	14.49
Cashflow Matching 2013 Pooled Fund	10.14	-
Short Bond Pooled Fund	23.39	22.55
Private Equity Pooled Fund 2009	12.79	9.68
BRASS Pooled Fund (Growth)	11.80	10.59
BRASS Pooled Fund (Cautious)	11.24	10.36
Direct Investment Pooled Fund 1998	10.36	7.97
Direct Investment Pooled Fund 1999	12.32	7.72
Direct Investment Pooled Fund 1995	2,310.23	993.23
Direct Investment Pooled Fund 1997	22.95	24.71
Global Bond Pooled Fund (Hedged)	-	16.88

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

<b>1.3 Value of the Pooled Funds</b>	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Global Equity Pooled Fund	8,148.49	8,452.77
Growth Pooled Fund	6,029.23	-
Property Pooled Fund	1,452.82	1,286.18
Hedge Funds Pooled Fund	1,142.54	1,045.76
Non Government Bond Pooled Fund	1,066.83	-
Infrastructure Pooled Fund	770.63	753.81
Government Bond Pooled Fund	759.74	-
Private Equity Pooled Fund 2007	719.95	1,153.62
Cashflow Matching 2011 Pooled Fund	391.13	-
Commodities Pooled Fund	383.10	163.50
Private Equity Pooled Fund 2001	355.68	386.88
Cash Pooled Fund	308.77	-
Private Equity Pooled Fund 2005	270.74	304.04
Index Linked Pooled Fund	195.50	684.92
Private Equity Pooled Fund 2004	118.36	123.80
Cashflow Matching 2012 Pooled Fund	100.87	-
Cashflow Matching 2010 Pooled Fund	93.89	-
Direct Investment Pooled Fund 2000	69.41	75.15
Cashflow Matching 2013 Pooled Fund	46.80	-
Short Bond Pooled Fund	37.26	168.81
BRASS Pooled Fund (Growth)	29.82	12.60
Private Equity Pooled Fund 2009	29.66	2.27
BRASS Pooled Fund (Cautious)	17.90	8.63
Direct Investment Pooled Fund 1998	8.73	6.72
Direct Investment Pooled Fund 1999	5.73	3.59
Direct Investment Pooled Fund 1995	0.77	0.33
Direct Investment Pooled Fund 1997	0.32	3.57
Global Bond Pooled Fund (Hedged)	-	2,003.60
	<b>22,554.67</b>	<b>16,640.55</b>
Cross holdings	(5,278.73)	(872.76)
	<b>17,275.94</b>	<b>15,767.79</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.4 Investment income

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Dividends from equities	108.08	91.00
Income from fixed interest securities	99.30	105.36
Income from index linked securities	5.53	9.76
Income from UK property	73.46	72.71
Interest from cash deposits	12.34	13.94
Income from preferred securities	0.02	0.07
Other income	8.81	5.29
	<b>307.54</b>	<b>298.13</b>
Irrecoverable withholding tax	(7.06)	(4.56)
<b>Total income</b>	<b>300.48</b>	<b>293.57</b>
Administration, custody and other expenses	(17.11)	(16.73)
Investment management fees – base	(34.03)	(27.07)
Investment management fees – performance	(6.41)	(8.46)
RPMI fees	(9.84)	(8.16)
Tax	(0.01)	(0.14)
Interest paid	-	(0.06)
<b>Reinvested income</b> (accrued in unit price)	<b>233.08</b>	<b>232.95</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.5 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	Economic exposure at year end £m	Asset value at year end £m	Liability value at year end £m
S&P 500 index	587.26	18.49	-
Commodities	243.45	21.32	(0.15)
FTSE 100 index	180.09	2.09	-
Eurostoxx 50 index	167.59	-	(3.28)
Euribor	43.22	0.03	-
Other equity index	36.44	0.35	(1.81)
UK interest rate	15.06	0.02	-
Australian government bonds	7.23	0.07	-
UK government bonds	3.71	0.12	(0.10)
Canadian government bonds	(1.11)	0.01	(0.02)
Japanese government bonds	(4.40)	0.01	-
German government bonds	(42.50)	0.23	(0.39)
US government bonds	(45.26)	1.63	(1.93)
	<b>1,190.78</b>	<b>44.37</b>	<b>(7.68)</b>

Included within net assets is £111.8m cash, £265.54m US Treasury bills, £3.51m US Treasury bonds, £0.14m US inflation linked securities and £5.83m US Government mortgage backed securities in respect of initial and variation margins arising on open futures contracts at the year end. The duration of futures is between one and eighteen months.

Collateral deposited by counterparties with the Trustee Company in respect of futures contracts at the year end date amounted to £0.32m of US Treasury inflation indexed bonds. Collateral received in this way is not reported within the pooled fund's net assets.

**TBA contracts:** TBA ("To be announced") contracts are forward contracts for delivery on a future date of mortgage backed securities issued by US government sponsored entities. In this respect they are similar to futures, but TBAs are over the counter arrangements, and no margin payments are required on unsettled contracts. The details of unsettled TBA contracts at the year end date are as follows:

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.5 Derivative contracts (continued)

#### TBA contracts (continued)

Type of TBA	Economic exposure at year end £m	Asset value at year end £m	Liability value at year end £m
FNMA mortgage backed	(110.68)	0.28	(0.17)
GNMA mortgage backed	(37.45)	0.13	-
FHLMC mortgage backed	(6.47)	0.02	(0.04)
		<b>0.43</b>	<b>(0.21)</b>

TBA contracts typically remain outstanding for around one month between the time the contract is entered into and settlement date.

**Swaps:** Swap contracts are over the counter arrangement in which the parties agree to exchange one stream of cashflows for another. The details of swap contracts in place at the year end date are as follows:

Type of Swap	Duration (years)	Nominal amount £m	Asset value at year end £m	Liability value at year end £m
Credit default swaps	1 to 5	56.08	0.22	(0.71)
Credit default swaps	5 to 10	80.50	1.64	(0.30)
Credit default swaps	10 to 15	23.03	0.12	-
Credit default swaps	15 to 20	2.36	0.05	-
Total return swaps	1 to 5	44.16	1.76	-
Currency swaps	1 to 5	25.49	12.90	(12.61)
Interest rate swaps	1 to 5	25.05	-	(0.26)
Interest rate swaps	5 to 10	2.02	0.13	-
			<b>16.82</b>	<b>(13.88)</b>

Under the terms of swaps, 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 swap contracts the Trustee Company had deposited £2.86m of US Treasury bills, £0.25m US Treasury notes and £8.48m of cash collateral at the year end. These amounts are included in the net assets of the pooled fund at the year end.

Collateral deposited by counterparties with the Trustee Company in respect of swap contracts at the year end date amounted to £6.34m of cash. Collateral received in this way is not reported within the pooled fund's net assets.

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.5 Derivative contracts (continued)

**Options:** Options are contracts which confer the right, but not the obligation, to buy (“call” options) or sell (“put” options) a security, currency, commodity or derivative contract on a specified future date at the price specified in the contract. Options may be either over the counter or exchange traded and may be ‘bought’, which means they carry the *right* to buy or sell if exercised by the holder or ‘sold’, meaning they carry the *obligation* to buy or sell if exercised by the counterparty. The details of option contracts in place at the year end date are as follows:

Type of option	Bought or sold	Notional value	Asset value at year end	Liability value at year end
		£m	£m	£m
<b>OTC option</b>				
Interest rate swaps	Sold	246.67	-	(1.90)
Interest rate swaps	Bought	12.33	0.08	-
Market index	Bought	4.65	0.09	-
Market index	Sold	10.09	-	(0.03)
Foreign currency	Bought	0.01	0.02	-
International bond future	Bought	4.41	0.02	-
Volatility index	Bought	0.08	0.04	-
Credit default swaps	Sold	13.67	-	(0.01)
<b>Exchange traded option</b>				
Interest rate futures	Sold	67.70	-	(0.03)
US treasury bond	Bought	87.82	2.89	-
US treasury bond	Sold	117.27	-	(1.61)
			<b>3.14</b>	<b>(3.58)</b>

The above options expire within two months and two years of the year end date.

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.5 Derivative contracts (continued)

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

Type of contract	Currency bought million	Currency sold million	Value at year end £m
<b>Assets</b>			
Yen / US dollar	1,456.18	17.47	0.32
US dollar / Euro	694.16	506.80	9.14
US dollar / Sterling	348.09	217.97	4.40
Sterling / Swedish krone	338.14	30.90	1.21
Euro / Sterling	133.57	113.06	1.41
Norwegian krone / Sterling	102.73	10.75	0.52
Sterling / Swiss franc	70.53	45.22	3.14
Sterling / Euro	64.95	75.26	0.44
AU dollar / Sterling	47.50	28.92	2.03
Canadian dollars / Sterling	18.05	11.19	0.41
Sterling / US dollar	5.85	9.02	0.09
Singapore dollar / Sterling	1.52	0.74	0.02
Other			10.67
			<b>33.80</b>
<b>Liabilities</b>			
Sterling / US dollar	4,639.56	7,372.00	(70.80)
US dollar / Yen	662.97	55,021.19	(10.07)
US dollar / Euro	630.35	476.01	(5.18)
US dollar / AU dollar	300.91	309.58	(9.54)
US dollar / Swiss franc	214.76	210.29	(7.00)
Sterling / Euro	196.02	231.45	(2.36)
US dollar / Canadian dollar	124.22	126.11	(1.66)
Euro / Sterling	85.17	74.49	(1.50)
Sterling / Yen	69.29	9,051.20	(2.02)
Sterling / AU dollar	32.58	52.96	(1.81)
Sterling / Norwegian krone	14.43	136.59	(0.55)
Sterling / Swiss franc	3.62	5.65	(0.26)
US dollar / Sterling	3.56	2.31	(0.04)
Other			(15.28)
			<b>(128.07)</b>

Most FX contracts will settle within three months of the year end, and the remainder within nine months.



## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.6 Cash deposits and cash instruments

Included within cash balances is £455.01m in respect of repo transactions. (2009 - £78m)

### 1.7 Other investment assets

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Asset in respect of investment transactions	35.27	56.64
Investment income accrued	47.41	36.55
Recoverable tax	2.15	2.67
Rent receivable	9.85	8.21
	<b>94.68</b>	<b>104.07</b>

### 1.8 Other investment liabilities

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Liability in respect of investment transactions	(236.00)	(151.40)
Tax payable	(0.41)	(0.33)
Other	(0.01)	-
	<b>(236.42)</b>	<b>(151.73)</b>

### 1.9 Current assets

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Asset in respect of unit trades	3.45	2.77
Trade debtors	3.49	4.44
Tax	0.69	-
Other	1.35	0.51
	<b>8.98</b>	<b>7.72</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.10 Current liabilities

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Accrued management fees and expenses	(23.82)	(28.49)
Property income received in advance	(16.19)	(16.01)
Trade creditors	(7.01)	(9.22)
Liability in respect of unit trades	(1.24)	(4.38)
Other	(4.18)	(1.49)
Tax	(2.77)	(5.50)
	<u>(55.21)</u>	<u>(65.09)</u>

### 1.11 Stocklending

The Trustee Company 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 Company's collateral specifications

At 31 December 2010, the market valuation of stock that had been lent in the market was £314.56m (2009 - £180.96m).

Collateral held in respect of the stock on loan at 31 December 2010 had a total value of £325.78m (2009 – £185.99m).

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.12 Reconciliation of investments held at beginning and end of year

	Value at 31 December 2009	Units issued/ (redeemed)	Income	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 December 2010
	£m	£m	£m	£m	£m	£m	£m
<b>Directly held assets</b>							
Equities	4,046.64	-	-	3,376.86	(3,341.53)	640.25	4,722.22
Fixed interest securities	2,659.01	-	-	6,918.53	(6,639.16)	84.11	3,022.49
Index linked securities	492.63	-	-	685.90	(995.17)	16.41	199.77
Pooled investment vehicles	5,402.28	-	-	3,820.22	(3,650.21)	793.40	6,365.69
UK property	1,046.38	-	-	85.78	(30.04)	114.65	1,216.77
	<b>13,646.94</b>	-	-	<b>14,887.29</b>	<b>(14,656.11)</b>	<b>1,648.82</b>	<b>15,526.94</b>
<b>Derivatives</b>							
Forwards	(0.72)	-	-	7.45	(6.66)	(0.07)	-
Futures	42.39	-	-	185.42	(313.68)	122.56	36.69
TBAs	0.69	-	-	30.34	(25.35)	(5.46)	0.22
Swaps	9.14	-	-	22.79	(30.82)	1.83	2.94
Options	0.17	-	-	8.65	(17.02)	7.76	(0.44)
FX contracts	3.90	-	-	121,692.49	(121,501.03)	(289.63)	(94.27)
	<b>55.57</b>	-	-	<b>121,947.14</b>	<b>(121,894.56)</b>	<b>(163.01)</b>	<b>(54.86)</b>
<b>Cross holdings</b>	872.76	-	-	6,274.30	(2,346.09)	477.76	5,278.73
<b>Other</b>							
Cash and current assets	2,065.28	3,678.35	233.08	(143,108.73)	138,896.76	39.12	1,803.86
	<b>16,640.55</b>	<b>3,678.35</b>	<b>233.08</b>	-	-	<b>2,002.69</b>	<b>22,554.67</b>
<b>Cross holdings</b>	(872.76)						(5,278.73)
<b>Net Assets</b>	<b>15,767.79</b>						<b>17,275.94</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.13 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:

	2010 £m	2009 £m
BlackRock Advisors (UK) Limited	2,973.22	2,989.75
Orchard Street Investment Management	1,416.83	1,236.56
Wellington Management International	1,067.05	803.69
Pacific Investment Management Company (“PIMCO”)	889.34	801.96
Legal and General Investment Management (“L&G”)	824.95	731.21
Western Asset Management	745.48	745.43
Lazard Asset Management	607.15	699.54
Blackstone Alternative Asset Management	498.34	456.55
Edinburgh Partners	443.59	406.73
William Blair & Company	366.24	285.34
Southeastern Asset Management	340.73	279.17
TT International	327.87	299.64
Grosvenor Capital Management	315.46	333.93
Brandes Investment Partners	292.25	259.81
Longview Partners LLP	285.18	244.51
Cinven	262.07	221.07
JP Morgan Asset Management	248.62	206.66
Goldman Sachs	246.18	219.48
Fidelity Pensions Management	243.74	201.97
Neuberger Berman Europe Limited	243.65	160.31
NewSmith Asset Management	240.61	208.20
Alinda Capital Partners	231.12	170.20
Marathon Asset management LLP (from August 2010)	229.25	-
Railpen Investments/RPMI	222.01	156.83
The Rock Creek Group	220.64	209.27
Morgan Stanley Investment Management	215.69	183.28
Aberforth Partners LLP	207.48	137.80
Bridgewater Associates	206.31	151.31
HarbourVest Partners	204.89	158.31
Prudential M&G Investment Management	194.84	669.95
Standard Life	179.01	82.95
Taiyo Pacific Partners	177.40	146.72
Relational Investors	171.97	137.02
Horsley Bridge Partners	165.44	114.35
Pantheon Ventures	162.69	140.85
Apax Partners	148.34	128.79
New Finance Capital LLP (from June 2010)	138.46	-
Martin Currie	135.45	105.37
Unigestion Asset Management (from December 2010)	127.96	-
<b>Sub - total</b>	<b>16,217.50</b>	<b>14,484.51</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.13 Investment managers during the year (continued)

	2010 £m	2009 £m
<b>Sub-total</b>	<b>16,217.50</b>	<b>14,484.51</b>
Adams Street Partners	109.63	89.96
CP2	90.19	61.64
Oaktree Capital Management	88.00	66.77
Blakeney Management	86.14	71.26
Arcus Infrastructure Partners	85.88	101.08
Legg Mason International	79.55	320.32
River and Mercantile	74.48	69.37
Goodhart Partners LLP	66.52	64.38
Newton Investment Management (from November 2010)	50.78	-
Indicus Advisors	42.68	30.82
Warburg Pincus	39.76	21.34
Archer Capital	35.04	17.35
Sankaty Advisors	29.79	29.03
HSBC Private Equity Management	25.94	23.19
Innisfree	25.60	19.00
Bain Capital	25.16	14.26
Governance for Owners Group (“GO”)	17.39	139.46
Great Hill Partners	11.85	2.25
EQT Funds Management	11.55	12.07
Scale Ventures	7.98	2.47
Capital Dynamics	7.27	8.28
Columbia Capital	6.84	2.82
Balderton	6.73	2.63
Khosla Ventures (from January 2010)	6.22	-
Hony Capital	6.08	1.31
Anacap Financial Partners	3.54	3.36
Charlesbank Capital Partners	3.03	0.65
Domain Partners	2.97	0.35
Innova	2.80	0.03
KPS Capital Partners	2.32	1.39
Highland Capital Partners (from September 2010)	2.05	-
Sequoia Capital (from April 2010)	1.44	-
Navis Capital Partners Ltd (from February 2010)	1.32	-
Institutional Venture Partners (from July 2010)	1.28	-
Bridges Community Ventures	0.40	0.45
Southern Cross Group (from July 2010)	0.24	-
Bluecrest Capital Management (until December 2010)	-	105.99
<b>Total</b>	<b>17,275.94</b>	<b>15,767.79</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.14 Benchmarks

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

	<b>2010</b>	<b>2009</b>
	%	%
FTSE All World North America Index	25.0	25.0
FTSE All Share Index	20.0	30.0
FTSE All World Developed Europe (ex UK) Index	20.0	20.0
FTSE All World Developed Asia Pacific (ex Japan) Index	20.0	3.0
MSCI Emerging Markets Free (net dividends reinvested) Index	15.0	12.6
FTSE All World Developed Japan Index	-	9.4
	<b>100.0</b>	<b>100.0</b>

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 benchmark for the Global Bond Pooled Fund (Hedged) is the Barclays Capital Global Aggregate Index – ex Japan (hedged).

Until 1 July 2010 the benchmark for the manager and for the pooled fund as a whole was the FTSE UK Gilts Index Linked All Stocks Index. The benchmark changed to the FTSE UK Gilts – Index Linked > 15 Years Index with effect from 1 July 2010.

The benchmark for the Short Bond Pooled Fund is the FTSE UK Gilts 0 to 5 year index.

The Cash Plus Pooled Fund benchmark is 3 month sterling LIBOR, fixed at the British Bankers' Association fixing on the last UK business day of the preceding calendar quarter. LIBOR is the London Inter Bank Offer Rate, being the rate at which banks in the City of London are willing to lend money from one another in the wholesale money markets. The fund of fund managers' benchmark is 3 month US dollar LIBOR, fixed at the British Bankers' Association fixing on the last US business day of the preceding calendar quarter.

BlackRock Advisors (UK) Limited provides a passive hedge back into sterling for 100% of the pooled fund, and is also mandated to run a liquidity portfolio benchmarked to 3 month sterling LIBOR.

The benchmark of the Property Pooled Fund is the IPD All Properties Index. (IPD = "Investment Property Databank").

The performance of the Private Equity Pooled Fund is assessed relative to the benchmark of the Global Equity Pooled Fund.

The benchmark of the Infrastructure Pooled Fund is the UK Retail Prices Index (RPI).

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.14 Benchmarks (continued)

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

	<b>2010</b> <b>%</b>
DJ AIG Commodities Index	75.0
S&P GSCI Petroleum Index	25.0
	<hr/> <b>100.0</b> <hr/>

The performance of the BRASS Pooled Fund is measured against a composite benchmark comprising the benchmarks of the pooled funds the BRASS Pooled Fund invests in.

The performance of each annual segment of the Cashflow Matching Pooled Fund is measured against a customised benchmark designed to reflect the specific maturity profiles of that segment.

The benchmark of the Government Bond Pooled Fund is the Citigroup World Government Bond Index –ex Japan (hedged).

The benchmark for the Non Government Pooled Fund is the Barclays Capital Global Aggregate Index – ex Treasury ex Government (hedged).

The benchmark for the Cash Pooled Fund is 7 Day Sterling London Inter-Bank Intra Day Interest Rate.

The benchmark for the Growth Pooled Fund is the Retail Price Index. The target for the Growth Pooled Fund is the Retail Price Index plus 5%.

## CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

### 1.15 Performance

The return of each pooled fund as measured by WM Performance Services and rpm is shown in the table below:

<b>Pooled Fund</b>	<b>Actual 2010 (%)</b>	<b>Bench 2010 (%)</b>	<b>Actual last 5 years (%)</b>	<b>Bench last 5 years (%)</b>
Global Equity Pooled Fund	13.3	12.3	3.0	4.0
Global Bond Pooled Fund (Hedged)**	6.2	4.5	4.3	5.5
Index Linked Pooled Fund**	4.2	4.0	6.1	6.1
Short Bond Pooled Fund	3.7	3.6	4.9	5.1
Hedge Funds Pooled Fund	9.1	0.5	4.1	3.7
Property Pooled Fund	15.6	14.5	3.6	0.2
Commodities Pooled Fund	21.2	16.7	n/a	n/a
Infrastructure Pooled Fund	1.8	4.8	n/a	n/a
Private Equity Pooled Fund	19.6	12.5	7.1	4.0
BRASS Pooled Fund (Growth)	11.3	10.8	n/a	n/a
BRASS Pooled Fund (Cautious)	8.3	8.0	n/a	n/a
Cashflow Matching 2010 Pooled Fund*	0.3	0.4	n/a	n/a
Cashflow Matching 2011 Pooled Fund*	0.3	0.3	n/a	n/a
Cashflow Matching 2012 Pooled Fund*	0.7	0.7	n/a	n/a
Cashflow Matching 2013 Pooled Fund*	1.0	1.0	n/a	n/a
Government Bond Pooled Fund*	-0.5	-0.3	n/a	n/a
Non Government Bond Pooled Fund*	3.2	1.6	n/a	n/a
Cash Pooled Fund*	0.3	0.2	n/a	n/a
Growth Pooled Fund*	10.3	4.4	n/a	n/a

The return of the Index Linked Pooled Fund as measured by WM Performance Services and RPMI was a gain of 6.7% (benchmark: gain of 6.7%) during the period 1 July 2010 to 31 December 2010.

\* returns since inception of the pooled fund.

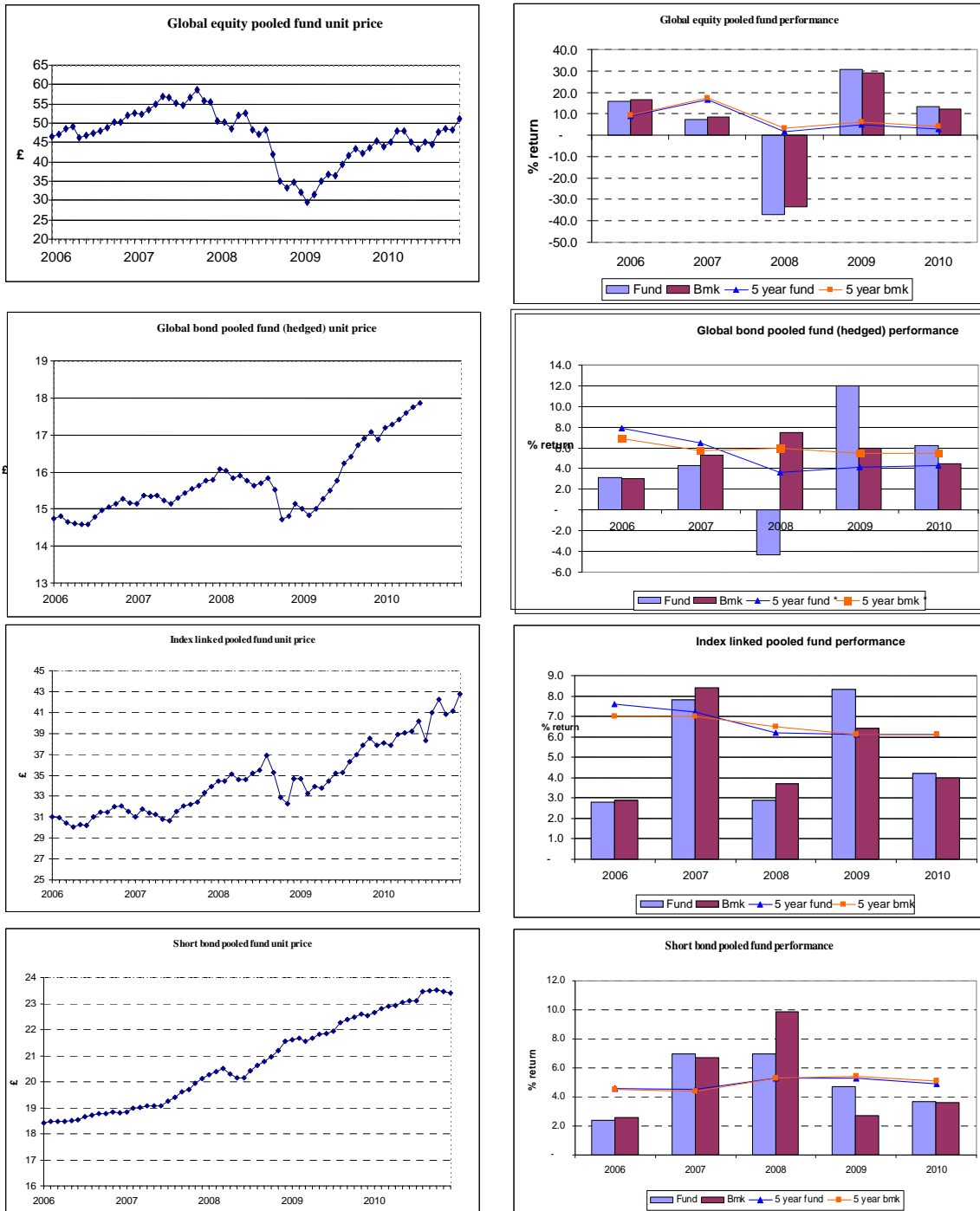
\*\* returns for the period to 30 June 2010



# CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

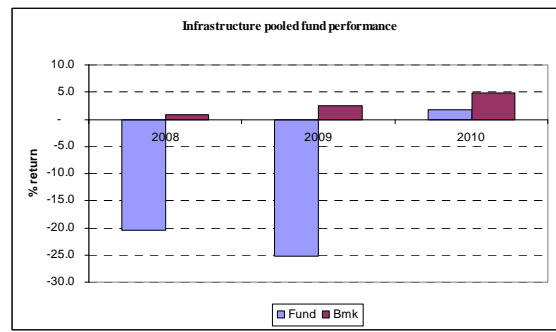
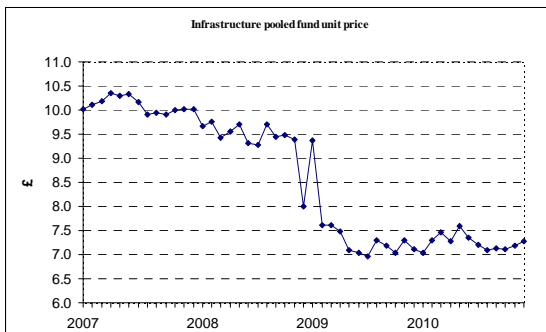
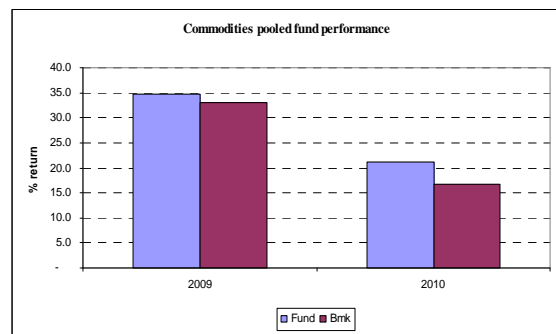
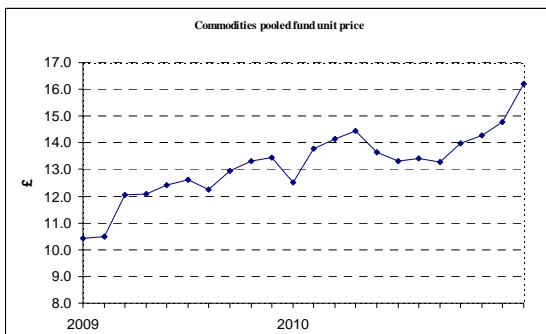
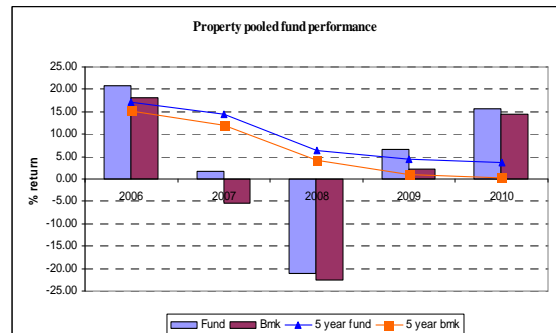
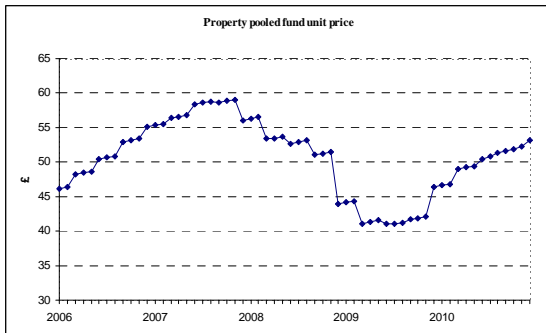
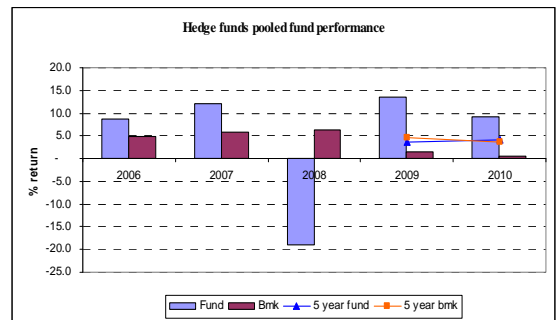
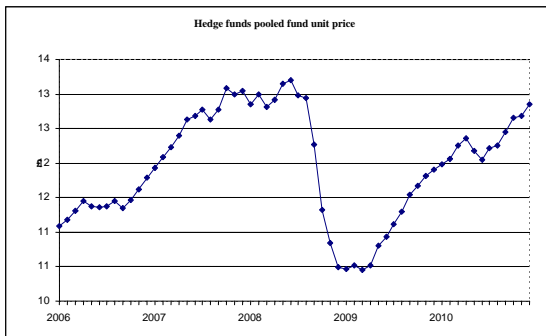
## 1.15 Performance (continued)

The graphs below illustrate the performance of each pooled fund and the movement in the unit price during the last five years, or since inception where the fund has been in existence for less than 5 years.



# CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

## 1.15 Performance (continued)



# CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

## 1.15 Performance (continued)

