

**BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND**

Pensions registration number: 100541628

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS  
2016**

# BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND

## ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS 2016

### Contents:

	<b>Page</b>
Chairman's introduction	1
Audited financial statements	3
Independent Auditor's Statement	14
Trustee's responsibilities in respect of contributions and summary of contributions payable in the year	15
Independent Auditor's statement on Contributions	16
Statement of Trustee responsibilities in relation to audited financial statements	17
The Trustee Company	18
Trustee Company report	22
Management Committee report	24
Report on Actuarial Liabilities	27
The Trustee's investment report	29
Appendices	35

## CHAIRMAN'S INTRODUCTION

On behalf of your Trustee Board (the 'Trustee') I would like to introduce the Annual Report and Audited Financial Statements of the British Transport Police Superannuation Fund ('the Fund') for the year ended 31 December 2016.

The year was a very strong one for investment returns, especially for the Growth Pooled Fund in which the majority of the Fund's assets are invested. Returns on the legacy Private Equity Pooled Fund and the newly launched Long Term Income Pooled Fund fell short of their benchmarks, however all other asset classes achieved returns above, and in some cases well above, benchmarks. The Growth Pooled Fund recorded absolute gains of 17.3% against a benchmark of 2.5% and a target of 6.5%. The Fund's second largest pooled fund investment, the Government Bond Pooled Fund, recorded annual gains of 5.8%, exceeding its benchmark of 4.5% whilst the Fund's other two large pooled funds, the Private Equity Pooled Fund and Infrastructure Pooled Fund, recorded annual gains of 26.1% and 24.1% respectively against their benchmarks of 29.4% and 2.5%.

In 2013, the Trustee initiated a wide-ranging review of its investment governance, covering investment beliefs, structure, and a root-and-branch review of the investment processes underlying the pooled funds. 2016 saw the continued implementation of many of the initiatives begun in the previous years as we increased our in-house trading capability and transitioned to Business as Usual. During 2016, significant progress was made in reducing the numbers and scope of external firms managing the scheme's money, with an associated reduction in cost. Equity investment was increasingly carried out through Alternative Risk Premia ('ARP') strategies, which identify underlying drivers of return and build portfolios cost effectively and systematically. Property is the next asset class to be transitioned to in-house management, and this will take place during 2017.

Our simple range of multi-asset pooled funds ensures that the needs of the Fund be met. The legacy Private Equity Pooled Fund is being wound down, although due to the illiquid nature of the investments in this pooled fund, this will take several years. New investments in private markets and other illiquid return seeking assets are made through the Illiquid Growth Pooled Fund, launched in 2015 and the Long Term Income Pooled Fund launched in 2016. These new funds provide the opportunity for the Trustee to invest more directly in private markets and have the benefit of reduced costs and increased control over our investments. We have also been able to invest in some new and non-traditional asset classes such as royalties, solar panels and residential properties.

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

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

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

## **CHAIRMAN'S INTRODUCTION (CONTINUED)**

As part of Chrysalis we have spoken with our many stakeholders, a process that will continue during the implementation, and we will be working to deliver a range of services that meets as many of those needs as possible. We always remain aware that the railways pension schemes cover a wide variety of organisations, from the very large, to those with only a handful of members, so the Trustee's role is to ensure that a high-quality and cost-effective service is delivered for all sponsoring employers.

I would like to take this opportunity to record my gratitude to all who have served as Trustee Directors during the year. It has been good to welcome some new faces to the Trustee, who often provide a fresh challenge and approach, but this has also meant we have also had to say goodbye to some Trustee Directors who have added value over many years. The wide range of individual Trustee Directors' knowledge and expertise is invaluable in ensuring that your Trustee continues to have a broad understanding of the railway industry and that it represents effectively the interests of the many stakeholders.

A handwritten signature in black ink, appearing to read 'John Chilman', with a stylized flourish at the end.

**John Chilman,**  
Chairman of the Trustee Company

## AUDITED FINANCIAL STATEMENTS

### FUND ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
<b>Contributions and benefits</b>			
Employee's contributions	3	13,026	12,843
Employer's contributions	3	18,472	24,909
Benefit Support	3	1,301	1,416
Individual transfers in		3,792	5,284
		<b>36,591</b>	<b>44,452</b>
Pensions		(39,862)	(39,123)
Lump-sum retirement benefits		(12,993)	(11,198)
Individual transfers out		(329)	(1,320)
Death benefits		(241)	-
Payments to and on account of leavers		(24)	(16)
		<b>(53,449)</b>	<b>(51,657)</b>
Administrative expenses	4	(1,114)	(1,273)
PPF levies		(842)	(828)
<b>Total withdrawals</b>		<b>(55,405)</b>	<b>(53,758)</b>
<b>Net withdrawals from dealings with members</b>		<b>(18,814)</b>	<b>(9,306)</b>
<b>Returns on investments</b>			
Change in market values	5	167,928	48,889
Interest on loans and deposits		8	14
<b>Net returns on investments</b>		<b>167,936</b>	<b>48,903</b>
Net increase in the Fund during the year		149,122	39,597
Net assets at the start of the year		1,077,478	1,037,881
<b>Net assets at the end of the year</b>		<b>1,226,600</b>	<b>1,077,478</b>

The accompanying notes numbered 1 to 9 form an integral part of these audited financial statements. The audited financial statements show the consolidated position of the three sections of the Fund. The extraction accounts of the individual sections are shown in Appendix H.

**AUDITED FINANCIAL STATEMENTS**

**STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 DECEMBER 2016**

	Notes	2016 £000	2015 £000
Pooled funds	5	1,216,171	1,067,602
Securities directly held by the Fund	5	7,250	6,831
Other cash and cash instruments	5	1,030	637
Current assets	6	2,651	2,903
Current liabilities	7	(502)	(495)
<b>Net assets at the end of the year</b>		<b>1,226,600</b>	<b>1,077,478</b>

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




\_\_\_\_\_  
John Chilman  
Chairman, Trustee Board

\_\_\_\_\_  
John Mayfield  
Director and Chairman, Audit and Risk Committee

The Financial Statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. They do not take account of the obligations to pay pensions and benefits which fall due at the end of the Fund year. The actuarial position of the Fund which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities, which is summarised on pages 27 to 28 and should be read in conjunction with these financial statements.

The accompanying notes numbered 1 to 9 form an integral part of these audited financial statements. The audited financial statements show the consolidated position of the three sections of the Fund. The extraction accounts of the individual sections are shown in Appendix H.

## AUDITED FINANCIAL STATEMENTS

### NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### 1. Basis of preparation

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

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

#### 2. Accounting policies

The principal accounting policies of the Fund are as follows:

##### Investments

Investments are included in the audited 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 the railway pension schemes under the control of the Trustee. Pooled fund unit holdings are valued on the basis of the unit prices of the units held by the 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 K.
- (b) Additional voluntary contribution investments ('BRASS AVC') in pooled investment vehicles are stated at fair values at the year-end date as advised by the manager. The Pension Assured Fund ('PAF') is valued as a whole by reference to 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, however, guaranteed by Aviva to receive at least £1 per unit upon retirement or on earlier death. Members leaving before age 55 may receive a discounted value depending on their age.
- (c) Loans and deposits and current assets and liabilities are included at book cost, which the Trustee considers to be a reasonable estimate of accounting fair value.

##### Change in market value

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

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

**AUDITED FINANCIAL STATEMENTS  
NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2016 (CONTINUED)**

**2. Accounting policies (continued)**

**Change in market value (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**

Employee normal contributions are accounted for when deducted from pay. Employer normal contributions which are expressed as a rate of salary are accounted for on the same basis as employees' contributions, otherwise they are accounted for in the period they are due under the Schedule of Contributions.

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

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

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

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

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

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

**Administrative expenses**

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

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

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



**AUDITED FINANCIAL STATEMENTS  
 NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
 DECEMBER 2016 (CONTINUED)**

**2. Accounting policies (continued)**

**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.

**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.

**Tax**

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

**3. Contributions receivable**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Employee's contributions:</b>		
Normal	12,285	12,134
Additional voluntary (AVCs)	741	709
<b>Employer's contributions:</b>		
Normal	18,472	18,867
Deficit funding	-	6,042
Benefit support:		
Government support	1,296	1,411
Transport for London	5	5
	<b>32,799</b>	<b>39,168</b>

Deficit funding contributions were due to be paid into the Fund until 31 January 2016, but the last payment was received in December 2015, in accordance with the recovery plan, which was agreed in order to improve the Fund's funding position following the 31 December 2012 actuarial valuation.

**AUDITED FINANCIAL STATEMENTS****NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****4. Administrative expenses**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Non-recoverable VAT	495	536
Pensions administration	333	403
Actuarial fees	131	139
Trustee governance	93	89
Legal fees	39	80
Other professional fees	10	8
Audit fees	9	9
Communications	3	8
Other overheads	1	1
	<b>1,114</b>	<b>1,273</b>

Pensions administration expenses cover the processing of member and pensioner transactions and preparation of financial statements and other reports. These activities are carried out by RPMI and are allocated according to the membership of each scheme or section of the railways pension schemes.

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 K.

**AUDITED FINANCIAL STATEMENTS**  
**NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31**  
**DECEMBER 2016 (CONTINUED)**

**5. Net returns on investments**

**(a) Value of investments**

	<b>Value at 31 December 2015 £000</b>	<b>Purchases at cost £000</b>	<b>Sales proceeds £000</b>	<b>Change in market value £000</b>	<b>Value at 31 December 2016 £000</b>
<b>Pooled funds</b>					
Growth	717,670	2,400	(31,074)	120,018	809,014
Government Bond	214,581	1,000	(19,498)	11,925	208,008
Private Equity	90,647	2,317	(15,748)	22,397	99,613
Infrastructure	29,502	-	(8,114)	6,845	28,233
Index Linked	9,828	-	(3,813)	3,020	9,035
Illiquid Growth	4,077	26,479	-	2,981	33,537
Cash Fund	1,297	15,450	(78)	10	16,679
Long Term Income	-	12,084	-	(32)	12,052
	<b>1,067,602</b>	<b>59,730</b>	<b>(78,325)</b>	<b>167,164</b>	<b>1,216,171</b>
<b>Securities directly held by schemes</b>					
BRASS and other AVCs	6,831	1,512	(1,857)	764	7,250
	<b>1,074,433</b>	<b>61,242</b>	<b>80,182</b>	<b>167,928</b>	<b>1,223,421</b>
Other cash and cash instruments	637				1,030
	<b>1,075,070</b>				<b>1,224,451</b>

BRASS investments include 211,737 units in the PAF (2015: 328,653 units). Further information on the PAF can be found on page 7.

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

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

Further analysis of investments, charges and fees for each pooled fund is provided in an extract in the pooled fund accounts in Appendix K. The percentages of the pooled funds' assets that relate to the Fund investments are shown in the table below;

**AUDITED FINANCIAL STATEMENTS  
 NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
 DECEMBER 2016 (CONTINUED)**

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

**(b) Investments fair value hierarchy**

<b>Pooled Funds</b>	<b>% of pooled fund owned 31 December 2016</b>	<b>% of pooled fund owned 31 December 2015</b>
Illiquid Growth	11.9	11.9
Long Term Income*	11.8	-
Government Bond	10.1	11.2
Cash	5.2	0.5
Growth	5.0	5.2
Index Linked	4.2	5.3
Private Equity	4.0	4.0
Infrastructure	3.1	3.1

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

The total value of the pooled funds used in the percentage calculations only include scheme investments in the pooled funds and so exclude cross-held investments owned by the Growth and Defined Contribution pooled funds.

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

- Level 1: The unadjusted quoted price in an active market for identical assets and liabilities that the entity can access at the measurement date
- Level 2: Inputs other than the quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable for the asset or liability)

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

**AUDITED FINANCIAL STATEMENTS**  
**NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31**  
**DECEMBER 2016 (CONTINUED)**

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

**(b) Investments fair value hierarchy (continued)**

<b>At 31 December 2016</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>	<b>Total £000</b>
<b>Pooled funds</b>				
Growth	-	809,014	-	809,014
Government Bond	-	208,008	-	208,008
Private Equity	-	-	99,613	99,613
Infrastructure	-	-	28,233	28,233
Index Linked	-	9,035	-	9,035
Illiquid Growth	-	-	33,537	33,537
Cash	-	16,679	-	16,679
Long Term Income	-	-	12,052	12,052
	-	<b>1,042,736</b>	<b>173,435</b>	<b>1,216,171</b>
BRASS and other AVCs	-	7,250	-	7,250
Cash and other assets	1,030	-	-	1,030
	<b>1,030</b>	<b>1,049,986</b>	<b>173,435</b>	<b>1,224,451</b>
<b>At 31 December 2015</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>	<b>Total £000</b>
<b>Pooled funds</b>				
Growth	-	717,670	-	717,670
Government Bond	-	214,581	-	214,581
Private Equity	-	-	90,647	90,647
Infrastructure	-	-	29,502	29,502
Index Linked	-	9,828	-	9,828
Illiquid Growth	-	-	4,077	4,077
Cash	-	1,297	-	1,297
	-	<b>943,376</b>	<b>124,226</b>	<b>1,067,602</b>
BRASS and other AVCs	-	6,831	-	6,831
Cash and other assets	637	-	-	637
	<b>637</b>	<b>950,207</b>	<b>124,226</b>	<b>1,075,070</b>

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

**AUDITED FINANCIAL STATEMENTS  
NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2016 (CONTINUED)**

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

**(c) Investment risks**

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

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

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

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

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

Further information on the Trustee's approach to risk management and the pooled funds' exposures to credit and market risks are set out in Appendix E.

**6. Current assets**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Contributions due from employer	2,318	2,428
PPF levies paid in advance	213	204
Benefit support due	119	219
Investment debtor	1	52
	2,651	2,903

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

**AUDITED FINANCIAL STATEMENTS****NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)****7. Current liabilities**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Investment creditor	(33)	-
Other charges payable	(69)	(82)
Benefits payable	(15)	(15)
Taxation and social security	(385)	(398)
	<b>(502)</b>	<b>(495)</b>

**8. Related party transactions**

The Trustee 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 2016 current liabilities included a liability of £56,000 in respect of these charges (2015: a liability of £81,000).

One director of the Trustee 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 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.

**9. 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 2016 set out on pages 3 to 12. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

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

As explained more fully in the Statement of Trustee's responsibilities set out on page 16, the Trustee is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

### **Opinion on financial statements**

In our opinion, the financial statements:

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



**Fangfang Zhou**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants,  
15 Canada Square, Canary Wharf, London, E14 5GL  
5 June 2017



**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 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. The Trustee is also responsible for keeping records of contributions received in respect of any active member of the Fund and for procuring that contributions are made to the scheme in accordance

**Trustee’s Summary of Contributions payable under the schedules in respect of the Fund year ended 31 December 2016**

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 2016. 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>	<b>2016 £000</b>
<b>Employer:</b>	
Normal contributions	18,472
Deficit contributions	-
<b>Member:</b>	
Normal contributions	12,285
<b>Contributions payable under the schedule</b>	<b>30,757</b>

**Reconciliation of contributions**

Reconciliation of contributions payable under the schedule of contributions reported in the financial statements in respect of the Fund year:

	<b>2016 £000</b>
Contributions payable under the Schedule (as above)	30,757
Other contributions payable under Fund rules:	
Government support	1,296
Members’ additional voluntary contributions	741
Transport for London	5
<b>Total contributions reported in the financial statements</b>	<b>32,799</b>

Signed for and on behalf of the Trustee on 5 June 2017.



**John Chilman**  
Chairman, Trustee Board

## **INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE, OF THE BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND ("the Fund")**

We have examined the summary of contributions payable under the payment schedule to the Fund in respect of the Fund year ended 31 December 2016 which is set out in the Trustee report page 14.

This statement is made solely to the Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditor's 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 Trustee, for our work, for this statement, 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 17, the Trustee is responsible for ensuring that there are prepared, maintained, and from time to time revised, a payment schedule showing 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 is also responsible for keeping records in respect of contributions received in respect of active members of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the payment schedule.

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

### **Scope of work on statement about contributions**

Our examination involves obtaining evidence sufficient 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 payment schedule. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the payment schedule.

### **Statement about contributions payable under the schedules**

In our opinion contributions for the Fund year ended 31 December 2016 as reported in the summary of contributions and payable under the payment schedule have in all material respects been paid at least in accordance with the payment schedule dated 27 March 2015.



**Fangfang Zhou**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
Canary Wharf  
London, E14 5GL  
5 June 2017

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

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

- show a true and fair view 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. It is 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 5 June 2017.

## THE TRUSTEE COMPANY

### Railways Pension Trustee Company Limited

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

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

	<b>Total membership at 31 December 2016</b>
Railways Pension Scheme	338,019
British Transport Police Force Superannuation Fund	6,477
British Railways Superannuation Fund	2,823
BR (1974) Fund	1,847
	<hr/> <b>349,166</b> <hr/>

### Railtrust Holdings Limited

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

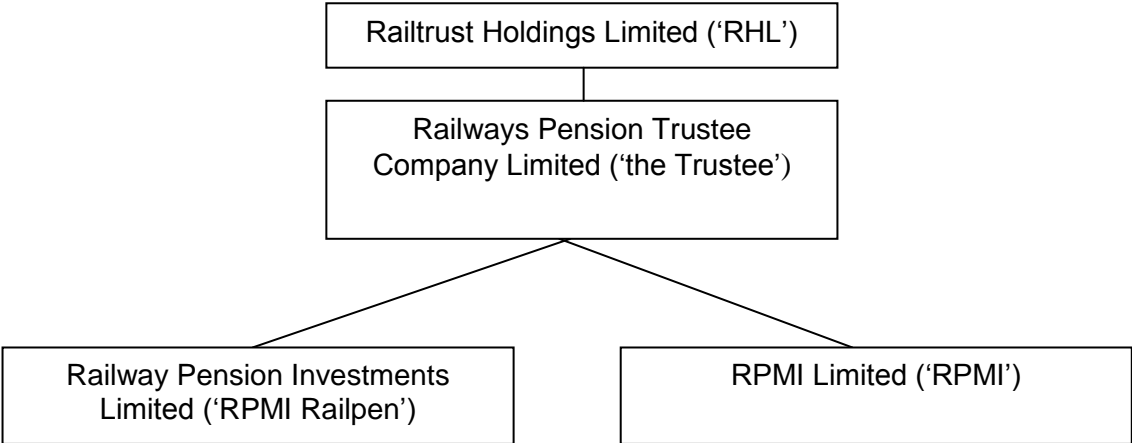
The primary purpose of RHL is to provide governance controls and appoint the directors of the Trustee. The Articles of Association set out the procedure for the appointment of directors. The aim is to achieve a balanced representation of the different employers and the members (or their representatives)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

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

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

**THE TRUSTEE COMPANY (CONTINUED)**

**The structure of the Trustee group as at 31 December 2016**



**Operating Companies**

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

**Employer director appointment procedure**

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

Nominating electoral groups and the number of directors;

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

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

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

## THE TRUSTEE COMPANY (CONTINUED)

### Employer director appointment procedure (continued)

Current employer directors;

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

\*appointed 6 February 2017.

### Employee director appointment procedure

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

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

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

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

## THE TRUSTEE COMPANY (CONTINUED)

### Employee director appointment procedure (continued)

Current employee Trustee directors;

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

### Governance

The Trustee places great emphasis on maintaining high standards of fiduciary governance. Governance means having the people, structure and processes in place to provide the foundation for the efficient operation and effective decision making of the Trustee Board.

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

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

### 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').

## TRUSTEE COMPANY REPORT

### Membership

Total membership increased by 0.6% during 2016 (2015: 3.8% increase).

	2016	2015	% Increase/ (decrease)
Active Members	2,835	2,931	(3.3)
Pensioners	2,419	2,756	2.5
Dependent pensioners	463	463	-
Preserved pensioners	760	695	9.4
<b>Total membership at end of year</b>	<b>6,477</b>	<b>6,382</b>	<b>0.6</b>

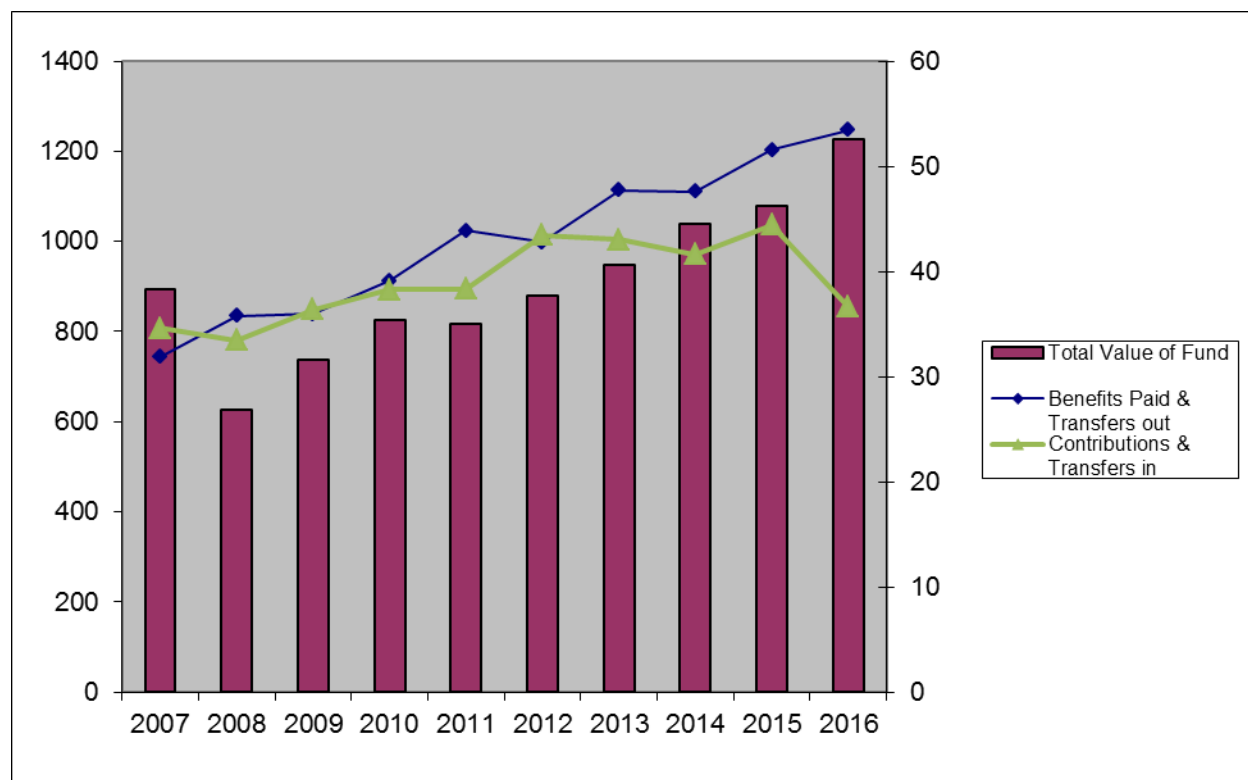
### Financial information

During the year the net return on investments of the Fund as a whole was a gain of £167.9m (2015: gain of £48.9m).

The Fund paid benefits of £53.1m in 2016 (2015: £50.3m) and received contributions of £32.8m (2015: £38.2m). Allowing for transfer values and expenses, there was a net withdrawal from dealings with members of £18.8m (2015: net withdrawal of £9.3m).

The movements over the last ten years are shown in the following graph:

Movement over the last ten years;





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

### **Financial information (continued)**

#### **Actuarial valuation**

The most recent valuation of the Fund was carried out at 31 December 2015 by the Fund Actuary Adam Stanley of Punter Southall Limited. This was completed and signed off on 30 December 2016. Information about the results of the valuation can be found in the report on Actuarial Liabilities on pages 27 to 28 and the summary funding statement in Appendix G.

#### **Safe custody of assets**

The Trustee 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 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 was one of the first UK corporate trustees to introduce a risk management process. 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 has delegated powers to the Management Committee (the '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 and these activities are covered in the Delegated Authorities Agreement. The Committee has agreed, through RPMI's 'Guide to Services', a Service Level Agreement 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 three meetings of the full Committee in 2016. These took place on 29 June, 27 September and 15 December. Ahead of each of these meetings, the Valuation Working Party met to consider the actuarial valuation as at 31 December 2015.

During 2016 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.

Stephen Field and Nigel Goodband were elected Chairman and Deputy Chairman respectively for 2016.

During the year the following changes to the Committee membership took place:

- Stephen Holmes left the Committee as an employer-appointed member and was replaced by Emma Norman from June 2016;
- Andrew Figgures joined the Committee, filling the vacancy for an employer-appointed member from June 2016;
- Nigel Goodband joined the Committee, filling the vacancy for a Committee member appointed on behalf of the members by the British Transport Police Federation in June 2016;
- Peter Holden left the Committee as the Member representative appointed by the Chief Constable after consultation with the ranks not represented by the BTP Federation in June 2016. He was replaced by John McBride in September 2016;
- Mark Newton left the Committee as an employer-appointed member and was replaced by Adrian Hanstock in September 2016.

A list of Committee members at 31 December 2016 is shown in the following table, together with details of the number of meetings which each attended during the year.

## MANAGEMENT COMMITTEE REPORT (CONTINUED)

### Committee members at 31 December 2016

Name	Appointing body	Appointment date	No. of meetings eligible to attend during 2016	No. of meetings attended
Mr S Field	British Transport Police Authority	January 2008	3	3
Ms C Vitty	British Transport Police Authority	September 2014	1*	1
Mr A Figgures	British Transport Police Authority	June 2016	3	1
Ms E Norman	British Transport Police Authority	June 2016	3	2
Mr A Hanstock	British Transport Police Authority	September 2016	2	0
Ms M Daniels	British Transport Police Authority	October 2015	3	3
Mr J McBride	Member representative appointed by Chief Constable after consultation with the ranks not represented by the BTP Federation	September 2016	2	1
Mr G Poyser	BTP Federation	July 2012	3	3
Mr D Townsend	BTP Federation	March 2015	3	3
Mr N Goodband	BTP Federation	June 2016	3	3
Mr J Bryant	Pensioner elected	April 2004	3	3
Mr M Ripley	Pensioner elected	September 2015	3	2

\*Ms Vitty was on maternity leave from March 2016 to November 2016

Chris Welburn of RPMI is Secretary to the Committee.

### Pension Increases

Pensions in payment and deferment are increased in line with Orders laid by the Government under the Pensions (Increase) Act 1971. There was no pension increase paid in April 2016. The pension increase paid in April 2017 was 1.0% based on the annual rate of Consumer Price Index ('CPI') inflation figure, which measures changes in the prices of goods and services, as at September 2016.

## MANAGEMENT COMMITTEE REPORT (CONTINUED)

### 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. Annual Pension Estimates are sent to contributing members each year, usually in October, 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, a variety of useful information continues to be available at [www.btpensions.co.uk](http://www.btpensions.co.uk) and members may always contact the fund's administrators 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 and its subsidiary, RPMI, to ensure that established standards of service were maintained at cost competitive rates.

### Membership statistics at 31 December 2016

	2016	2015
Active members	2,835	2,931
Pensioners	2,419	2,293
Dependant pensioners	463	463
Preserved pensioners	760	695
Total membership	<b>6,477</b>	<b>6,382</b>

## REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its Technical Provisions. The Technical Provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the British Transport Police Authority as set out in the Statement of Funding Principles. This is available to Fund members on request.

The most recent full actuarial valuation of the Fund was carried out as at 31 December 2015. The three sections of Fund were assessed separately and a summary of the results are set out below:

### 1970 Contributory Section

The value of the Technical Provisions was: £1,030 million  
The value of the assets at that date was: £1,045 million

### 1970 Preserved Section

The value of the Technical Provisions was: £19.7 million  
The value of the assets at that date was: £22.7 million

Note that the value of the Technical Provisions shown above is after making allowance for the expected Transport Act receipts.

### 1968 Section

The value of the Technical Provisions was: £2.1 million  
The value of the assets at that date was: £2.7 million

As at the date of the valuation, the surplus was sufficient to cover the relevant proportion of future pension increases, as required under Section 56 of the Transport Act 1980.

The method and significant actuarial assumptions used to determine the Technical Provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

#### Method

The actuarial method to be used in the calculation of the Technical Provisions is the Projected Unit Method.

#### Significant actuarial assumptions

**Discount rates:** these were set by assessing the returns expected with a probability of 60% using a stochastic model and based on an agreed investment portfolio for each section.

## REPORT ON ACTUARIAL LIABILITIES (CONTINUED)

### Significant actuarial assumptions (continued)

- **1970 Contributory section:** different rates applied before and after retirement:
  - Before retirement: 100% of assets assumed to be invested in return seeking assets giving a discount rate of 7.5% per annum at 31 December 2015.
  - After retirement: 65% of assets assumed to be invested in return seeking assets and 35% in matching assets, giving a discount rate of 5.8% per annum at 31 December 2015.
- **1970 Preserved section:** 100% of assets assumed to be invested in matching assets giving a discount rate of 2.5% per annum at 31 December 2015.
- **1968 Section:** 42.5% of assets assumed to be invested in return seeking assets and 57.5% in matching assets, giving a discount rate of 4.7% per annum at 31 December 2015.

**Future Retail Prices inflation:** based on the Bank of England inflation yield curve at the duration of the liabilities (17 years). This gave an expectation of future increases in the Retail Prices Index of 3.3% per annum as at 31 December 2015.

**Future Consumer Prices inflation:** in line with increases in future Retail Prices inflation less an adjustment equal to 0.8% per annum.

**Pension increases:** in line with the assumption for future Consumer Prices inflation.

**Pay increases:** general pay increases of 1.0% per annum above the future Retail Prices inflation plus a promotional salary scale. Allowance is made for agreed short term pay increases.

**Mortality after retirement:** standard tables S1PA with a reduction in mortality rates of 9% at each age for both males and females to apply in 2006. Improvements in longevity have been allowed for from 2006 in line with the CMI 2014 model with a long term rate of improvement of 1.5% per annum.

## **THE TRUSTEE INVESTMENT REPORT**

### **Introduction**

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

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

### **Investment management arrangements**

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

The range of pooled funds has been reviewed and simplified in recent years to ensure it is flexible enough to be tailored to the needs and particular circumstances of the Fund.

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

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

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

## **THE TRUSTEE INVESTMENT REPORT (CONTINUED)**

### **Investment management arrangements (continued)**

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

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

The Investment Transformation Programme also looked at cost awareness. As a result of the measures mentioned above, such as internalisation of equity management, and other costs effectiveness initiatives the Trustee has reduced the total costs charged to the pooled funds by approximately £66.2m per annum since the start of the Programme. Some of these costs are indirect, in that they are charged by managers of pooled investment vehicles (mainly private equity funds) and do not appear as costs in the pooled fund accounts, appearing instead as a reduction in the change in market value of these securities. Through being cost aware and looking for more cost efficient methods of investing, the Trustee is able to pass these cost savings onto members through increased returns in the pooled funds.

### **Investment strategy**

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

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

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

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



## THE TRUSTEE INVESTMENT REPORT (CONTINUED)

### Liquidity of investments

Investments described in the financial statements as 'quoted' or 'exchange traded' are either listed on a recognised investment exchange, or traded in a secondary market where prices are usually readily available from a broker, dealer, industry group or other pricing service, and where those prices are representative of actual market transactions on an arm's length basis.

These investments are assumed to be realisable at accounting fair value although, on occasion, markets may experience reduced liquidity, in which case it may not always be possible to realise such assets at short notice at prices at least equal or close to accounting fair value.

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

### Economic commentary

In 2016 the global economy grew at a moderate pace broadly in line with expectations (3.1% estimated). Emerging Markets growth increased for the first time in six years as a number of economic headwinds stabilised. Meanwhile in developed markets, activity rebounded strongly in the second half of the year after a weak first six months. With the notable exception of the Euro Area, most developed economies are now operating at close to full capacity. As a result, almost a decade after the Global Financial Crisis central banks have now switched their focus to withdrawing stimulus, albeit so far at a very gradual pace.

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

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

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

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

## THE TRUSTEE INVESTMENT REPORT (CONTINUED)

### Investment performance

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

The Growth Pooled Fund return in 2016 of 17.3% was significantly above the RPI+4% target return, and also ahead of the return for the reference portfolio for the third consecutive year. The Property Pooled Fund, which is now fully owned by the Growth Pooled Fund, posted only a small return of 2.9%, slightly ahead of its IPD universe benchmark.

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

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

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

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

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

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

### Fund returns

The Fund return in 2016 reflected the strong performance of return-seeking assets and bonds. This led to an overall investment return for the year of 15.2%, net of fees and costs. Over a 3 year period the investment return was 9.4% per annum, while over a 10 year time horizon the return was 5.6% per annum.

## **THE TRUSTEE INVESTMENT REPORT (CONTINUED)**

### **Section returns**

The Section returns in 2016 reflected the strong performance of return-seeking assets and bonds. The 1970 Contributory Section, with its liabilities predominantly in respect of serving members, has a large allocation to return-seeking assets, and a smaller allocation to bonds. The investment return for the year was 15.5% net of fees and costs. Over a 3 year period the investment return was 10.1% per annum, while over a 10 year time horizon the return was 4.5% per annum.

The other two sections are much more mature (i.e. their liabilities are in respect of pensioners and deferred pensioners). As a result they have a much higher allocation to bonds and a lower allocation to return-seeking assets. The return for the 1970 Preserved Section was 17.4% for 2016 net of fees and costs. Over a 3 year period the investment return was 11.0% per annum, while over a 10 year time horizon the return was 6.9% per annum. The 1968 Section had a return of 20.5% in 2016, 12.5% per annum over 3 years and 7.3% per annum over 10 years. These sections have benefited from the extraordinary returns of long-dated Index Linked Gilts, driven by the demand from some pension schemes seeking matching assets.

### **Securities lending**

Securities lending forms part of the arrangements sanctioned by the regulatory authorities to maintain an orderly and more liquid securities market. Subject to the agreements in place and the constraints on certain portfolios, custodians are able to make a proportion of securities they hold available for lending to securities houses with short-term requirements. The lending does not impact on the fund managers' investment activities. In place of the lent securities, the Fund receives collateral in the form of other securities that meet standards set on behalf of the Trustee. As a result of operating these securities lending arrangements, the Fund receives revenues. 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 retains the right, however, to recall securities if an important vote is scheduled.

### **Government support**

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

### **Self-investment**

The Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 require investments to be diversified so that the failure of one does not affect the security of members' benefits as a whole. Investments in employers' businesses are also restricted to avoid the prospect of the employees losing their 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. RPMI regularly monitors investment manager activity to ensure that statutory limits on self-investment are not breached.

## THE TRUSTEE INVESTMENT REPORT (CONTINUED)

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

The Fund holdings in BRASS (AVC) Pooled Funds as at 31 December 2016 was £7m.

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

### AVC investments (BRASS AVC and AVC Extra)

The AVC arrangements for the Fund, known as BRASS AVC and 'AVC Extra', are administered by RPMI. BRASS is open to all members of the Fund. AVC Extra is the second contribution top-up arrangement available for members.

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

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

The investment fund series for these arrangements is the RPMI Pension Saver Fund Range. The Trustee has made lifestyle options available to members, matching various degrees of risk. One of the lifestyle options operates as a default vehicle, should a member not wish to make their own selection from the available fund range, and is designed to be appropriate for a typical member with a predictable target retirement age.

These lifestyle options offer a changing investment programme designed to meet a typical member's perceived changing financial needs as they move through their working life and approach retirement. This is achieved by switching from return seeking assets, which aim for long-term growth in excess of inflation, to lower risk assets as a member approaches their nominated target retirement age.

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

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

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

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

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

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

## APPENDICES

	<b>Page</b>	
<b>Appendix A</b>	Principal advisers to the Trustee and Management Committee	36
<b>Appendix B</b>	Payment of contributions	37
<b>Appendix C</b>	Custody arrangements	38
<b>Appendix D</b>	Sustainable Ownership	40
<b>Appendix E</b>	Risk statement	43
<b>Appendix F</b>	Actuary's certificate	45
<b>Appendix G</b>	Summary funding statement	46
<b>Appendix H</b>	Fund section extraction accounts	50
<b>Appendix I</b>	Summary of the main provisions of the Fund	53
<b>Appendix J</b>	Where to go for help	56
<b>Appendix K</b>	Pooled fund accounts	58

## **APPENDIX A**

### **PRINCIPAL ADVISERS TO THE TRUSTEE AND MANAGEMENT COMMITTEE**

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

RPMI

#### **Manager of investment managers and investment manager**

RPMI Railpen

#### **Actuary**

Adam Stanley, Punter Southall Limited

#### **External Auditor**

KPMG LLP

#### **Legal Advisors**

Herbert Smith Freehills

Linklaters

DWF

Eversheds

Maclay Murray & Spens

Simmons & Simmons.

#### **Principal Custodian**

BNY Mellon

#### **Clearing Bankers**

The Royal Bank of Scotland plc

## **APPENDIX B**

### **PAYMENT OF CONTRIBUTIONS**

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

The Trustee 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 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 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 (compared to the 22<sup>nd</sup> day of the following month under legislation).

The Fund Actuary conducts an actuarial valuation of 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 Principal Employer and the Trustee.

#### **Late payment of contributions**

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

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

The employer participates in the Trustee'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 2016 there were £nil of late payment of contributions (2015: £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 and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has appointed custodians to hold the assets, including cash, which make up the various quoted securities portfolios managed by the investment fund managers including RPMI Railpen. This is in accordance with the Pensions Act 1995 which requires trustees, rather than the employer or the fund manager or some other party, to make the appointment.

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

Core administrative functions performed by the custodians include the following:

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

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

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

As part of the services provided to the Trustee, RPMI reviews the effectiveness of custody arrangements on a regular basis. This includes monitoring the efficiency of transaction settlement, income collection, tax recovery, foreign exchange performance and the appointment and management of overseas sub-custodians.

The verification of assets is also conducted by reference to independent records held by the custodians. Great emphasis is placed on asset safety.

In addition, all custodians appointed by the Trustee are required to publish an AAF 01/06, ISAE 3402 or similar document in other jurisdictions.



## **APPENDIX C (CONTINUED)**

### **CUSTODY ARRANGEMENTS (CONTINUED)**

This is a report on the custodian's internal controls, which is made available to third parties, and is reviewed by the custodian's reporting accountant, in accordance with guidance issued by the Audit and Assurance faculty of the Institute of Chartered Accountants in England and Wales in its technical release AAF 01/06 'Assurance reports on internal controls of service organisations made available to third parties', or ISAE 3402 (formerly SAS70, as amended following the introduction of the Sarbanes-Oxley Act of 2002, the US equivalent issued by the Auditing Standards Board of the American Institute of Certified Public Accountants ('AICPA') as a Statement on Auditing Standards).

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

## **APPENDIX D**

### **SUSTAINABLE OWNERSHIP**

#### **Introduction**

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

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

#### **Integration of extra-financial factors into investment process**

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

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

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

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

#### **Measurement of carbon footprint and Montreal Pledge statement**

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

In 2016, we commissioned TruCost to provide the emissions data for both passive and active elements of the Fund's listed equity portfolio and brought the data analysis in house to gain a clearer understanding of our carbon exposure.

The results will be factored into engagement with external fund managers and with specific companies held in the equity portfolio going forward. More information on the measurement of the carbon footprint is available on the RPMI Railpen website.

## **APPENDIX D (CONTINUED)**

### **SUSTAINABLE OWNERSHIP (CONTINUED)**

#### **UK Stewardship Code**

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

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

#### **Voting**

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

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

#### **Collaborative engagement**

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

These include:

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

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

## APPENDIX D (CONTINUED)

### SUSTAINABLE OWNERSHIP (CONTINUED)

#### Collaborative engagement (continued)

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

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

#### Pooled fund equity holdings

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

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

## **APPENDIX E**

### **RISK STATEMENT**

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

#### **Risk policy**

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

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

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

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

#### **Risk identification and management**

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

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

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

#### **First line of defence:**

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

## **APPENDIX E**

### **RISK STATEMENT (CONTINUED)**

#### **Second line of defence:**

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

#### **Third line of defence:**

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

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

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

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

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

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

## **APPENDIX F**

### **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 on 31 December 2015 to be met by the end of the period specified in the schedule of contributions prepared on 12 December 2016.
2. I also certify that any rates of contributions forming part of this schedule which the scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

#### **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 prepared on 12 December 2016.

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 scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Adam Stanley  
Fellow of the Institute and Faculty of Actuaries  
Scheme Actuary  
Punter Southall  
Tempus Court  
Onslow Road  
Guildford  
GU1 4SS

30 December 2016

**APPENDIX G**

**SUMMARY FUNDING STATEMENT**

**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 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 sometime 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, 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 formal valuation was as at 31 December 2015 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 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 2015 actuarial valuation (the results of which are summarised below) concluded that both the 1968 Section and the 1970 Section were in surplus at the valuation date and so no additional contributions were required above those required to fund future pension accrual.

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

**1968 Section**

The latest actuarial valuation of the 1968 Section of the Fund showed that as at 31 December 2015:

The value of the 1968 Section’s liabilities was :	£2.1 million
The 1968 Section’s assets were valued at:	£2.7 million
This means that there was a funding surplus of:	£0.6 million



**APPENDIX G**

**SUMMARY FUNDING STATEMENT (CONTINUED)**

The funding surplus has been allocated to provide for future pension increases, as required under Section 56 of the Transport Act 1980. No contributions are required for the 1968 Section of the Fund.

**Change in funding position**

The funding level at this valuation has improved slightly since the previous actuarial assessment at the end of 2014. This is mainly due to an increase in the future expected return on assets, offset partially by worse than expected investment returns over the year and the fact that a pension increase (that is not funded for) was awarded.

**1970 Preserved Section**

The latest valuation of the Preserved part of the 1970 Section of the Fund showed that as at 31 December 2015:

The value of the 1970 Preserved Section’s liabilities was :	£32.0 million
The 1970 Preserved Section’s assets (including Government support) were valued at:	£35.0 million
This means that there was a funding surplus of:	£3.0 million

The result meant that the assets were enough to cover 109% of the benefits that would need to be paid in the future. No contributions are required for this part of the 1970 Section.

**Change in funding position**

The funding level at this valuation improved slightly since the previous actuarial assessment at the end of 2014, mainly due to a higher number of deaths than assumed, offset partially by lower future expected investment returns.

**1970 Contributory Section**

The latest valuation of the Contributory part of the 1970 Section of the Fund showed that as at 31 December 2015:

The value of the 1970 Contributory Section’s liabilities was :	£1,030 million
The 1970 Contributory Section’s assets (excluding BRASS) were valued at:	£1,045 million
This means that there was a funding surplus of:	£15 million

The above result meant that the assets were enough to cover 101% of the benefits that would need to be paid in the future.

## **APPENDIX G (CONTINUED)**

### **SUMMARY FUNDING STATEMENT (CONTINUED)**

The current joint rates of contributions payable to fund the accrual of benefits and administration expenses are:

- 40% of Scheme Salary for members who joined prior to 1 April 2007
- 30% of Pensionable Salary for members who joined after 31 March 2007 but before 1 April 2015
- 25% of Pensionable Salary for members who joined after 1 April 2015

As part of the formal valuation the current joint rates of contributions were certified as being sufficient to fund the future accrual of benefits and administration expenses over the period to the next valuation date. The funding position and the cost of benefits accruing will in any event be reassessed at the next formal valuation due at 31 December 2018.

#### **Change in funding position**

The estimated funding level has increased from 95% to 101% since the annual funding update at the end of 2014, moving from a deficit of £57m to a surplus of £15m. This is mainly due to an increase in future expected investment returns, offset to some extent by lower than expected investment returns over the year.

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

The latest actuarial valuation of the Fund at 31 December 2015 also 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 40% 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 and continue to support its funding of the Fund. This buy out 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, to wind up the Fund.

#### **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.

#### **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.

## APPENDIX G

### SUMMARY FUNDING STATEMENT (CONTINUED)

#### 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:

Renaissance  
12 Dingwall Road  
Croydon  
Surrey  
CR0 2NA

#### If you would like more information

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

Customer Services  
RPMI  
PO Box 300  
Darlington  
DL3 6YJ

**T:** 0800 2 343434  
**E:** [csu@rpm.co.uk](mailto:csu@rpm.co.uk)  
**W:** [www.btpensions.co.uk](http://www.btpensions.co.uk)

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

## APPENDIX H

### FUND SECTION EXTRACTION ACCOUNTS

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

#### Fund account for the year ended 31 December 2016

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Benefits payable	(229)	(230)
Administrative expenses	(4)	(5)
	<b>(233)</b>	<b>(235)</b>
Net withdrawals from dealings with members	(233)	(235)
Net returns on investments	541	46
<b>Net movement in the Fund during the year</b>	<b>308</b>	<b>(189)</b>
Net assets at the start of the year	2,703	2,892
<b>Net assets at the end of the year</b>	<b>3,011</b>	<b>2,703</b>

#### Net assets statement as at 31 December 2016

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Investments	3,016	2,706
Current liabilities	(5)	(3)
<b>Net assets at the end of the year</b>	<b>3,011</b>	<b>2,703</b>

The fund section extraction accounts are prepared by RPMI. They are not independently audited. The fund as a whole is independently audited.

## APPENDIX H

### FUND SECTION EXTRACTION ACCOUNTS (CONTINUED)

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

##### Fund account for the year ended 31 December 2016

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Contributions and benefits</b>		
Contributions receivable	31,498	37,752
Transfer values	3,792	5,284
	<b>35,290</b>	<b>43,036</b>
Benefits payable	(49,981)	(46,867)
Transfer values	(329)	(1,320)
Administrative expenses	(1,805)	(1,940)
	<b>(52,115)</b>	<b>(50,127)</b>
Net withdrawals from dealings with members	(16,825)	(7,091)
Net returns on investments	163,547	48,538
<b>Net movement in the Fund during the year</b>	<b>146,722</b>	<b>41,447</b>
Net assets at the start of the year	1,052,090	1,010,643
<b>Net assets at the end of the year</b>	<b>1,198,812</b>	<b>1,052,090</b>
	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Net assets statement as at 31 December 2016</b>		
Investments	1,196,677	1,049,819
Current assets	2,533	2,679
Current liabilities	(398)	(408)
<b>Net assets at the end of the year</b>	<b>1,198,812</b>	<b>1,052,090</b>

The fund section extraction accounts are prepared by RPMI. They are not independently audited. The fund as a whole is independently audited.

## APPENDIX H

### FUND SECTION EXTRACTION ACCOUNTS (CONTINUED)

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

#### Fund account for the year ended 31 December 2016

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Contributions and benefits</b>		
Benefit Support	1,301	1,416
	<b>1,301</b>	<b>1,416</b>
Benefits payable	(2,910)	(3,240)
Administrative expenses	(147)	(156)
	<b>(3,057)</b>	<b>(3,396)</b>
Net withdrawals from dealings with members	(1,756)	(1,980)
Net returns on investments	3,848	319
	<b>2,092</b>	<b>(1,661)</b>
<b>Net movement in the Fund during the year</b>		
Net assets at the start of the year	22,685	24,346
	<b>24,777</b>	<b>22,685</b>
<b>Net assets at the end of the year</b>		
	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Net assets statement as at 31 December 2016</b>		
Investments	24,758	22,545
Current assets	128	224
Current liabilities	(109)	(84)
	<b>24,777</b>	<b>22,685</b>
<b>Net assets at the end of the year</b>		

The fund section extraction accounts are prepared by RPMI. They are not independently audited. The fund as a whole is independently audited.

## **APPENDIX I**

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

#### **Tax status**

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

#### **Eligibility**

All police officers who are not within two years of their maximum pension age (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**

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

#### **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 I (CONTINUED)

### SUMMARY OF THE MAIN PROVISIONS OF THE FUND (CONTINUED)

#### New members post 1 April 2007

##### Active member

##### Contributions

Contributions are based on pensionable salary, which is basic salary plus, where appropriate, pensionable allowances such as London Weighting.

Pensionable salary is re-assessed on the first Monday in January each year, based on the member's salary on the previous 1 November. Contributions cease when the first of the following occurs:

- a) on leaving the Fund;  
or
- b) at maximum pension age of 60 or 65 depending on rank.

##### Additional voluntary contributions ('AVC')

Current members can pay extra contributions through AVC Extra to secure additional benefits.

##### Death in service

Nominated dependants or personal representatives will receive:

A lump-sum death benefit of four times pensionable salary averaged over 12 months.

##### Plus

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.

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



## APPENDIX I (CONTINUED)

### SUMMARY OF THE MAIN PROVISIONS OF THE FUND (CONTINUED)

#### Leaving the Fund

<b>When a member retires at or after age 55 He/she will receive</b>	<b>When a member retires because of incapacity He/she will receive</b>	<b>When an immediate pension is not payable He/she will receive either If the member has 2 or more years service:</b>
<p>A pension of 1/70<sup>th</sup> of average pensionable salary for each year of membership, up to 35 years.</p>	<p>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.</p>	<p>A preserved pension and lump sum payable from age 65, or from age 55 at a reduced amount.</p>
<p><b>Plus</b></p> <p>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.</p>	<p><b>And on death</b></p> <p>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.</p>	<p><b>Or</b></p> <p>A transfer value payment payable to another approved pension arrangement.</p>
<p><b>And on death</b></p> <p>A dependant's pension of one half the member's pension (before conversion of any lump sum). Pensions for children may also be payable.</p>		<p><b>If the member has less than 2 years service:</b></p> <p>A refund of contributions less tax and other deductions.</p>
		<p><b>Transfer values</b></p> <p>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.</p>

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

## **APPENDIX J**

### **WHERE TO GO FOR HELP**

#### **Trustee and RPMI Railpen**

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

**T:** 020 7220 5000

**E:** [enquiries@rpmico.uk](mailto:enquiries@rpmico.uk)

**W:** [www.rpmico.uk](http://www.rpmico.uk)

#### **RPMI**

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

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

**T:** 0800 2 343434 (Customer Services Team)

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

**W:** [www.railwayspensions.co.uk](http://www.railwayspensions.co.uk)

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

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

TPAS Headquarters  
11 Belgrave Road  
London  
SW1V 1RB

**T:** 0300 123 1047

**W:** [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

**Online enquiry:** [www.pensionsadvisoryservice.org.uk/online-enquiry](http://www.pensionsadvisoryservice.org.uk/online-enquiry)

## **APPENDIX J (CONTINUED)**

### **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

**T:** 020 7630 2200

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

**W:** [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

**T:** 0845 600 0707

**E:** [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)

**W:** [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 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

**T:** 08456 002 537

**W:** [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)

Fund Registration number: 100541628

## APPENDIX K

### INTRODUCTION TO THE POOLED FUND ACCOUNTS

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

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

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

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

As part of this review, the assets within the Hedge Funds Pooled Fund were, where possible, liquidated during the year with remaining assets transferred to the Growth Pooled Fund. The Hedge Funds Pooled Fund was wound up in March 2016. The Trustee also agreed to work towards a position where the Growth Pooled Fund is the only unit holder of the Property Pooled Fund and this work was completed in January 2016.

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

The table on page 61 summarises the investments of each of these pooled funds as at 31 December 2016. The notes on pages 65 to 82 analyse the total pooled assets of £26,084.06m into the categories required by the SORP. The net asset value of each pooled fund at the end of the current and prior years is set out on pages 66 and 67, and the unit prices on page 66.

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

### **ACCOUNTING POLICIES**

#### **Basis of preparation**

#### **Investments**

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

- a. Listed investments are stated at the bid price or last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.
- b. Fixed interest securities are stated at their 'clean' prices, with accrued income accounted for within investment income.
- c. Unquoted securities, including most investments in private equity and infrastructure (both direct and via managed funds), are included at the Trustee's estimate of accounting fair value based on advice from the investment managers.
- d. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price, where there are no bid/offer spreads, as provided by the investment managers.
- e. Properties are included at open market value as at the year end date determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by independent external valuers, Cushman & Wakefield. Cushman & Wakefield are Chartered Surveyors and members of the Royal Institution of Chartered Surveyors, who have experience in the locations and class of investment properties held by the Trustee.
- f. Exchange traded derivatives are stated at fair value determined using market quoted prices. Over the counter ('OTC') derivatives are stated at the Trustee Company's estimate of accounting fair value based on advice from Markit, external valuers retained by the Trustee through BNY Mellon, who provide a valuation service independent of the fund managers, using pricing models and relevant market data at the year end date.
- g. Forward foreign exchange contracts are valued at the forward rate at the year end date.
- h. All gains and losses arising on derivative contracts are reported within change in market value of investments during the year.
- i. Foreign investments, debtors, creditors, cash and cash equivalents have been translated into sterling at the exchange rates ruling at the fund statement date.

#### **Foreign currencies**

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

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

### **ACCOUNTING POLICIES (continued)**

#### **Investment income**

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

- a. Dividends from quoted equities are accounted for when the security is declared ex-div.
- b. Interest is accrued on a daily basis.
- c. Property rental income is accounted for on an accruals basis in accordance with the terms of the lease.
- d. Sub-underwriting, commission recapture and stock lending commission are accounted for on a receivable basis.
- e. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.
- f. Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled investment vehicles, reflected in the unit price and reported within the change in market value.
- g. Income has been accumulated within the unit prices of the pooled funds and no income distributions have been made to the participating schemes.

#### **Subsidiaries and consolidation**

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

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

#### **Derivative contracts: objectives and policies**

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

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

#### **Unit transactions**

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

## FUND STATEMENT AS AT 31 DECEMBER 2016

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

### Analysis of cross holdings

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

The accounting policies on pages 59 to 60 and the notes on pages 65 to 82 form part of these accounts.

## FUND STATEMENT AS AT 31 DECEMBER 2016

### MOVEMENT IN UNIT HOLDERS' FUNDS

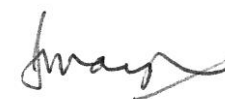
	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested net income	Change in cross holdings	Total unit holders' funds
Pooled Fund	£m	£m	£m	£m	£m	£m	£m
Growth	14,498.45	400.60	(370.17)	2,286.83	199.59	-	17,015.30
Private Equity	2,265.31	67.31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

Approved on behalf of the Trustee Company on 5 June 2017

John Chilman  
Chairman,  
Trustee Board



John Mayfield  
Director and Chairman,  
Audit and Risk Committ



The accounting policies on pages 59 to 60 and the notes on pages 65 to 82 form part of these accounts.



## FUND STATEMENT AS AT 31 DECEMBER 2015

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

### Analysis of cross holdings

	Growth	Index Linked	Hedge Funds	Property	Private Equity	Non Government Bond	Total Cross Holdings
<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>
Growth	-	-	110.68	2,201.79	0.05	-	2,312.52
Defined Contribution	687.20	9.56	-	-	-	16.27	713.03
<b>Total</b>	<b>687.20</b>	<b>9.56</b>	<b>110.68</b>	<b>2,201.79</b>	<b>0.05</b>	<b>16.27</b>	<b>3,025.55</b>

The accounting policies on pages 59 to 60 and the notes on pages 65 to 82 form part of these accounts.

## FUND STATEMENT AS AT 31 DECEMBER 2015

### MOVEMENT IN UNIT HOLDERS' FUNDS

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

The accounting policies on pages 59 to 60 and the notes on pages 65 to 82 form part of these accounts.

## CONSOLIDATED NOTES TO THE FUND STATEMENT

1.1 Fund statement as at 31 December 2016	Note	2016 £m	2015 £m
<b>Assets</b>			
Equities			
UK quoted		315.20	265.60
UK unquoted		0.09	0.09
Overseas quoted		5,609.83	3,742.50
Overseas unquoted		4.99	18.09
		<b>5,930.11</b>	<b>4,026.28</b>
Fixed interest securities			
UK quoted - public sector		2,293.39	1,829.39
UK quoted - non-public sector		74.21	49.39
UK unquoted - non-public sector		0.48	-
Overseas quoted - public sector		336.83	633.20
Overseas quoted - non-public sector		1,257.25	804.95
		<b>3,962.16</b>	<b>3,316.93</b>
Indexed linked securities			
Overseas quoted - public sector		<b>343.17</b>	<b>11.71</b>
UK Property			
		<b>1,845.04</b>	<b>1,890.93</b>
Pooled investment vehicles	1.5	<b>10,388.64</b>	<b>9,519.91</b>
Derivative contracts			
Futures - exchange traded	1.6	25.59	15.16
Options - OTC		-	0.01
FX contracts - OTC	1.6	45.67	12.30
		<b>71.26</b>	<b>27.47</b>
Other assets			
Other investment assets	1.7	102.53	85.43
Current assets	1.8	12.24	9.33
		<b>114.77</b>	<b>94.76</b>
Cash deposits and cash instruments	1.9	<b>3,688.14</b>	<b>4,080.75</b>
<b>Total assets</b>		<b>26,343.29</b>	<b>22,968.74</b>
<b>Liabilities</b>			
Derivative contracts			
Futures – exchange traded	1.6	(15.66)	(8.35)
FX contracts - OTC	1.6	(175.75)	(70.04)
		<b>(191.41)</b>	<b>(78.39)</b>
Other liabilities			
Other investment liabilities	1.10	(5.04)	(12.67)
Current liabilities	1.11	(62.78)	(57.70)
		<b>(67.82)</b>	<b>(70.37)</b>
<b>Total liabilities</b>		<b>(259.23)</b>	<b>(148.76)</b>
<b>Net assets attributable to unit holders</b>		<b>26,084.06</b>	<b>22,819.98</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

1.2 Pooled fund unit prices as at 31 December 2016	2016 £/unit	2015 £/unit
Growth Pooled Fund	16.74	14.32
Property Pooled Fund	87.00	84.77
Government Bond Pooled Fund	13.27	12.55
Infrastructure Pooled Fund	18.49	14.54
Passive Equity Pooled Fund	15.65	14.21
Global Equity Pooled Fund	84.00	70.57
Non Government Bond Pooled Fund	13.80	13.03
Cash Pooled Fund	10.29	10.23
Illiquid Growth Pooled Fund	11.55	10.34
Index Linked Pooled Fund	91.47	69.03
Long Term Income Pooled Fund (from January 2016)	8.42	-
Hedge Funds Pooled Fund (to March 2016)	-	16.39
<b>Private Equity Pooled Fund</b>		
Direct Investment Pooled Fund 1995	5,104.38	5,148.26
Direct Investment Pooled Fund 1997	184.25	186.05
Direct Investment Pooled Fund 1999	40.87	41.23
Direct Investment Pooled Fund 2000	21.28	19.01
Private Equity Pooled Fund 2001	42.82	35.18
Private Equity Pooled Fund 2004	41.04	32.93
Private Equity Pooled Fund 2005	34.41	29.62
Private Equity Pooled Fund 2007	26.09	20.68
Private Equity Pooled Fund 2009	30.79	24.18
Private Equity Pooled Fund 2011	22.27	17.13
Private Equity Pooled Fund 2013	14.68	11.53
<b>Defined Contribution Pooled Fund</b>		
DC Global Equity Fund	13.02	11.83
DC Long Term Growth Fund	13.68	11.72
DC Deposit Fund	10.10	10.07
DC Index Linked and Global Bond Fund	13.65	11.50
DC Aggregate Bond Fund	12.70	11.34
<b>1.3 Value of the Pooled Funds</b>	<b>2016 £m</b>	<b>2015 £m</b>
Growth Pooled Fund	17,015.30	14,498.45
Private Equity Pooled Fund*	2,488.69	2,265.31
Property Pooled Fund	2,071.32	2,220.60
Government Bond Pooled Fund	2,059.17	1,917.52
Defined Contribution Pooled Fund*	1,349.49	1,232.22
Infrastructure Pooled Fund	908.12	948.92
Passive Equity Pooled Fund	780.55	690.58
Global Equity Pooled Fund	757.65	827.97
Non Government Bond Pooled Fund	626.59	615.83
Cash Pooled Fund	320.39	288.67
Illiquid Growth Pooled Fund	282.83	34.38
Index Linked Pooled Fund	225.68	194.40
Long Term Income Pooled Fund (from January 2016)	102.17	-
Hedge Funds Pooled Fund (to March 2016)	-	110.68
<b>Carried forward</b>	<b>28,987.95</b>	<b>25,845.53</b>

\* See breakdown into pooled fund segments on the next page.

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

1.3 Value of the Pooled Funds (continued)	2016 £m	2015 £m
<b>Brought forward</b>	<b>28,987.95</b>	<b>25,845.53</b>
<b>Cross holdings</b>		
Property Pooled Fund	(2,071.32)	(2,201.79)
Growth Pooled Fund	(799.67)	(687.20)
Non Government Bond Pooled Fund	(20.34)	(16.27)
Index Linked Pooled Fund	(12.51)	(9.56)
Private Equity Pooled Fund	(0.05)	(0.05)
Hedge Funds Pooled Fund (to March 2016)	-	(110.68)
<b>Net assets attributable to unit holders</b>	<b>26,084.06</b>	<b>22,819.98</b>
<b>Private Equity Pooled Fund</b>		
Direct Investment Pooled Fund 1995	0.15	0.15
Direct Investment Pooled Fund 1997	0.21	0.21
Direct Investment Pooled Fund 1999	0.23	0.23
Direct Investment Pooled Fund 2000	11.51	16.36
Private Equity Pooled Fund 2001	78.84	95.96
Private Equity Pooled Fund 2004	58.51	67.23
Private Equity Pooled Fund 2005	125.99	197.34
Private Equity Pooled Fund 2007	1,063.93	1,002.56
Private Equity Pooled Fund 2009	272.58	251.34
Private Equity Pooled Fund 2011	698.09	508.72
Private Equity Pooled Fund 2013	178.65	125.21
	<b>2,488.69</b>	<b>2,265.31</b>
<b>Defined Contribution Pooled Fund</b>		
DC Long Term Growth Fund	800.63	687.93
DC Deposit Fund	338.01	357.32
DC Global Equity Fund	169.55	154.75
DC Index Linked and Global Bond Fund	24.81	19.53
DC Aggregate Bond Fund	16.49	12.69
	<b>1,349.49</b>	<b>1,232.22</b>
<b>1.4 Investment income</b>	<b>2016 £m</b>	<b>2015 £m</b>
Dividends from equities	153.74	103.23
Income from fixed interest securities	130.83	120.60
Income from UK property	102.14	85.38
Interest from cash deposits	14.47	22.48
Income from index linked securities	9.89	0.76
Income from pooled investment vehicles	1.67	12.69
Income from preferred securities	0.06	0.54
Other income	6.16	3.31
	<b>418.96</b>	<b>348.99</b>
Irrecoverable withholding tax	(6.61)	(5.07)
<b>Total income (carried forward)</b>	<b>412.35</b>	<b>343.92</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.4 Investment income (continued)

	2016 £m	2015 £m
<b>Total income (brought forward)</b>	<b>412.35</b>	<b>343.92</b>
Administration, custody and other expenses	(24.42)	(19.53)
Investment management fees - base	(21.41)	(27.33)
Investment management fees - performance	(2.10)	(5.73)
RPMI fees	(25.62)	(38.02)
Tax	(0.09)	(0.02)
	<b>(73.64)</b>	<b>(90.63)</b>
<b>Reinvested net income</b> (accrued in unit prices)	<b>338.71</b>	<b>253.29</b>

### 1.5 Pooled investment vehicles

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

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

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

	2016 £m	2015 £m
Fixed interest securities	63.95	-
Private equity	259.44	145.59
	<b>323.39</b>	<b>145.59</b>

### 1.6 Derivative contracts

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

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.6 Derivative contracts (continued)

#### Futures (continued)

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

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

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

Type of contract	Settlement Date	Currency bought million	Currency sold million	Value at year end £m
<b>Assets</b>				
Sterling / Yen	Jan 2017	308.52	42,551.11	13.04
US dollar / Yen	Feb 2017	486.35	54,900.00	11.99
Sterling / Swiss franc	Jan 2017	191.54	230.76	7.63
Sterling / US dollar	Jan - Feb 2017	521.77	640.43	4.18
Sterling / Euro	Jan 2017	574.02	667.40	3.95
Other	Jan - Dec 2017			4.88
				<b>45.67</b>

Type of contract	Settlement Date	Currency bought million	Currency sold million	Value at year end £m
<b>Liabilities</b>				
Sterling / US dollar	Jan - Apr 2017	4,486.02	5,758.64	(170.01)
Sterling / Euro	Jan - Feb 2017	555.57	652.51	(1.99)
US dollar / Brazil real	Jan - Feb 2017	68.68	229.59	(1.34)
US dollar / Sterling	Feb 2017	137.66	112.50	(1.20)
Other	Jan - Dec 2017			(1.21)
				<b>(175.75)</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.6 Derivative contracts (continued)

#### Forward foreign exchange ('FX') contracts (continued)

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

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

### 1.7 Other investment assets

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

### 1.8 Current assets

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

### 1.9 Cash deposits and cash instruments

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



## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.10 Other investment liabilities

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

### 1.11 Current liabilities

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

### 1.12 Stock lending

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

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

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

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

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

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

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.14 Transaction costs

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

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

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

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

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

### 1.15 Investment fair value hierarchy

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

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date
- Level 2: Inputs other than the quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable for the asset or liability)

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.15 Investment fair value hierarchy (continued)

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

<b>At 31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Directly held assets</b>				
Equities	5,887.58	-	42.53	5,930.11
Fixed interest securities	3,215.93	74 <sup>6</sup> .23	-	3,962.16
Index linked securities	331.97	11.20	-	343.17
Pooled investment vehicles	156.29	5,568.29	4,664.06	10,388.64
UK property	-	-	1,845.04	1,845.04
<b>Derivatives</b>				
Futures	9.93	-	-	9.93
FX contracts	-	(130.08)	-	(130.08)
<b>Other</b>				
Cash and current assets	3,735.09	-	-	3,735.09
	<b>13,336.79</b>	<b>6,195.64</b>	<b>6,551.63</b>	<b>26,084.06</b>
<b>At 31 December 2015</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Directly held assets</b>				
Equities	4,006.11	-	20.17	4,026.28
Fixed interest securities	2,592.89	722.15	1.89	3,316.93
Index linked securities	11.71	-	-	11.71
Pooled investment vehicles	221.33	5,611.03	3,687.55	9,519.91
UK property	-	-	1,890.93	1,890.93
<b>Derivatives</b>				
Futures	6.81	-	-	6.81
Options	-	-	0.01	0.01
FX contracts	-	(57.74)	-	(57.74)
<b>Other</b>				
Cash and current assets	4,105.14	-	-	4,105.14
	<b>10,943.99</b>	<b>6,275.44</b>	<b>5,600.55</b>	<b>22,819.98</b>

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.16 Investment risks

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

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

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

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

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

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

#### **Credit risk**

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

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

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

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.16 Investment risks (continued)

#### Credit risk (continued)

##### Analysis of direct credit risk

At 31 December 2016	Investment grade £m	Non investment grade £m	Unrated £m	Total £m
Fixed interest securities	3,160.43	<sup>7</sup> 82.31	<sup>19</sup> .42	3,962.16
Index linked securities	343.17	-	-	343.17
Pooled investment vehicles	-	-	10,388.64	10,388.64
FX contracts	(130.08)	-	-	(130.08)
Cash	<sup>3,699.29</sup>	-	-	3,699.29
Stock lending	145.78	-	-	145.78
	<b>7,218.59</b>	<b><sup>7</sup>82.31</b>	<b><sup>10,4</sup>08.06</b>	<b>18,408.96</b>

At 31 December 2015	Investment grade £m	Non investment grade £m	Unrated £m	Total £m
Fixed interest securities	2,930.19	314.13	72.61	3,316.93
Index linked securities	11.71	-	-	11.71
Pooled investment vehicles	-	-	9,519.91	9,519.91
Options	-	-	0.01	0.01
FX contracts	(57.78)	-	-	(57.78)
Cash	4,080.75	-	-	4,080.75
Stock lending	60.00	-	-	60.00
	<b>7,024.87</b>	<b>314.13</b>	<b><sup>9,5</sup>92.53</b>	<b>16,931.53</b>

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

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

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

Cash is held within financial institutions which are at least investment grade credit rated.  
**CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)**

## 1.16 Investment risks (continued)

### Credit risk (continued)

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

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

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

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

### Currency risk

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

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

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

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.16 Investment risks (continued)

#### Interest rate risk

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

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

#### Other price risk

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

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

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

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



## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.17 Investment managers during the year

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

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
RPMI Railpen*	6,286.07	5,256.16
Legal & General Investment Management	4,855.88	5,001.83
Orchard Street	1,889.68	1,974.17
Northern Trust Asset Management	1,807.37	714.02
AQR Capital Management	1,693.14	1,452.33
Unigestion	988.43	775.62
Russell Investments (from March 2016)	815.59	-
Wellington Management Int	747.83	266.90
Insight Investment	640.01	625.59
Blackstone Alternative Asset Management	594.20	78.69
BlackRock Advisors (UK)	566.88	912.03
Horsley Bridge Partners	508.88	441.82
Lazard Asset Management	362.61	688.76
Intermediate Capital Group	348.46	306.28
Epoch Investment Partners	333.81	368.87
Alinda Capital Partners	298.68	293.51
Arcus Infrastructure Partners	251.31	224.41
Goldman Sachs Asset Management	193.04	229.35
Bridgewater Associates	192.88	257.17
HarbourVest Partners	165.85	174.67
Innisfree	142.37	119.23
Sequoia Capital	129.37	99.72
HealthCare Royalty Partners (from September 2016)	107.40	-
Adams Street Partners	106.53	96.23
Grosvenor Capital Management	96.65	157.77
Riverside Europe Fund Associates	88.04	7.37
Morningside Ventures	82.94	77.81
Cinven	82.71	143.34
Pantheon Ventures	77.71	75.77
Standard Life Investments	77.12	88.63
Apax Partners	75.65	102.35
Accel Partners	74.90	52.12
Bain Capital	73.68	67.78
OneFamily (from May 2016)	63.95	-
Westbridge Capital Partners	59.24	40.03
Long Harbour (from June 2016)	57.05	-
Khosla Ventures	55.23	42.30
Great Hill Partners	52.62	41.96
Columbia Capital	52.17	33.11
Hony Capital	43.22	33.70
Institutional Venture Partners	41.65	35.04
Warburg Pincus	40.96	37.42
Dalmore	40.20	39.36
Scale Venture Partners	39.78	35.20
<b>Carried forward</b>	<b>25,301.74</b>	<b>21,468.42</b>

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

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

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

	2016 £m	2015 £m
<b>Brought forward</b>	<b>25,301.74</b>	<b>21,468.42</b>
Thoma Bravo	39.14	23.75
Balderton Capital	36.27	25.04
Pensions Infrastructure Platform (from January 2016)	35.57	-
Limerston Capital Partners (from July 2016)	34.28	-
General Atlantic	34.07	22.39
Ares Management	31.85	20.10
Charlesbank Capital Partners	30.45	24.92
Highland Capital Partners	28.87	21.36
Sankaty Advisors	28.14	20.01
Clearsight Investments	25.87	19.49
Venor Capital Management (from August 2016)	25.12	-
ClearVue Partners	24.38	16.44
Innovation Works	23.58	14.90
Anacap Financial Partners	22.33	25.21
Oaktree Capital Management	22.25	18.24
Private Advisors	21.36	16.89
Orion Energy Partners (from March 2016)	20.46	-
H.I.G. Capital	20.32	13.78
CI Capital Investors	20.31	12.11
Innova	19.97	12.60
Domain Partners	18.90	15.07
Bessemer Venture Partners	18.25	13.68
WP Global Partners	17.93	6.95
Archer Capital	17.75	27.80
KPS Capital Partners	17.16	15.09
EQT Funds Management	15.82	22.71
Andreessen Horowitz	15.57	12.54
Berkshire Partners	15.32	10.36
Index Ventures	14.74	11.31
Navis Capital Partners	14.13	16.34
Blakeney General Partners	13.25	18.33
Southern Cross Group	11.75	9.47
Headland Capital Partners	11.33	11.87
Peak Rock Capital	10.28	6.43
General Catalyst	8.77	5.50
Abry Partners	7.04	5.24
Indicus Advisors	4.83	3.90
Triton Partners	4.57	4.48
Bridges Community Ventures	0.17	0.12
Governance For Owners Group	0.09	0.09
William Blair & Company	0.08	1.59
Longview Partners (to April 2016)	-	337.23
Dimensional Fund Advisors Ltd (to March 2016)	-	326.30
Marathon Asset Management (to August 2016)	-	158.71
Capital Dynamics (to November 2016)	-	3.22

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.18 Benchmarks and targets

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

	<b>2016</b>	<b>2015</b>
	%	%
FTSE All World North America Index	25.0	25.0
FTSE All Share Index	20.0	20.0
FTSE All World Developed Europe (ex UK) Index	20.0	20.0
FTSE All World Developed Asia Pacific (ex Japan) Index	20.0	20.0
MSCI Emerging Markets Free (net dividends reinvested) Index	15.0	15.0
	<b>100.00</b>	<b>100.00</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 target for the Global Equity Pooled Fund is to beat this benchmark by 0.5% over the long term.

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

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

	Intra Day Interest Rate	
Illiquid Growth	UK Retail Price Index	Benchmark + 4 - 6% pa
Index Linked	FTSE UK gilts – Index Linked > 15 years Index	Benchmark
Long Term Income	UK Retail Price Index	Benchmark + 0 - 2% pa

## CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

### 1.19 Performance

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

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

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