

Defined Contribution Chair’s Statement 2023

On behalf of the Trustee directors of the Industry-Wide Defined Contribution Section of the Railways Pension Scheme (the “IWDC Section”), I am pleased to present the Chair’s Statement for the period from 1 January 2023 to 31 December 2023 (“the scheme year”).

This statement explains how the Trustee Board has met the legal requirements for running the IWDC Section for the scheme year, including:

- The default investment arrangement
- Funds and strategies for members who choose their own investment options
- Reviewing the default investment arrangement
- Return on investments
- Charges and transaction costs paid by members
- Good value for members
- Processing core financial transactions
- Trustee knowledge and understanding
- Additional governance requirements for multi-employer schemes
- Contacting the Trustee Board

The default investment arrangement

The Trustee has selected a default investment arrangement for members who do not choose their own investments. This is called the “Flexible Drawdown Lifestyle Strategy”. Members can also make an active choice to invest in the default investment arrangement, an alternative lifestyle arrangement or the investment funds offered.

Today, circa 93% of all IWDC members are solely invested in the default investment option. The current default strategy was introduced in 2022 and has been constructed on the basis that most DC members are expected to flexibly draw their benefits.

The default arrangement for the IWDC Section is shown below:

DC Arrangement	Growth Portfolio 10+ to TRA	Portfolio at Target Retirement Age	Length of switching period
IWDC Section	100% Long Term Growth Fund	<ul style="list-style-type: none"> • 25% Long Term Growth Fund • 25% UK Government Fixed-Interest Bond Fund • 50% Corporate Bond Fund 	Gradually from 10 years before Target Retirement Age (TRA)

In terms of the allocation of assets within the Flexible Drawdown Lifestyle Strategy, we show below a breakdown for members ten or more years before TRA, 5 years from TRA and also at TRA.

DC - Flexible Drawdown Breakdown by Asset Class			
	10+ years to TRA	5 years to TRA	At TRA
Cash	0.0%	1.2%	2.7%
Government Bonds	26.5%	28.6%	31.2%
Corporate Bonds	5.9%	23.6%	45.3%
Listed Equities	51.1%	35.2%	15.7%

Private Equity	0.0%	0.0%	0.0%
Infrastructure	0.2%	0.2%	0.1%
Property	7.4%	5.1%	2.3%
Private Debt	0.0%	0.0%	0.0%
Other	8.9%	6.1%	2.7%
	100.0%	100.0%	100.0%

Funds and strategies for members who choose their investments

In addition to the default lifestyle option (the Flexible Drawdown Lifestyle Strategy), there are two further lifestyle strategy options, and seven investment funds. This reflects the needs of those who want to take a more active approach to managing their fund choices.

The two additional lifestyle strategies are the Full Cash Withdrawal Lifestyle Strategy and the Annuity Purchase Lifestyle Strategy.

The seven investment funds are:

- the Long Term Growth Fund;
- the Global Equity Fund;
- the Socially Responsible Equity Fund;
- the Corporate Bond Fund;
- the UK Government Fixed-Interest Bond Fund;
- the UK Government Index-Linked Bond Fund; and
- the Deposit Fund.

A Sharia-Compliant Equity Fund is in-scope for delivery at a future date to be agreed. Due to some practical challenges we were not able to implement it at the same time as the other changes implemented in 2022.

The options available to members were expanded in 2022, including the introduction of the socially responsible fund. Building on the insights gathered in 2022, further work was undertaken with members in Q4 2023. Over 300 members responded to a survey on Environment, Social and Governance (ESG) issues. Members told us that fair pay and treatment of workers was a top priority for them. They support investments that tackle important issues, but not necessarily at the cost of returns. We have also worked with an external communication consultant, Quietroom, to hold face-to-face discussions with our members about ESG issues. The results of that work will be available in late Q1 2024.

There is more information about aims and objectives in the Trustee's Statement of Investment Principles (SIP), which is included as Appendix 1 to this statement.

Reviewing the default investment arrangement

A formal, in-depth review of the default investment arrangement is required under legislation at least every three years or immediately following any significant change in investment policy or the membership profile.

A formal investment strategy review was completed in March 2020. That covered the default investment arrangement, alternative lifestyle arrangements and the self-select fund range. Following this review, the current fund range was introduced in Q2 2022.

A further investment strategy review took place over 2023. Member outcomes were considered alongside changes in the economic environment that have taken place since the previous review. Information on the outcome of this review will be provided in future report(s).

During the Scheme Year, the Defined Contribution Committee (DCC) monitored the performance of the investment funds offered, including those comprising the default investment arrangement, at each of its quarterly meetings (22 March 2023, 22 June 2023, 27 September 2023 and 12 December 2023).

Return on investments

The Trustee has taken account of statutory guidance and as required, reports the net investment returns for the default arrangement and each fund which Scheme members were able to invest in during the scheme year ending 31 December 2023.

The return for the Scheme Year is reported to enable employers and members to spot immediate trends. Returns over longer periods, dating back to the funds' inception, are included to reflect the investment strategy's performance through different market conditions. The below table sets out the return on investments (net of charges and transaction costs) for each fund:

	Since Inception (May 2013 to 2022)	Annualised Returns %	
		5 years to 2023	1 year (2022)
Existing DC funds			
Long Term Growth Fund	6.9	7.3	8.8
Global Equity Fund	8.6	12.0	22.4
Deposit Fund	0.7	1.2	4.4
DC funds Introduced in 2022	Since Inception (May 2022 to December 2023)	1 year (2023)	
Socially Responsible Equity Fund	13.2	18.3	
Corporate Bond Fund	2.5	8.9	
UK Government Fixed-Interest Bond Fund	-17.4	1.4	
UK Government Index-Linked Bond Fund	-25.7	-5.2	

The Long Term Growth Fund (highlighted in bold) is the default fund for members who are ten or more years from their TRA. The UK Government Fixed-Interest Bond Fund and the Corporate Bond Fund form part of the default arrangement, as from 2022, for members within ten years of their TRA.

Within the Long Term Growth Fund, the main driver of returns over the last year has been the underlying exposure to equities. The performance has been impacted by equity markets rising in 2023.

Charges and transaction costs paid by members

The Trustee has taken account of statutory guidance when preparing this statement about charges and transaction costs. The annual management charge ("AMC") covers all costs and charges relating to general scheme administration and investment administration.

Performance fees and costs incurred as a result of holding or maintaining property are listed separately as they fall outside of the charge cap. The total expense ratio (“TER”) presented below includes these costs whilst excluding transaction costs. The TER is paid by the members and is reflected in the unit price of the funds. During the scheme year ending 31 December 2023 the level of charges applicable to the funds in the IWDC Section, including the funds which are part of the default lifestyle strategy, were:

DC fund	AMC %	Property costs %	Performance fees %	TER %
Long Term Growth Fund	0.50	0.08	0.02	0.60
Global Equity Fund	0.29	N/A	N/A	0.29
Deposit Fund	0.31	N/A	N/A	0.31
Corporate Bond Fund	0.38	N/A	N/A	0.38
UK Government Fixed-Interest Bond Fund	0.27	N/A	N/A	0.27
UK Government Index-Linked Bond Fund	0.31	N/A	N/A	0.31
Socially Responsible Equity Fund	0.46	N/A	N/A	0.46

Railpen, which manages the Scheme’s investments, gives full transparency to the Trustee sub-committee, the DCC on the underlying costs making up the AMC, such as investment management costs, legal costs, and IT costs.

The IWDC Section funds are invested alongside the Scheme’s defined benefit (DB) arrangements, using the same underlying pooled funds where possible. This means that IWDC Section members benefit from many of the same investment opportunities and economies of scale as members of the DB arrangements.

The Trustee is also required to separately disclose transaction cost figures that are borne by members. In the context of this statement, the transaction costs shown are those incurred when the Scheme’s fund managers buy and sell assets within investment funds. Such costs include broker commissions, commissions of futures, transfer taxes, and other fees such as bank fees, search fees, legal fees, and stamp duty.

Transaction cost (and any other fee) information has been requested from the fund managers ahead of their annual accounts being published, as such not all the managers have been able to supply complete information by the date of signing this statement. The table below shows the 2023 transaction costs obtained for each fund, full coverage has been achieved however this includes some estimated or unaudited costs.

DC fund	Average 2023 asset value £m	Transaction costs %	Cost info available %
Long Term Growth Fund	170.1	0.06	100
Global Equity Fund	23.1	0.06	100
Deposit Fund	4.1	N/A	N/A
Corporate Bond Fund	18.8	N/A	N/A
Index Linked and Global Bond Fund	10.6	0.02	100
UK Government Index-Linked Bond Fund	1.6	N/A	N/A
Socially Responsible Equity Fund	0.2	N/A	N/A

As many fund managers are unable to provide finalised cost information until months following their year-end, Railpen begins an annual exercise of collating this data in the second quarter of each year.

The primary method adopted is using the PLSA Cost Transparency Initiative’s templates, which are distributed to managers for completion. If managers do not engage, steps are taken to escalate the issue higher within the organisation. As a contingency method, Railpen will source this information from annual reports and audited accounts of the underlying funds, which again will become available as reports are published over the coming months.

The Trustee minimises transaction costs arising from buying and selling assets, as far as possible, through the pooling arrangements within the Railways Pension Scheme (RPS). Where it can, it matches members and sections that wish to sell units in a particular fund with those who wish to buy them, so it is not necessary to trade assets in the markets. There are strict policies and procedures in place to ensure that any trading costs are spread fairly between all IWDC Section members.

The default arrangement has been set up as a lifestyle approach, which means that members’ assets are automatically moved between different investment funds as they approach their TRA. This means that the level of charges and transaction costs will vary depending on how close members are to their TRA and in which fund(s) they are invested. For the period covered by this statement, AMC, performance fees and transaction costs are set out in the table below. The member borne charges for the Scheme’s default arrangement complied with the charge cap.

Time to retirement Years	Fund mix	AMC %	Performance fees %	Transaction costs %
10	<ul style="list-style-type: none"> • 100% Long Term Growth Fund 	0.50	0.02	0.06
5	<ul style="list-style-type: none"> • 62.5% Long Term Growth Fund • 12.5% UK Government Fixed-Interest Bond Fund • 25% Corporate Bond Fund 	0.44	0.01	0.04
0	<ul style="list-style-type: none"> • 25% Long Term Growth Fund • 25% UK Government Fixed-Interest Bond Fund • 50% Corporate Bond Fund 	0.38	0.01	0.02

Railpen continues to make improvements to ensure that IWDC Section members get the best possible returns from their investments after all fees and transaction costs have been accounted for. The Trustee will continue to monitor the funds’ costs and charges closely.

The Trustee is required to illustrate the cumulative effect of costs and charges on the value of members’ fund values over time. There is a prescribed method for doing this, based on a ‘representative’ member of the IWDC Section. This illustration is included at Appendix 2 to this statement.

Good value for members

Each year the DCC undertakes a comprehensive assessment of the extent to which the DC arrangements offer good value for members. This requirement, introduced by legislation in 2015,

is designed to give members and employers confidence that the RPS offers high quality DC arrangements.

In 2020 and 2021 the assessments were performed by an external supplier, WTW. They concluded on both occasions that the IWDC Section offers 'good' value to members. In September 2022, the DCC concluded that an external assessment was only required biennially, and that an internal assessment would be sufficient in the intervening years.

This approach ensures that the IWDC is still subject to a wholly independent assessment regularly, and at the same time the cost of using an external supplier is limited where possible. The service provided to IWDC members has made good progress in recent years and, as such, a biennial external assessment is deemed proportionate.

Following an internal assessment in 2022, which concluded that the scheme provides 'good' value to members, a procurement exercise, supported by Trustees, was undertaken in Q3 2023 to appoint an external provider for the 2023 assessment. After a robust exercise, Redington were appointed. They conducted the assessment in Q1 2024.

The latest assessment was delivered by Redington in February 2024, concluding that the IWDC scheme provides good value to members. They were selected because of their robust assessment framework and access to a range of market insights. They recognised improvements in the digital and communications space and the continued robustness of our governance controls.

The performance of the Administration team remains good. Delivery against service levels is consistent, although some further work is needed to understand how that performance correlates with the actual member. Across the year, a total of 16 complaints were received and all were resolved in-year, with one being referred to the Pensions Ombudsman. The Administration Team have supported circa 95.9k calls and 64.7k emails across the whole of the RPS.

Members continue to show a propensity to use digital services, with many members now registered for the member website. Take-up has increased throughout the year driven by focused engagement campaigns. There are 6,300 members registered for a myRPS account out of a population of 14,353 IWDC members.

Redington observed strong past and expected investment performance in both the growth and retirement phases and robust governance and oversight, evidenced by a breadth and depth of pension and wider experience, coupled with an increasingly diverse Trustee board. They felt the ESG approach is aligned with and applied to the default strategy well and is integrated across all asset classes.

They did identify some areas of improvement. The decumulation options for members and at-retirement could be further strengthened, albeit some improvements are in-flight. The addition of a Sharia fund was also highlighted, although Redington noted this is already under consideration.

Processing core financial transactions

The Trustee must ensure that core financial transactions are processed both promptly and accurately. These include:

- investment of contributions;
- transfer of members' assets to and from the Scheme, and between sections within the Scheme;
- switching between investments within the Scheme; and
- payments out of the Scheme to members and beneficiaries.

Service Level Agreements (“SLAs”) are in place for all of these core financial transactions. The DCC received quarterly updates on these key process activities throughout the year via Quarterly Administration Reporting. The report features as a standing agenda item for the DCC to consider the performance, trends and consider any matters arising requiring further attention. The report includes a narrative section to highlight any matters for attention to the Trustee.

To ensure day-to-day compliance with the core financial transactions, a number of controls are in place, including:

- Daily unit reconciliations to ensure investments and disinvestments have been completed effectively
- A dedicated Employer Support team to monitor the timely receipt of employer contributions
- System validations to ensure incoming data from employers meets minimum standards
- Daily system start-of-day health checks to ensure any system issues or anomalies are identified and rectified immediately
- Functional segregation of duties between the Finance function dealing with cash and the Administration function who execute member transactions
- Daily bank reconciliations support
- Application role profiles are commensurate to skill levels and ensure segregation of duties with four eye checks employed for payments out. Senior approval is required for transactions over certain amounts

The core financial transactions are overseen by key controls which are annually tested and reported within the AAF 01/20 Internal Controls Report. The testing is carried out by External Auditors, who along with Management, sign off the report in full. Underpinning this, Internal Audit perform an independent governance role, carrying out internal audits over the financial environment operating. Any improvements to the current environment formulate an action plan which is overseen by the Trustee.

From time-to-time errors in processing occurs. A Quality team is responsible for reviewing any such errors and providing a root cause investigation to ensure sustainable rectifications to prevent reoccurrence.

Where necessary ad-hoc reports are commissioned so the DCC can review the progress of any issues raised. The DCC continues to receive additional reports pertaining to the volume of DC contributions. The Committee receives a DC Control Report at each meeting which covers a number of areas including unit differences, employer breaches and loss of investment charges incurred during the period by both the administrator and Employers.

During the period, the following service level challenges were identified:-

- the reported SLAs for transfers out were not fully met, however statutory timelines were largely still maintained. This was predominantly owing to increased due diligence checks performed to meet the regulations against pension scams. A review of the end-to-end process is ongoing and a review of the internal service levels under consideration to ensure the balance of member expectations is appropriately weighed against protecting their benefits against potential scamming exercises. Member expectation management will form part of updated communications.
- Transfer in claims also failed to meet internal service levels. A process review is underway and additional experienced resources have been added to this area to improve speed of service.
- New entrants – minor delays were experienced due to a change in process. The process refinements have since been embedded and additional education provided.

Trustee knowledge and understanding (“TKU”)

Railpen runs a comprehensive induction programme for new Trustee Directors which ensures that they have good awareness and understanding of the Scheme’s governing documentation (including the trust deed and rules, statements of investment principles, and all relevant policies), the principles relating to investment of scheme assets, pensions and trust law, the role of a trustee, and the identification, assessment and management of relevant risks and opportunities relating to climate change.

Individuals who have been nominated to become a Trustee Director must complete TPR’s Trustee Toolkit before they can be appointed as a Trustee Director of the Railways Pension Trustee Company Limited.

The Trustee Toolkit is an online learning programme from TPR aimed at trustees of occupational pension schemes. The Toolkit includes a series of online learning modules and downloadable resources developed to help trustees meet the minimum level of knowledge and understanding introduced by the Pensions Act 2004 and subsequent Regulations. There is also a requirement for current Trustee Directors to refresh the Trustee Toolkit every three years, which they evidence by providing copies of their development records.

In addition to all Trustee Directors having completed the Pensions Regulator’s Trustee Toolkit, 8 out of 16 Trustee Directors hold the Pensions Management Institute’s Award in Pension Trusteeship, providing formal recognition of these Trustee Directors’ knowledge and understanding. One Trustee Director is an Accredited Lay Trustee. Existing Trustee Directors received regular training throughout the year, either at quarterly Trustee/Committee meetings or additional Trustee workshops. They are also encouraged to attend external conferences and webinars on specific topics of interest and to increase their general knowledge and understanding.

To further ensure the Trustee Directors, and the Board and Committees as a whole, meet the required level of knowledge and understanding introduced by the Pensions Act 2004, the Trustee Directors must review their training needs each year and this was completed as part of their annual review conversations with the Trustee Chair in Q1 2023.

Alongside this conversation, the Trustee compiles a skills matrix to detail the relevant skills and experience of each member of the Trustee Board. Together, these demonstrate the strength and depth of expertise that each is able to bring to the role, and the skills and expertise across the Trustee Board as a whole.

A subset of the skills matrix is compiled for each Committee to ensure that relevant knowledge and expertise is present for each Committee according to its terms of reference. The annual review of the skills matrix ensures that any gaps are identified and that the necessary additional training and development is undertaken, or that additional advice can be sought as necessary to support the Board or Committee in the specified areas.

The particular topics identified for further training are built into the training provided by Railpen and also third parties at the Trustee’s meetings and workshops throughout the year. Trustee Directors’ key strengths are also recorded in the Trustee’s succession plan, allowing the Trustee to monitor the future needs of the Board and Committees well ahead of any vacancies occurring.

During the scheme year, Railpen provided training for Trustee Directors on:

- Trustee Strategy

- Administration platform demonstration
- Governance Framework
- Discussion on potential impacts of new DB funding and investment regime
- Liability Driven Investment (LDI)
- Climate Change and TCFD Report
- Funding and investment principles for 2022 valuations
- Deep dive on the Trustee's Long Term Income Pooled Fund
- Sustainable Ownership workshop: outlook on Trustee duties

These topics were identified as appropriate training based on the 2023 training requirements and skills analysis review or were requested on an ad-hoc basis by the Trustee.

The Trustee Board is made up of 16 Trustee Directors who each possess individual skills and experience that are relevant to the role of Trustee of a Master Trust, like the Railways Pension Scheme IWDC Section.

The Trustee Board is diverse in employment experience and history. Many are long-standing Trustee Directors and have served on several of the Trustee's committees and subsidiary boards over the years. They therefore have significant experience of all aspects of the Railways Pension Scheme (RPS) and its corporate management activities, and this is spread across the whole Board rather than concentrated in 1 or 2 individuals.

The Trustee Directors have a wide range of experience, from working as Pensions Directors for employers in the rail industry to senior financial professionals with large employers. A number of Trustee Directors have a background in trade unions, including sitting on their Executive Committees or senior appointments including General Secretary. Many worked on their unions' own schemes and have negotiated with employers on pensions and benefits on behalf of their members.

In addition, the Trustee's professional advisors are available to attend Trustee meetings when needed to provide guidance on various scheme matters. With a sufficiently diverse Trustee Board, their broad collective experience ensures that they are in a position to challenge robustly the advice they receive. In particular, as all Directors are nominated and elected by the Scheme's stakeholders, the Board gains insight into the employers' and members' perspectives of how the Scheme is run and the benefits it offers.

As a result of the training activities which the Trustee Directors have completed, individually and collectively as a Board, the broad range of experience held by Trustee Directors, and the annual training analysis, skills matrix review and regular effectiveness reviews, I am confident that the combined knowledge and understanding of the Board, together with the professional advice available to it, enables it to exercise properly its functions as the Trustee of the IWDC Section and the RPS generally.

Additional governance requirements for multi-employer schemes

The Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the "Administration Regulations"), require the Trustee Board of any 'relevant multi-employer scheme' to have a majority of 'non-affiliated trustees', including the Chair.

From April 2016, the Trustee has been required to comply with this additional governance standard, which is designed to offer additional protections for members and ensure that the Trustee acts in their best interests.

The Trustee Board has considered these requirements and determined that all Trustee Directors, including the Chair, can be classed as 'non-affiliated trustees' for the purpose of the legislation. This means that we have considered carefully any links that Trustee Directors may have with companies providing services to the Scheme, and reviewed the procedures in place for managing any conflicts of interest that may arise, and concluded that all of the Trustee Directors are independent of any undertaking which provides advisory, administration, investment or other services in respect of the IWDC Section, taking account of the matters set out in Regulation 28(3) of the Administration Regulations.

We have also reviewed our appointment process to ensure that it is open and transparent and allows representation on the Trustee Board from across the rail industry. We will ensure that non-affiliated Trustee Directors, including the Trustee Chair, are always in the majority on the Trustee Board.

During the scheme year, two casual vacancies arose on the Board, which resulted in two nomination processes taking place in accordance with the governing documents of Railtrust Holdings Limited:

- Nominations were sought from Network Rail as part of the Scheme's process for filling an Employer Director vacancy in the Network Rail Electoral Group
- Nominations were sought from Committees, Trade Unions and the British Transport Police Federation as part of the Scheme's process for filling an Employee Director vacancy in the Employee nominated director Electoral Group.

These appointment process for the vacancies was not concluded by the Scheme year end.

The Trustee Board has been kept informed of developments relating to TPR's authorisation and supervision regime introduced by the Pension Schemes Act 2017 and the Occupational Pension Schemes (Master Trusts) Regulations 2018. The supervision regime continued throughout 2023 and raised no areas of concern.

Contacting the Trustee Board

The Trustee Board encourages Scheme members to share their views about the Scheme, the benefits it offers, the investment options available, and their plans for how they intend to use their funds to provide an income in retirement. IWDC active and preserved members receive the annual Insight newsletter in May. The newsletter provided to members in 2023 included an article on the importance of understanding the investment fund options available and encouraged members to provide feedback via an online survey.

A dedicated online member advisory group has also been established, called Platform, and promoted through the newsletter and website, giving members the chance to share their views on key topics. This insight is reported to the Trustee and directly shapes the development of member communications, such as investment guides, fund fact sheets and educational video content.

In addition to this, an annual member survey is undertaken in partnership with the Institute of Customer Service (ICS). IWDC members are given the opportunity to give a satisfaction, net-promotor and effort score as well as provide verbatim comments. The results in 2023 were our second highest ever (with 2022 being the highest). Members gave us an overall satisfaction score of 81.3, which was significantly higher than the UK customer service index average.

Alternatively, if members prefer, they can contact the member Helpline on the free phone number 0800 012 1117 or email csu@railpen.com. The annual newsletter, bulk member communications and the member website have referred to the Helpline number and email address as standard

throughout the scheme year. Additionally, many Trustee Directors also have regular contact with members through their day-to-day activities, for example as Pensions Managers of participating employers or as trade union officials.

The Trustee has considered the size, nature and demographics of the Scheme and by providing multiple channels and media through which members may contact the Scheme, in line with its Communications Strategy (the new iteration of which was approved in December 2023), the Trustee is satisfied that all members from all sections of the Scheme are encouraged to share their views, in particular in response to key communications or Scheme events.



26/03/2024

Christine Kernoghan, Chair of RPTCL

Appendix 1 Statement of Investment Principles

Appendix 2 Illustration of the cumulative effect of costs and charges on the value of members' fund values over time