

A photograph of an offshore wind farm. Several white wind turbines are visible, extending from the foreground into the distance across a dark blue sea. The sky is a clear, bright blue with some light, wispy clouds. The wind turbines are three-bladed and mounted on tall, slender towers. The overall scene is clean and modern, representing renewable energy.

2018 Annual Report and Audited Financial Statements

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

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



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“ On behalf of your Trustee Board it gives me great pleasure to introduce the Annual Report and Audited Financial Statements of the Railways Pension Scheme ('the Scheme') for the year ended 31 December 2018. ”

This is my first Annual Report as Chair, and whilst I have been a Trustee Director for a number of years, I look forward to representing you as Chair of the Trustee in the coming years.

2018

The year was a mixed one for investment returns following a challenging year for global equities and UK retail property. The Growth Pooled Fund, which is the largest investment of the Scheme, recorded absolute losses of 4.6% against an inflation based comparator gain of 6.8%. However, the Scheme's second largest investment, the Private Equity Pooled Fund, recorded annual gains of 32.0%, well ahead of its comparator of minus 3.8%. The Infrastructure and Illiquid Growth Pooled Funds also delivered returns substantially ahead of their comparators during the year. The Short Duration Index Linked Bond Pooled Fund, launched in 2017, delivered returns of 1.7% which was slightly behind its comparator return of 1.8%. The Scheme's other significant holdings such as the Passive Equity Pooled Fund, Global Equity Pooled Fund and Government Bond Pooled Fund returned gains in excess of, or equal to, their comparators.

2018 saw the continued implementation of many of the initiatives begun in previous years as we increased our in-house trading capability – particularly in respect of equities and property. We have increased our allocation to Alternative Risk Premia ('ARP') strategies which identify underlying drivers of return and build portfolios cheaply and systematically and we have also gradually increased our allocation to the Fundamental Growth Portfolio ('FGP'), a concentrated portfolio investing in industry leading, innovative companies with sustainable structural earnings growth. As a result, we now manage over 25%, or £3.2bn, of our equities in-house providing the Scheme with a

saving in management fees compared to the use of external management. This year also saw us begin to reshape our property portfolio as we seek to increase the profitability of the portfolio. Within the Illiquid Growth Pooled Fund we made an investment in Capital Constellation, a joint venture that provides seed capital to emerging private equity managers.

Chrysalis

As stated in previous annual reports, we are also implementing a change programme for administration and trustee services, 'Chrysalis'. This programme includes the replacement of the current pension administration system, but is intended to deliver much more than that. It will transform the way in which RPMI, our administration business, operates. Throughout Chrysalis we have engaged our many stakeholders, including a Trustee Advisory Board devised to represent the views of the members and employers participating in the Scheme. 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 am pleased to announce that we have now launched the third and final stage of the programme, and we will now begin the process of transferring all active and preserved members onto the new system through a phased implementation. We will continue engaging with members, employers and other stakeholders as we deliver this exciting change, and keep investing in RPMI to maintain a quality service for our members that demonstrates excellent value for money, and meets the needs of the modern world.

UK pension landscape

During 2018 the government announced changes to the UK pension landscape that particularly impact on the defined contribution sections of the Scheme. These include Master Trust authorisation and enhanced disclosure of fees and costs. These additional disclosures are shown in Appendix H and provide additional information on how the Trustee is managing your Defined Contribution ('DC') assets.

In October 2018 the High Court ruled that the Lloyds Banking Group Pension Schemes must equalise benefits to allow for inequalities that have arisen from the calculation of, and payment terms of, Guaranteed Minimum Pension ('GMP'). The Trustee is in the early stages of assessing the impact on the RPS and it is likely to be some time before this is complete. The Trustees are working closely with our professional advisors, including the scheme actuary and legal advisors, to quantify the impact of the ruling. Initial best estimates indicate that the increase in pension obligations will not be significant for the RPS. However given the impact is likely to vary depending on the membership and benefit profile of each Section, the impact could be more significant for some Sections. Any adjustments necessary will be recognised in the relevant financial statements.

At the time of writing, uncertainty still surrounds Brexit. The Trustee has however undertaken scenario modelling, using the Bank of England's three Brexit scenarios: Remain, Orderly Exit ('soft Brexit') and Disorderly Exit ('hard Brexit'), to assess the potential impact of the UK's exit from the European Union on capital values, exchange rates and liquidity. The Trustee has ensured that contingency plans have been prepared to cover these scenarios and I look forward to working with my fellow Trustee Directors and the staff at RPMI in meeting any challenges Brexit may bring.

Thanks

On behalf of all the members, employers and my fellow Trustee Directors, I would like to thank John Chilman, who stepped down as Chair of the Scheme in March 2019, having served in that role since 2014. John's contribution, both as Chair and before that as Trustee Director, has been outstanding. The Scheme has been fortunate that it has been able to benefit enormously from John's dedication, passion and knowledge over the years, and I am pleased that the Scheme will continue to draw on John's expertise as he takes up his new position as Chief Executive of RPMI in June.

Stephen Richards retired from the Trustee Board in June 2018 and I would like to record both mine and the Trustee Board's gratitude for his significant contribution to the Scheme during his 25 years' service. I would also like to take this opportunity to record my gratitude to all the Trustee Directors who have served during the year. The demands on Trustee Directors' time continues to increase in order to meet regulatory changes and compliance requirements, whilst ensuring that pensions can continue to be provided securely, sustainably and affordably. The wide range of individual Trustee Directors' knowledge and expertise is invaluable in ensuring that your Trustee continues to have a broad understanding of the railway industry that can represent effectively the interests of its many stakeholders.

Christopher Hannon,
Chair, Trustee Company



344,095

Total membership at
31 December 2018



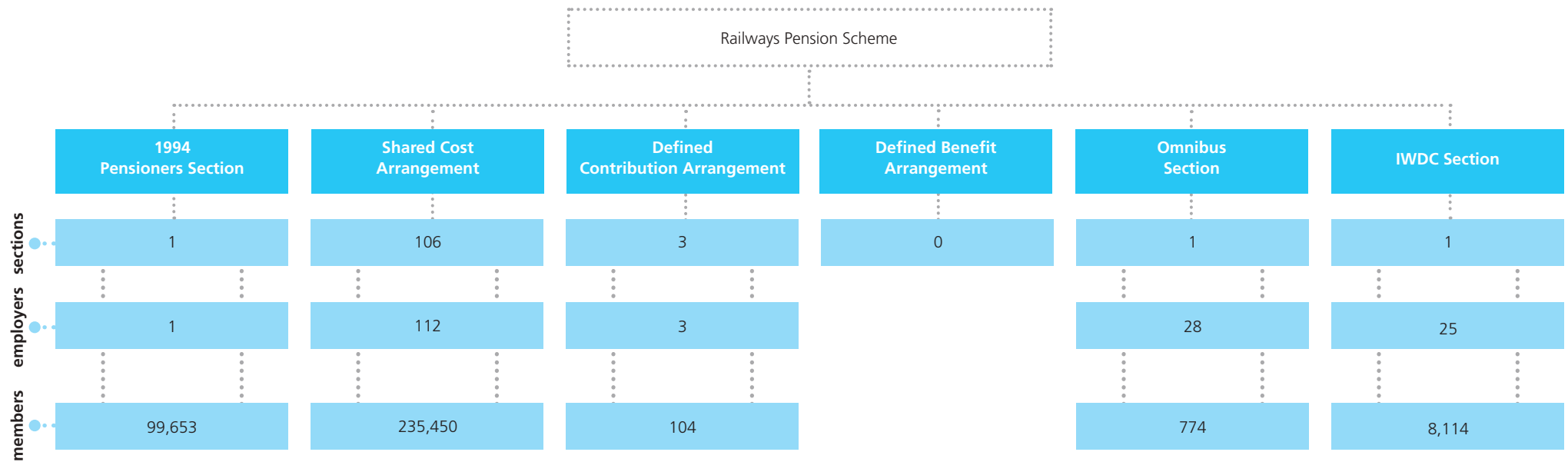
The Railways Pension Scheme

The RPS provides pensions for 144 companies operating within the privatised railway industry.

The RPS was created in 1994 after the privatisation of the railway industry and reorganisation of the British Rail Pension Scheme.

It is the largest of the four pension schemes managed by the Trustee and one of the largest schemes in the UK, and provides pensions for 144 (2017: 147) companies operating within the privatised railway industry.

The RPS comprises six parts: the 1994 Pensioners Section, the Shared Cost Arrangement, the Defined Contribution Arrangement, the Defined Benefit Arrangement, the Omnibus Section and the IWDC Section. Employers may participate in more than one arrangement and in more than one section of the Shared Cost Arrangement. There are 112 sections (2017: 112 sections) across the six parts of the RPS as illustrated below:



Advantages of an industry-wide scheme

The industry-wide structure allows the assets to be combined into 'pooled funds'. These investment funds are significantly larger than would be possible were sections to invest their assets separately, resulting in several advantages for the schemes and sections.

For example, the asset allocation needs of sections can be considered separately from the appointment and monitoring of individual investment managers. The size of the pooled funds also allows all sections to benefit from economies of scale in investment management costs and access to a wide range of investments. Sections wishing to invest in pooled funds in the first instance, where possible, buy pooled fund units from sections wishing to sell, thus avoiding some of the external investment transaction costs.

The industry-wide nature of the RPS can simplify the movement of employees between railway companies, allowing them to change employers while remaining in the same pension scheme.

The Trustee provides high-quality pensions services through its experienced administration, investment, secretariat, pensions policy, communications and finance teams, benchmarked in terms of quality standards against other providers.

A summary of the main provisions of the Scheme is shown in Appendix G.

The 1994 Pensioners Section

Pensioners and preserved pensioners in the BR Pension Scheme on 30 September 1994 were transferred into a separate Section of the RPS – the 1994 Pensioners Section. On 30 December 2000, pensioners and preserved pensioners of the BR Section were also transferred to the 1994 Pensioners Section. The assets and liabilities of another six closed railway pension schemes were also transferred to the 1994 Pensioners Section in 2007, after agreement between the Trustee and the DfT.

The Secretary of State guarantees all past service liabilities and pensions in payment of the 1994 Pensioners Section at 1 August 2007, plus any future annual pension increases awarded to Section members.

The Shared Cost Arrangement

All active members of the BR Pension Scheme were transferred into the Shared Cost Arrangement on 1 October 1994. Transferred members with protected rights under the Railways Act 1993 have a statutory right to remain in the RPS while they continue to be employed in the railway industry.

A separate section within the Shared Cost Arrangement may be created for each designated employer. Originally, as each BR business was franchised or sold, a proportionate share of RPS assets was transferred to a new section of the Scheme. Subsequent sales and transfers of parts of businesses can now result in the creation or mergers of sections.

As at 31 December 2018, 93 of the 106 shared cost sections had active members and 49 of these shared cost sections remain open to new members. For open sections, employees of the participating employer who are employed in the railway industry

may join the Scheme. New members are not protected under the Railways Act 1993, however, so their pension rights may differ from those who have protected rights. A full list of sections and participating employers is given in Note 11 to the Financial Statements.

The Omnibus Section

Employers with fewer than 50 members are eligible to combine in a multi-employer Omnibus Section. Employers may remain in the arrangement if their membership increases above 50. At the end of 2018, 28 employers with active members (2017: 30 employers) were part of the Omnibus Section. A full list of participating employers is given in Note 11 to the Financial Statements.

Defined Contribution Sections, other Defined Benefit Arrangements and IWDC Section

As with the Shared Cost Arrangement, the Defined Contribution Arrangement and Defined Benefit Arrangements are part of the framework of the RPS and exist as possible alternatives to a section on the Shared Cost Arrangement basis. A handful of Defined Contribution sections were set up by employers, but these moved into the IWDC Section when it was created. No employers have set up sections adopting the provisions of the Defined Benefit Arrangement.

The IWDC Section of the RPS exists for rail employers who want to provide benefits on a DC basis.

The IWDC Arrangement was established on 1 November 2001. The IWDC Arrangement aims to provide employers with a flexible defined contribution scheme. At the end of 2018, 25 employers were part of this Arrangement (2017: 27 employers).

At 31 December 2018, there were 3 defined contribution sections (2017: 3 sections).

Members who had been in the Defined Contribution Arrangement were transferred to the IWDC Section on 14 February 2019, following a communication sent to the members in December 2018. The transfer was carried out on a without consent basis and, from 14 February 2019, the Defined Contribution Arrangement has no members. The Trustee has not yet decided whether the Defined Contribution Arrangement will be wound up.

Reporting

There are separate records for each section and each section receives quarterly reports including accounts, investment and administration performance. Each section is independently valued by the Scheme Actuary.

Pensions Committees

The designated employer of each shared cost section may establish a pensions committee to which the Trustee will delegate certain of its powers and duties under Appendix 5 of the Pension Trust, which includes responsibilities such as the determination of incapacity and discretionary benefits. Setting investment strategy can also be vested in the committees under Clause 5G of the Pension Trust, subject to the Trustee's approval. All pensions committees have an equal number of employer and member nominees. The chair of the committee alternates annually between the employer and member nominees. The Trustee, however, retains responsibility for supervising how the committees exercise their powers and monitors necessary training undertaken by committee members.

Key Statistics



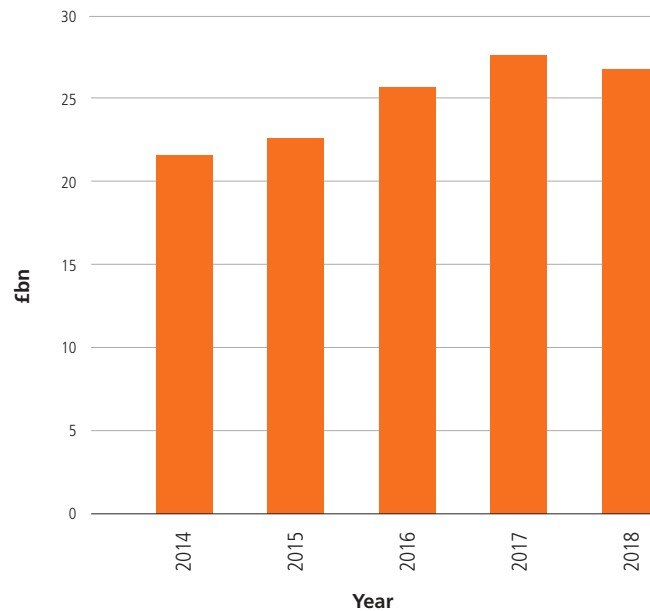
Scheme statistics for 2018

Five-year summary of RPS participation

	2018	2017	2016	2015	2014
Sections	112	112	113	113	110
Employers	169	173	179	186	178
Active membership	95,963	92,472	93,938	90,574	89,336
Preserved membership	107,489	107,400	105,350	106,793	107,714
Pensioners	140,643	140,547	138,731	140,366	139,998
Total membership	344,095	340,419	338,019	337,733	337,048

Five-year summary of net assets of RPS

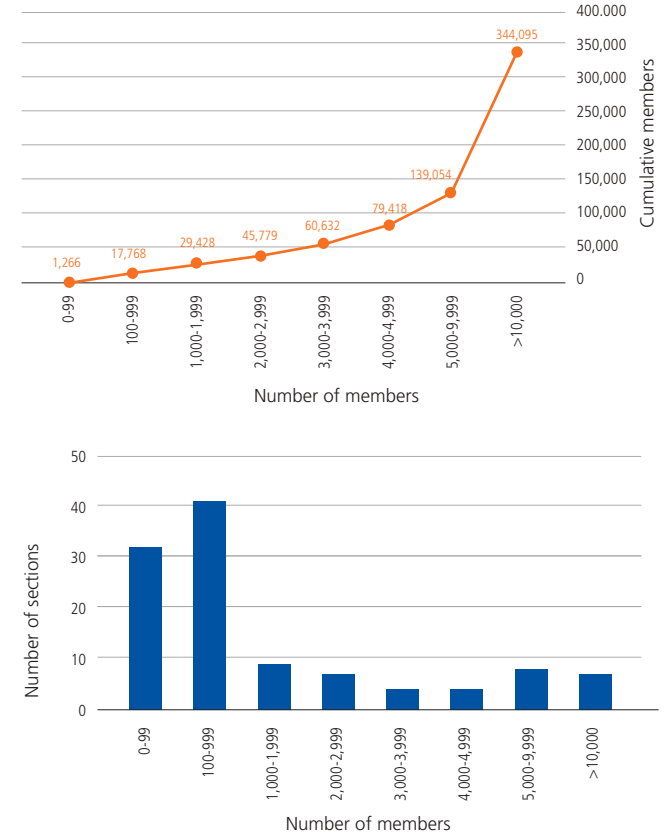
Total assets of the Scheme



Five-year summary of financial statements of RPS

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Scheme benefits					
Pensions	827	792	775	776	742
Lump sums	225	220	204	181	182
Death benefits	24	22	23	26	19
Total benefits	1,076	1,034	1,002	983	943
Scheme income					
Members' contributions	296	281	288	292	288
Employers' contributions	371	362	382	402	377
Government support	15	16	19	18	21
Total contributions	682	659	689	712	686
Net transfer values	(44)	(29)	(54)	(13)	(215)
Admin expenses	(19)	(20)	(20)	(18)	(18)
PPF levies	(48)	(39)	(34)	(27)	(28)
Taxation where lifetime allowance exceeded	(1)	(1)	-	-	-
Net investment income	386	290	319	241	331
Change in market value	(631)	2,132	3,206	877	1,734
Net (decrease)/increase in the Scheme	(751)	1,958	3,104	789	1,547
Net assets of the Scheme	26,752	27,503	25,545	22,441	21,652

Comparison of membership of sections



Key statistics for 2018

Total Membership	344,095
Net decrease in the Scheme	-£751m
Net assets of Scheme	£26,752m

A microscopic view of a cell, likely an oocyte, with a needle inserted into it. The cell is large and spherical, with a dark blue nucleus and a lighter blue cytoplasm. The needle is thin and metallic, extending from the right side of the frame. The background is a light blue, textured surface.

Independent Auditor's Report

We are investing in healthcare royalties. Our portfolio includes drugs that help patients with nerve problems manage their pain, and prospective mothers conceive through IVF.

Independent Auditor's report to the Trustee of the Railways Pension Scheme for the year ended 31 December 2018

Opinion

We have audited the financial statements of the Railways Pension Scheme ('the Scheme') for the year ended 31 December 2018 which comprise the Fund Account, the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 December 2018 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Trustee, related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Scheme's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Scheme's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Scheme, and as they have concluded that the Scheme's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme, including the impact of Brexit, and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the Chair's Introduction. Our opinion on the financial statements does not cover the other information and, accordingly, we do not

express an audit opinion or any form of assurance conclusion thereon in this report.

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

Trustee's responsibilities

As explained more fully in their statement set out on page 23, the Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Fang Fang Zhou

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

17 May 2019

A key focus area for our property investments is energy efficiency

 3,008,754 kWh

 844 tonnes CO₂

 £215,241

Overall consumption reduced by 4.4%

Energy saved across our property assets in the year to March 2018.



Audited
Financial Statements

The net assets of the Scheme
at 31 December 2018 were
£26.8bn.

Fund account for the year ended 31 December 2018

	Notes	2018 DB £m	2018 DC £m	2018 Total £m	2017 Total £m
Contributions and benefits					
Members' contributions	3	292	4	296	281
Employers' contributions	3	356	15	371	362
Government support		15	-	15	16
Individual transfers in		12	1	13	15
		675	20	695	674
Pensions		(827)	-	(827)	(792)
Group transfers out	4	(5)	-	(5)	(6)
Lump-sum retirement benefits		(224)	(1)	(225)	(220)
Death benefits		(23)	(1)	(24)	(22)
Individual transfers out		(51)	(1)	(52)	(38)
Taxation where lifetime or annual allowance exceeded		(1)	-	(1)	(1)
		(1,131)	(3)	(1,134)	(1,079)
Administrative expenses	5	(19)	-	(19)	(20)
PPF levies		(48)	-	(48)	(39)
Total withdrawals		(1,198)	(3)	(1,201)	(1,138)
Net (withdrawals)/additions from dealings with members		(523)	17	(506)	(464)
Returns on investments					
Change in market value	6	(239)	(6)	(245)	2,422
Net returns on investments		(239)	(6)	(245)	2,422
Net (decrease)/increase in the Scheme during the year		(762)	11	(751)	1,958
Net assets at the start of the year		27,418	85	27,503	25,545
Net assets at the end of the year		26,656	96	26,752	27,503

Statement of net assets (available for benefits) as at 31 December 2018

	Notes	2018 DB £m	2018 DC £m	2018 Total £m	2017 Total £m
Pooled funds	6	24,378	94	24,472	25,208
Securities directly held by schemes	6	2,230	-	2,230	2,251
Other cash and cash instruments	6	60	2	62	59
Current assets	7	34	-	34	40
Current liabilities	8	(46)	-	(46)	(55)
Net assets at the end of the year	11	26,656	96	26,752	27,503

The notes numbered 1 to 12 on pages 13 to 22 form an integral part of these audited financial statements.

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee on an aggregate basis as this is a multi-employer scheme with financially ring-fenced sections.

They do not take account of the obligations to pay pensions and benefits which fall due at the end of the Scheme year. The actuarial position of the Scheme which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities, which is summarised on pages 45 to 47 and should be read in conjunction with these financial statements. Benefits payable for the 1994 Pensioners Section and the BR Section are backed by Crown Guarantees.

Approved by the Directors of the Trustee Company on 15 May 2019.

Christopher Hannon
Chair, Trustee Company

John Mayfield
Director and Chair, Audit and Risk Committee

Notes to the audited financial statements for the year ended 31 December 2018

1. Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice ('SORP').

2. Accounting policies

The financial statements have been prepared on an accruals basis. The principal accounting policies of the Scheme are as follows:

Investments

Investments are included in the financial statements at the year end at fair value (except where explicitly stated) using the following valuation bases:

- The majority of the assets of the Scheme are invested in a portfolio of pooled funds, which operate as internal unit trusts for those railway pension schemes under the control of the Trustee. Pooled fund unit holdings are valued on the basis of the unit prices of the units held by the Scheme in each pooled fund at the year end. Unit prices reflect the fair valuations of the underlying assets held by the pooled funds and include income receivable on investments held. Further details of the pooled fund investment accounting policies are set out in the extracts from the pooled fund accounts in Appendix J.

- Assets are held in a portfolio of pooled funds valued at their bid price or last traded price at the year end date, as advised by the investment manager.
- BRASS AVC holdings in pooled investment vehicles are stated at fair value at the year end date as advised by the manager. The PAF is valued as a whole by reference to the fair value of assets within the fund as advised by the provider, Aviva. Members holding units in the PAF aged 55 or more are, however, guaranteed by Aviva to receive at least £1 per unit upon retirement or on earlier death. Members leaving before age 55 may receive a discounted value depending on their age.

- Substitution orders refer to deferred payments due under the Transport Act 1980, and are valued as certified by the Scheme Actuary. The Scheme Actuary is James Mason, of Willis Towers Watson. The Government Actuary, Martin Clarke, is joint Actuary for the 1994 Pensioners Section and the BR Section.

- Loans and deposits and current assets and liabilities are included at book cost, which the Trustee considers to be a reasonable estimate of accounting fair value.

Change in market value

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

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

Realised and unrealised gains and losses on underlying investments, including income receivable, are dealt with in the pooled fund accounts in the year in which they arise and are reflected in the pooled fund unit prices.

Contributions and benefits

Contributions are expressed as a rate of pensionable pay. Employee and employer normal contributions are accounted for when deducted from pay.

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

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

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

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

Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of their 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 may auto-enrol or contractually-enrol eligible employees into the Scheme. The employees can then opt-out of the Scheme if they wish within one month of being

enrolled. Opt-outs are accounted for when the Scheme is notified of the opt-out.

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

Administrative expenses

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

Pension Protection Fund levies

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

Transfer values

Transfer values, including PPF transfers, are determined on the advice of the Scheme Actuary and, where applicable, the PPF. Individual transfers in or out are accounted for when received or paid, which is normally when member liability is accepted or discharged. Group transfers are accounted for in accordance with the terms of the transfer agreement. TUPE and other intra-RPS transfers are settled by a mixture of pooled fund units and cash pro rata to the asset mix of the transferring section.

Tax

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

3. Contributions receivable

	2018 DB £m	2018 DC £m	2018 Total £m
Members' contributions			
Normal	204	3	207
Additional voluntary contributions	78	1	79
Deficit funding	10	-	10
	292	4	296
Employers' contributions			
Normal	291	15	306
Deficit funding	47	-	47
BRASS matching	10	-	10
Augmentation	8	-	8
	356	15	371
Totals	648	19	667

	2017 DB £m	2017 DC £m	2017 Total £m
Members' contributions			
Normal	199	2	201
Additional voluntary contributions	68	1	69
Deficit funding	11	-	11
	278	3	281
Employers' contributions			
Normal	285	9	294
Deficit funding	51	-	51
BRASS matching	10	-	10
Augmentation	7	-	7
	353	9	362
Totals	631	12	643

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

During 2018, there were 275 instances of late payment of contributions with a total value of £6.1m, which represents 0.15% of contributions payable under the schedules of contributions. The largest individual amount was £1.2m, which was paid 10 days after the due date. Of the 275 instances of late payment none were reported to the Pensions Regulator.

Further information on contribution rates can be found in the Report on Actuarial Liabilities on pages 45 to 47. Further information on government support can be found on page 43.

4. Group transfers out

Group transfers out of £5.0m relate to transfers to the PPF following realisation of RPS assets in relation to Jarvis Facilities, Fastline, Lionverge, Relayfast and Railcare Sections, as well as the Bridgen Holdings Ltd, Catalis Ltd, North South Communications, Vital Rail Ltd and Western Track Engineering Ltd employers within the Omnibus Section.



5. Administrative expenses

	2018 £m	2017 £m
Pensions administration	(10)	(10)
Trustee governance	(3)	(2)
Actuarial fees	(2)	(3)
Legal fees	(2)	(1)
Communications	(1)	(1)
Other professional fees	(1)	(1)
Other expenses	-	(2)
	(19)	(20)

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

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

6. Investments

(a) Value of investments

DB Section	Value at 31 December 2017 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 December 2018 £m
Pooled funds					
Growth	17,128	145	(563)	(772)	15,938
Private Equity	2,164	6	(426)	513	2,257
Government Bond	1,756	29	(463)	8	1,330
Illiquid Growth	416	441	-	110	967
Passive Equity	910	-	(34)	(73)	803
Short Duration Index Linked Bond	80	658	(56)	16	698
Global Equity	749	-	(71)	(55)	623
Long Term Income	293	315	(2)	(18)	588
Infrastructure	579	-	(233)	75	421
Non Government Bond	580	3	(162)	(17)	404
Cash	289	133	(241)	2	183
Long Duration Index Linked Bond	182	10	(23)	(3)	166
	25,126	1,740	(2,274)	(214)	24,378
Directly held securities					
BRASS and other AVCs	1,533	161	(200)	(54)	1,440
Substitution orders	717	9	-	28	754
Annuities	1	34	-	1	36
	27,377	1,944	(2,474)	(239)	26,608
Cash and other assets	41				48
	27,418				26,656

DC Section	Value at 31 December 2017 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 December 2018 £m
DC Pooled Fund	82	23	(5)	(6)	94
Cash and other assets	3				2
	85				96

BRASS investments include 144,317,243 units in the PAF (2017: 161,137,701 units). Further information on the PAF can be found on page 44.

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

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

Further analysis of investments, charges and fees for each pooled fund is provided in the pooled fund accounts in Appendix J. The percentages of the pooled fund assets that relate to RPS investments are shown in the table, right.

	% of pooled fund owned by the RPS 31.12.18	% of pooled fund owned by the RPS 31.12.17
--	--	--

Pooled Funds

Passive Equity	100.0	100.0
Non Government Bond	100.0	96.7
Private Equity	95.9	95.9
Infrastructure	95.3	95.3
Growth	94.6	94.7
Cash	94.2	95.4
Global Equity	94.0	94.2
Illiquid Growth	92.1	88.8
Government Bond	91.4	89.6
Long Duration Index Linked Bond	89.0	87.5
Long Term Income	88.3	88.7
Short Duration Index Linked Bond	88.1	70.5

(b) Investment risks

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

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

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

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

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

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

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set in Appendix J.

(c) Investments fair value hierarchy

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

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

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

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

DB Sections as at 31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Pooled funds				
Growth	-	15,938	-	15,938
Private Equity	-	-	2,257	2,257
Government Bond	-	1,330	-	1,330
Illiquid Growth	-	-	967	967
Passive Equity	-	803	-	803
Short Duration Index Linked Bond	-	698	-	698
Global Equity	-	623	-	623
Long Term Income	-	-	588	588
Infrastructure	-	-	421	421
Non Government Bond	-	404	-	404
Cash	-	183	-	183
Long Duration Index Linked Bond	-	166	-	166
	-	20,145	4,233	24,378
BRASS and other AVCs	-	1,440	-	1,440
Substitution orders	-	-	754	754
Annuities	-	36	-	36
Cash and other assets	48	-	-	48
	48	21,621	4,987	26,656

DC Sections as at 31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
DC Pooled Fund	-	94	-	94
Cash and other assets	2	-	-	2
	2	94	-	96

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

DC Sections as at 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
DC Pooled Fund	-	82	-	82
Cash and other assets	3	-	-	3
	3	82	-	85

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

7. Current assets

	2018 £m	2017 £m
Contributions due from employers	26	28
PPF levies	8	10
Investment debtor	-	2
	34	40

At the year end £584,000 (2017: £687,000) of contributions on the schedules of contributions were not paid by their due date. Of this amount, £203,000 (2017: £443,000) has since been paid and £381,000 (2017: £244,000) remains outstanding as at the date of signing these financial statements.

8. Current liabilities

	2018 £m	2017 £m
Administration expenses	(2)	(5)
Benefits payable	(8)	(6)
Taxation and social security	(8)	(8)
Assets payable to the PPF	(28)	(36)
	(46)	(55)

9. Related party transactions

The Trustee and its subsidiaries, RPMI and RPMI Railpen, provide services to the Scheme (explained on pages 26 to 29). The charges payable, and those of external service providers, are detailed in note 5. At 31 December 2018, administration expenses within current liabilities included a liability of £2.4m in respect of these charges (2017: a liability of £2.9m).

At 31 December 2018, nine directors of the Trustee were members of the Scheme. Three of these directors were also Non-Executive Directors of RPMI and one director was also a Non-Executive Director of RPMI Railpen. One Executive Director of RPMI was also a member of the Scheme. Contributions received in respect of Trustee Directors who are members of the Scheme have been made in accordance with the Pension Trust Deed and Rules. All directors receive benefits on the same basis as other members of the Scheme. Certain directors of the Trustee and its subsidiaries receive remuneration, which is disclosed in the financial statements of those companies. The Scheme bears its share of this remuneration through recharges.

10. Employer-related investments

As at 31 December 2018, investments in employers amounted to no greater than 5% of the assets of the Scheme, and, for any single section, the investment in its sponsoring company was not greater than 5% of the assets of the section.

Investment securities issued by HM Government are excluded from the definition of employer-related investments for the purposes of these audited financial statements.

11. Net assets at the end of the year

The net assets of each section of the Scheme at 31 December 2018 are shown below:

Section	Employer	Total membership as at 31 December 2018	Net assets as at 31 December 2018 £m
Shared Cost Arrangement			
1994 Pensioners*	The Secretary of State for Transport	99,653	3,181
Abellio	Abellio Transport Holdings Ltd	50	9
Abellio Scotrail	Abellio ScotRail Ltd	9,010	763
AECOM	AECOM Infrastructure & Environment UK Limited	213	50
Alpha Trains	Alpha Trains (UK) Limited	27	9
ALSTOM Railways	ALSTOM Transport UK Limited	2,272	171
ALSTOM Signalling	ALSTOM Transport UK Limited	84	24
AMCO	Amalgamated Construction Ltd	17	2
Amey Rail	Amey Services Limited	2,409	209
Angel Trains	Angel Trains Limited	234	61
Anglia Railways	Abellio East Anglia Limited	1,004	112
Atkins	Atkins Limited	852	237
ATOC Limited	ATOC Limited	654	61
Atos	ATOS IT Services UK Limited Atos UK International IT Services Limited	1,102	210
Babcock Rail Ltd	Babcock Rail Limited	2,288	253
Balfour Beatty	Balfour Beatty Group Employment Limited	3,067	322
BAM Nuttall	BAM Nuttall Limited	10	2
Bombardier Transportation (Signal) UK	Bombardier Transportation UK Ltd	371	47
Bombardier Transportation C2C	Bombardier Transportation UK Ltd	163	9

Section	Employer	Total membership as at 31 December 2018	Net assets as at 31 December 2018 £m
Bombardier Transportation UK	Bombardier Transportation UK Ltd	1,173	117
BR*	The Secretary of State for Transport BRB (Residuary) Limited Channel Tunnel Rail Link Limited London & Continental Railways Limited London Underground Limited Scottish Ministers	896	141
British Transport Police	British Transport Police Authority	4,927	161
BT	British Telecommunications PLC	315	18
BUPA Occupational Health	Occupational Health Care Limited	97	11
Carillion Rail (Centrac)	Carillion Construction Limited***	358	37
Carillion Rail (GTRM)	Carillion Construction Limited***	3,960	272
Carlisle Cleaning Services	Carlisle Cleaning Services Limited	61	2
Chiltern Railway Company Limited (Maintenance)	The Chiltern Railway Company Limited	294	26
Clientlogic	Clientlogic (UK) Limited	63	5
Colas Rail	Colas Rail Limited	2,206	186
COMATEC	COMATEC UK Limited**	28	2
Crossrail	Crossrail Limited	967	71
CSC Computer Sciences	CSC Computer Sciences Limited	11	1
DB Cargo (UK) Ltd	DB Cargo Rail (UK) Limited DB Cargo Rail Services Limited DB Cargo Rail (UK) Holdings Limited Engineering Support Group Limited DB Cargo International Limited	10,477	1,180
East Coast Main Line	London North Eastern Railway Limited	8,581	593
East Midlands	East Midlands Trains Limited	4,864	386
Eurostar	Eurostar International Limited	4,544	437

Section	Employer	Total membership as at 31 December 2018	Net assets as at 31 December 2018 £m
Eversholt Rail Limited	Eversholt Rail (UK) Limited	116	42
First Great Western	First Greater Western Limited	13,481	986
Freightliner	Freightliner Limited Freightliner Heavy Haul Limited Freightliner Maintenance Limited Management Consortium Bid Limited	3,745	413
GB Railfreight	GB Railfreight Limited	398	62
Gemini Rail Services	Gemini Rail Services UK Ltd	64	2
Global Crossing	Century Link Communications UK Limited	231	46
Govia Thameslink Railway (Southern & Gatwick Express)	Govia Thameslink Railway Limited	10,928	699
Govia Thameslink Railway	Govia Thameslink Railway Limited	6,973	449
Great Eastern Railway	Abellio East Anglia Limited	2,210	233
Halcrow Rail	Halcrow Group Limited	239	51
HS1	HS1 Limited	34	9
Hull Trains	Hull Trains Company Limited	100	9
Intelenet Global BPO (UK) Limited	Intelenet Global BPO (UK) Limited**	6	-
Island Line	First MTR South Western Trains Limited	92	8
ISS Transport Services	ISS Facility Services Limited	213	7
Keolis Amey Operations/ Gweithrediadau Keolis Amey	Keolis Amey Wales Cymru Limited	4,081	372
London & South Eastern Railway Limited	London & South Eastern Railway Limited	10,155	799
London and North Western Railway	London and North Western Railway Company Limited	66	10
London Eastern Railway (West Anglia)	Abellio East Anglia Limited	1,005	109

Section	Employer	Total membership as at 31 December 2018	Net assets as at 31 December 2018 £m
London Overground	Arriva Rail London Limited	2,280	178
London Underground	London Underground Limited	45	2
Merseyrail	Merseyrail Electrics 2002 Limited	2,686	209
MITIE Facilities Services	MITIE Limited	41	1
Mouchel Parkman Rail Limited	Kier Rail Limited	5	1
MTR Crossrail	MTR Corporation (Crossrail) Limited	765	57
National Express Services Limited	National Express Services Limited**	140	3
Network Rail	Network Rail Infrastructure Limited	48,113	6,791
New Cross Country	XC Trains Limited	4,451	423
Northern (ex North East)	Arriva Rail North Limited	6,118	545
Northern (ex North West)	Arriva Rail North Limited	5,798	465
Omnibus*****	Aggregate Industries UK Ltd	774	113
	Belmond (UK) Limited		
	Bombardier Transportation UK Ltd		
	CapGemini UK Plc		
	Cats Solutions Ltd		
	CSC Computer Sciences Limited		
	Daisy IT Services Limited		
	DHL Services Limited		
	Forth and Oban Limited		
	Harsco Rail Limited		
	Integral Ltd		
	Interserve (FM) Ltd		
	Keolis (UK) Limited		
	Loram UK Ltd		
	Lorne Stewart PLC		

Section	Employer	Total membership as at 31 December 2018	Net assets as at 31 December 2018 £m
	MITIE Cleaning & Environmental Services Limited		
	MITIE Technical Facilities Management Limited		
	O2 Unify Limited		
	Servest Group Limited		
	Signet Solutions Limited		
	Stagecoach Supertram Maintenance Ltd		
	Telent Technology Services Limited		
	TTEC (UK) Limited		
	Voestalpine VAE UK Ltd		
	VolkerRail Specialist Businesses Limited		
	Vossloh Cogifer UK Limited		
	Weedfree Limited		
	West Coast Railway Company Ltd		
Owen Williams Railways	Amey Services Limited	371	70
Porterbrook	Porterbrook Leasing Company Limited Porterbrook Maintenance Limited	176	45
Qjump	Qjump Limited	125	5
Rail Gourmet UK Limited	Rail Gourmet UK Limited Rail Gourmet International Limited	420	33
Resonate Group (Link)	Resonate Group Limited	198	35
Resonate Group (Rail)	Resonate Group Limited	273	76
Resonate Group (TCI)	Resonate Group Limited	123	29
RPMI	RPMI Limited	796	83
RSSB	Rail Safety and Standards Board Limited	655	97
Serco	SERCO Limited	547	65

Section	Employer	Total membership as at 31 December 2018	Net assets as at 31 December 2018 £m
Serco Caledonian Sleepers	Serco Caledonian Sleepers Limited	154	8
Siemens	Siemens PLC Siemens Mobility Limited	91	12
SNC-Lavalin Rail & Transit Limited	SNC-Lavalin Rail & Transit Limited	330	58
Socotec UK Limited	Socotec UK Limited Socotec Asbestos Limited	296	30
South Western Railway	First MTR South Western Trains Limited	12,234	915
Specialist Computer Centres	Specialist Computer Centres PLC	30	3
Stadler Rail	Stadler Rail Service UK Limited	152	1
Swirl Service Group****	ISS Facility Services Limited	8	-
Thales Information Systems	Thales UK Limited	21	5
Thales Transport and Security	Thales Transport and Security Limited Thales UK Limited Thales Ground Transportation Systems UK Limited	1,915	300
The Chiltern Railway Company Limited	The Chiltern Railway Company Limited	1,563	149
The QSS Group Limited	The QSS Group Limited RIQC Limited	75	10
Torrent Trackside Limited	Torrent Trackside Limited	10	1
TransPennine Express (Former Arriva Trains Northern)	First Transpennine Express Limited	1,101	110
TransPennine Express (Former North Western Trains)	First Transpennine Express Limited	695	58
Trenitalia c2c Limited	Trenitalia c2c Limited	1,776	120
TSP Projects	TSP Projects Limited	548	54
Unipart Rail - NRS	Unipart Rail Limited	601	67

Section	Employer	Total membership as at 31 December 2018	Net assets as at 31 December 2018 £m
Unipart Rail - Railpart	Unipart Rail Limited	349	53
Unisys	Unisys Limited	30	4
UPS	UPS Limited	342	46
Voith	Leadec Limited	21	2
Voyages-sncf UK Limited	Voyages-sncf UK Limited	38	10
Wabtec Rail Limited	Wabtec Rail Limited	10	2
West Coast Traincare	ALSTOM Transport UK Limited	1,021	129
West Coast Trains Limited	West Coast Trains Limited	8,499	707
Westinghouse Rail Systems	Siemens Mobility Limited	895	221
West Midlands Trains	West Midlands Trains Limited	6,543	513
Worldline IT Services UK Limited	Worldline IT Services UK Limited	163	59
Wrexham, Shropshire & Marylebone Railway Company	Wrexham, Shropshire & Marylebone Railway Company Limited**	27	1
Shared Cost Arrangement Total		335,877	26,658

Defined contribution arrangement			
	c2c Rail Limited****	18	-
	Wales and West Passenger Trains Ltd****	2	-
	West Anglia Great Northern Railway Ltd****	84	-
Defined Contribution Arrangement Total		104	-

Section	Employer	Total membership as at 31 December 2018	Net assets as at 31 December 2018 £m
Industry-Wide Defined Contribution Section			
	Abellio Greater Anglia Ltd	8,114	94
	Abellio East Anglia Limited		
	Arriva Rail North Limited		
	Babcock Rail Limited		
	East Coast Main Line Company Limited		
	East Midlands Trains Limited		
	Eversholt Rail (UK) Limited		
	First MTR South Western Trains Limited		
	First Transpennine Express Limited		
	Freightliner Limited		
	GB Railfreight Limited		
	Hull Trains Company Limited		
	MTR Corporation (Crossrail) Limited		
	Porterbrook Leasing Company Limited		
	Qjump Limited		
	Rail Gourmet UK Limited		
	Rail Gourmet Waterloo International Limited		
	RPMI Limited		
	Southern Railway Limited		
	Swietelsky Construction Company Ltd		
	Tata Steel UK Limited		
	The Chiltern Railway Company Limited		
	Tram Operations Limited		
	Unipart Rail Limited		
	VolkerRail Limited		
	Total	344,095	26,752

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

- * Denotes sections with a Crown Guarantee.
- ** Denotes employers that were in administration or no longer trading as at 31 December 2018.
- *** Denotes employers that were in administration as at 31 December 2018 and sections that are currently in a PPF assessment period.
- **** Denotes sections with assets less than £0.5m.
- ***** List only includes Omnibus employers with active membership.

12. Contingent liabilities

In October 2018 the High Court ruled that the Lloyds Banking Group Pension Schemes must equalise benefits between females and males who have GMP because of contracted out benefits. This ruling has impact on the RPS in terms of the historical benefits paid to pensioners. As discussed within the Chair's Introduction, the Trustee is still in the process of reaching a reliable estimate for the impact of this ruling.



Statement of Trustee responsibilities

...in relation to Audited Financial Statements

The Trustee was one of thirteen international asset owners to launch the Transition Pathway Initiative (TPI) which aims to embed climate concerns in investment decisions.

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

- (i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- (ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for:

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

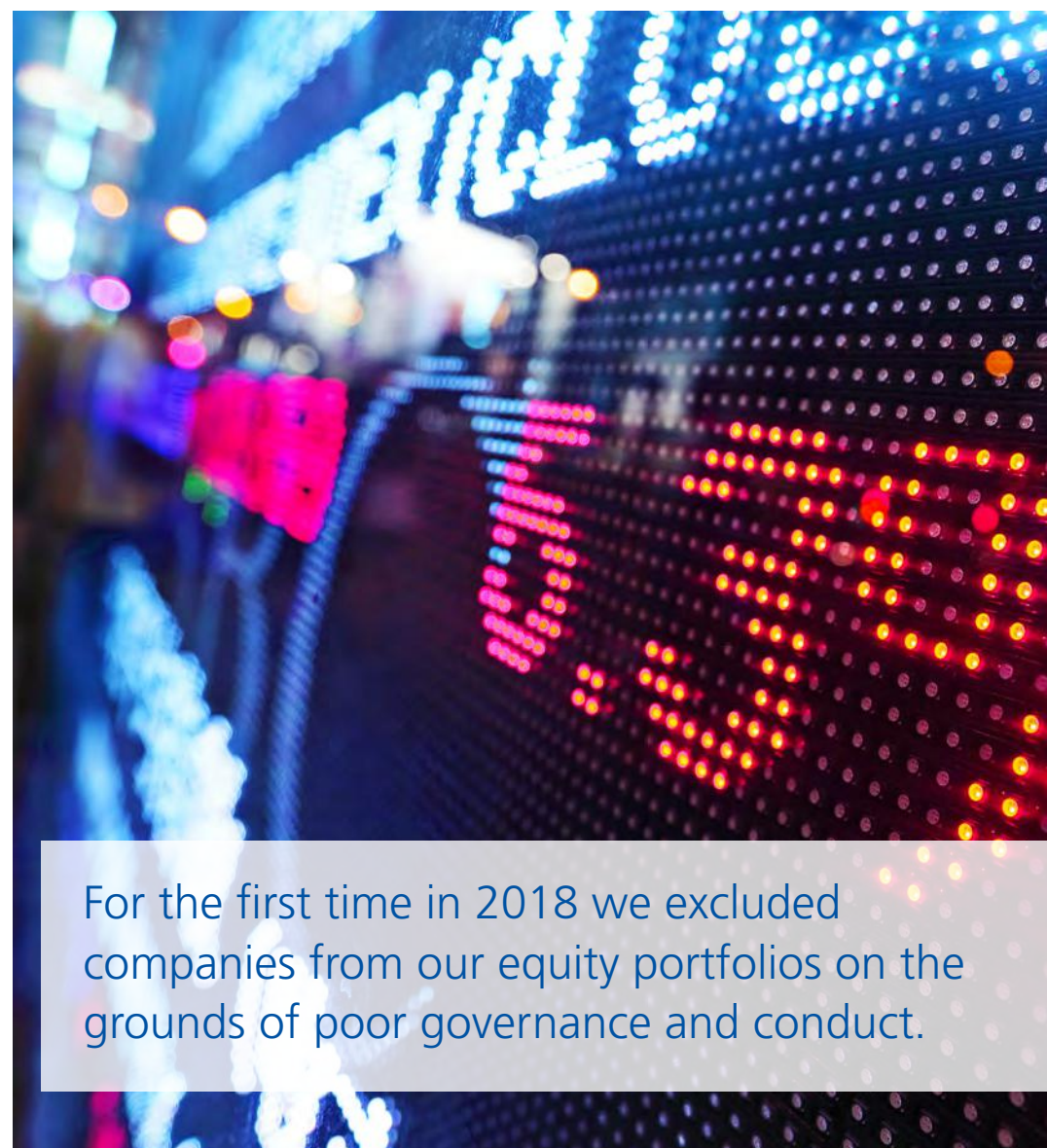
- making available each year, commonly in the form of a Trustee annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

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

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

Approval of the accounts

The financial statements have been prepared and audited in accordance with regulations made under Sections 41 (1) and (6) of the Pensions Act 1995. The directors of the Trustee Company approved this report on 15 May 2019.



For the first time in 2018 we excluded companies from our equity portfolios on the grounds of poor governance and conduct.

The background of the slide is a complex financial chart. It features a primary candlestick chart in white and light blue, overlaid with several moving average lines in red, white, and blue. The chart is set against a dark blue background with a grid of light blue lines. Various numerical values are scattered across the chart, including '7000', '6500', '6000', '6724', '5219', '-67', '-54', '-24', '3421', and '3742'.

The Trustee Company Annual Report

The Trustee, on behalf of the Scheme, has a long history as an active and engaged shareholder, with a strong heritage in corporate governance.

Railways Pension Trustee Company Limited

The Trustee is the trustee of four railway industry pension schemes. Two of these schemes are open to new members: the RPS and the British Transport Police Force Superannuation Fund. All the pension schemes participate in the pooled fund structure.

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

Pension schemes for which the Trustee is the trustee

Membership statistics at 31 December

	2018 No.	2017 No.
Railways Pension Scheme	344,095	340,419
British Transport Police Force Superannuation Fund	6,982	6,805
British Railways Superannuation Fund	2,384	2,595
BR (1974) Fund	1,406	1,604
	354,867	351,423

Railtrust Holdings Limited

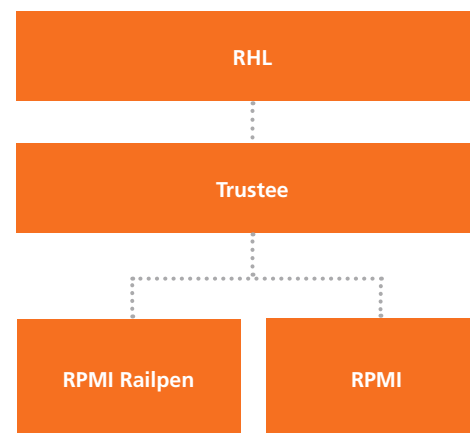
The Trustee is owned by RHL, a company limited by guarantee. Designated employers of sections in the RPS, Omnibus employers in the RPS, Industry-Wide DC employers in the RPS and the principal employers of the other schemes of which the Trustee is a trustee are all encouraged to become a member of RHL.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

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

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 preserved members). Roughly a third of the directors retire by rotation every two years. The term of office is six years.

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

The structure of the Trustee group as at 31 December 2018



Operating Companies

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

A brief description of the governance arrangements for each of the two operating subsidiaries and their activities during 2018 are set out, as follows:

RPMI

RPMI employs around 400 staff across three offices in Coventry, Darlington and London.










RPMI carries out activities on behalf of the Trustee including:

- administration and payment of pensions;
- advisory and support services for the Trustee Board, its committees and Pensions and Management Committees;
- commission and oversight of the work of external advisors such as actuaries and lawyers;
- preparation of and maintenance of accounts for schemes, pooled funds and sections; and
- arrangement of safe custody of assets.

RPMI also supplies personnel and infrastructure to RPMI Railpen to enable it to manage the Scheme's assets.

RPMI Board

RPMI's activities are overseen by the RPMI Board, whose membership in 2018 was as follows:

	Name	Position
	Chandrasekhar Ramamurthy (Chair)	Independent Director
	Julian Cripps	Managing Director, Investments Business
	David Gott	Trustee Director
	Christopher Hannon	Trustee Director
	Richard Jones	Trustee Director
	David Maddison	Managing Director, Scheme
	Paul Sturgess ¹	Managing Director, Pensions
	Gary Towse	Trustee Director
	Philip Willcock ²	Chief Executive

1. Paul Sturgess was appointed on 1 February 2018.
2. Philip Willcock was appointed as Chief Executive on 1 February 2018 and resigned as Chief Executive with effect from 28 February 2019. John Chilman has been appointed as Chief Executive with effect from June 2019.

The RPMI Board has two formal sub-committees; a Mutual Committee, which oversees the correct allocation of costs, revenues and distributions between Trustee business and non-Trustee business; and a Remuneration Committee, which oversees pay and reward issues in RPMI and sets pay for Executive Directors and senior officers.

RPMI activities

Project Chrysalis ('Chrysalis') is a project to replace the pensions administration system RPMI uses for the railways pension schemes and modernises the way it delivers its services through multi-channel distribution. Chrysalis remained the most significant strategic project for the RPMI Board in 2018 and technical go live was achieved post year end on 8 March 2019. There will be a phased programme of transferring active and preserved members onto the new system.

Significant RPMI resources have been required to manage Chrysalis in recent years. The project has not been without its challenges. Whilst such challenges are not uncommon in large IT projects, the RPMI Board was far from complacent, taking a keen interest in progress and holding officers and suppliers to account. Despite the challenges of the programme, the RPMI Board focus has also been spent ensuring that regular business activities continued to be concluded satisfactorily. In respect of these activities, service standards were maintained and RPMI's financial performance was marginally below target for the year, essentially allowing for investment to be made in our IT Infrastructure and People team functions.








The RPMI Board continued to increase the resource it supplied to RPMI Railpen during the year in order to facilitate selective in-sourcing of investment management, saving overall costs for the Trustee. For more information, see 'Activity of RPMI Railpen'.

RPMI Railpen

RPMI Railpen is authorised by the FCA to carry out investment management and related activities on behalf of its client, the Trustee. An Investment Management Agreement between the Trustee and RPMI Railpen sets out the terms of the Trustee's delegation to RPMI Railpen.

RPMI Railpen does not employ its own staff. Rather, staff and other resources are procured from RPMI. RPMI Railpen's access to these resources is set out in secondment letters for key individuals and in a service agreement between the two companies.

During 2018, the membership of Railpen Investment Board was as follows:

	Name	Position
	Paul Trickett (Chair)	Independent Director
	Carl Bang ¹	Independent Director
	Meliha Duymaz Oludipe	Trustee Director
	Angeliem Kemna ²	Independent Director
	John Mayfield	Trustee Director
	Karl Sternberg	Independent Director
	Philip Willcock ³	Chief Executive

1. Carl Bang was appointed on 1 October 2018.
2. Angeliem Kemna resigned with effect from 31 December 2018.
3. Philip Willcock was appointed on 1 February 2018 and resigned with effect from 28 February 2019.

Activity of RPMI Railpen

Under its Investment Management Agreement with the Trustee, RPMI Railpen is responsible for managing the investments of the pooled funds into which Scheme assets are grouped. RIB is responsible to the Trustee Board for the investment performance of the pooled funds, with appropriate emphasis on achieving long-term objectives consistent with actuarial funding requirements. The Growth Pooled Fund, which represents approximately two-thirds of Scheme assets, has a long-term performance objective of achieving 4% per annum above the RPI. Growth Pooled Fund performance is also checked against a passive Reference Portfolio (75% equities, 25% bonds) to provide shorter term information on progress. RIB expects that, over time, the Growth Fund return needs to exceed that of the Reference Portfolio by around 1% per annum to achieve its long-term performance objective. Other pooled funds have performance objectives tailored to their roles in meeting the needs of stakeholders. Further details can be found in Appendix J.

RIB approves strategic plans for each of the pooled funds at the end of each year. These provide a road map for the direction of each portfolio over the coming year and the resources to be applied to it.

RIB delegates the day-to-day management of the pooled funds to the executive team. The Chief Investment Officer is responsible for the investment of public, private and property market assets in the pooled fund range. This position is accountable to the Chief Fiduciary Officer, Investments, who determines the high level investment strategy, needs and risk appetite of the Scheme. These positions report to the Managing Director, Investments Business, who also oversees investment operational activities, safe custody, accounting, legal and compliance and reports to the Chief Executive.

Overall 2018 was a challenging year for investment markets. After a sustained period of quantitative easing, interest rates began to rise and the global economy was unsettled by growing trade tensions between China and the US. Closer to home, Brexit continued to dominate the headlines and cause considerable uncertainty for businesses and dented consumer confidence. Equities ended the year at, or around, lows for the year with the MSCI ACWI returning -4% in GBP and global government bonds remaining in positive territory with GBP hedged returns of around 3%.

Against this backdrop the Growth Pooled Fund (£17.7bn) performed reasonably, down 4.6% net of fees and expenses, relative to the Reference Portfolio which was down 4.4%. However, the fund markedly underperformed the RPI plus 4% comparator of 6.8%.

The other public markets funds performed much in line with their respective comparators:

- Passive Equity (£803.4m) down 8.3% vs 8.7%;
- Global Equity (£663.0m) down 8.0% vs 8.2%;
- Government Bond (£1.5bn) up 0.7% vs 0.7%;
- Non Government Bond (£427.1m) down 2.7% vs 2.7%;
- Long Duration Index Linked Bond (£198.0m) down 1.4% vs 1.6%;
- Short Duration Index Linked Bond (£792.2m) up 1.7% vs 1.8%; and
- Cash Pooled Fund (£194.6m) up 0.6% vs 0.6%.

The Private Market return seeking funds performed particularly well with the Private Equity Fund (£2.4bn) up 32.0% and the Illiquid Growth Fund (£1.0bn) up 18.7%, both markedly ahead of their RPI+5% comparator.

We continued to increase the quantum of assets managed internally. By the end of the year we were directly managing a total of £21.5bn of public market exposures vs £16.3bn at the end of 2017. This included £10.1bn in direct securities (government bonds £3.8bn, equities £6.3bn), £2.1bn in property, £1.7bn in index derivatives and £7.6bn in forward FX positions.

Over the course of the year we completed the range of internally managed Alternative Risk Premia portfolio with the launch of our Low Volatility and Quality portfolios. Meanwhile the property team was active with a series of purchases investing £185m and sales raising £47m, whilst also undertaking over 100 transactions which added c.£40m of value to the fund.

The investment environment for illiquid assets felt ‘late cycle’ and expensive with prices at or near all-time highs so we made relatively few investments in the core private equity and private debt markets. The flip side of this is that we continued to see strong liquidity from our legacy investments as managers capitalized on high exit valuations.

The Sustainable Ownership team also made strong progress focusing our ESG (Environmental, Social and Governance) agenda and introducing zero tolerance for market miscreants. We welcomed thirteen new employees to the business, a number of them being senior women which has helped us address our gender pay gap.

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:

Electoral Group	Number of Directors
Passenger train operating companies	3
Network Rail	2
Freight train operating companies and support service	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, preserved members 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 preserved member 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 2018, their date of retirement by rotation, and nominating constituency.

	Name	Nominating Constituency	Date of retirement by rotation
	Christopher Hannon (Chair from 19 March 2019) ¹	Freight train operating companies and support services	2022
	John Chilman (Chair until 19 March 2019) ²	Passenger train operating companies	2024
	Meliha Duymaz Oludipe	Network Rail	2020
	Mark Engelbretson	Network Rail	2024
	John Hamilton	Passenger train operating companies	2020
	Richard Jones	All employers	2022
	Christine Kernoghan	Passenger train operating companies	2022
	John Wilson	Freight train operating companies and support services	2020

1. Christopher Hannon was appointed as Chair with effect from 19 March 2019.
2. John Chilman resigned as Chair and a Trustee Director with effect from 19 March 2019.

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. Other organisations the directors consider to be representative of the employees may also be included.

Nominations for the two directors representing the pensioner members (including preserved members) are sought from the British Transport Pensioners’ Federation, the Retired Railway Officers’ Society, the railway trade unions and the British Transport Police Federation. Other organisations the directors consider to be representative of the employees may also be included.

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

The next chart shows the current employee Trustee Directors as at the end of December 2018, their date of retirement by rotation, and nominating organisation.

	Name	Nominating Constituency	Date of retirement by rotation
	Anthony Cotgreave ¹	Pensioners' Federation	2020
	Gerard Doherty ²	Transport Salaried Staffs' Association	2024
	David Gott	RMT and the Management Committee of the BRSF	2024
	Charles Harding	CSEU	2020
	Michael Lynch	RMT	2022
	John Mayfield	RROS	2020
	Gary Towse	Management Committee of the BRSF and British Transport Police Federation	2022
	David Tyson	ASLEF	2022

1. Anthony Cotgreave has tendered his resignation from the Board with effect from 30 June 2019.
2. Gerard Doherty was appointed on 20 June 2018.

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 24 Board and Committee meetings in 2018, in addition to various workshops, strategy events, and training seminars. Attendance is reported to the Board and published on pages 33 to 34.

Directors have a comprehensive training programme on appointment and throughout their tenure. They complete Training Skills Analyses and have individual, tailor-made training programmes, as well as a programme of training and workshops designed to support the Board as a whole and facilitate effective succession planning based on the Board's Skills Matrix. All Trustee Directors must complete a minimum standard which meets the Pensions Regulator's requirements prior to 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, information relevant to their role is easily accessible to them electronically in one convenient place, alongside all Board and Committee papers.

Exposure of investments

RPS assets are invested in a number of pooled investment vehicles that operate as internal unit trusts. These offer the RPS the ability to invest in a wide range of investments including UK and foreign equities, bonds, hedge funds, private equity, property and infrastructure.

Each of these types of investments has its own risks associated with it, therefore the asset classes that the RPS is invested in are closely monitored to ensure that assets are not exposed to unnecessary risk as a result of investment choices. Further details of pooled fund investment exposures can be found within the consolidated pooled fund accounts in Appendix J.

Pension Protection Fund

The PPF became operational on 6 April 2005 and impacts upon most defined benefit schemes in the UK which have to pay levies to the PPF. The PPF will pay compensation to members of eligible defined benefit schemes when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover PPF levels of compensation. Schemes or sections with a Crown Guarantee are ineligible to join the PPF and therefore do not pay the PPF levy.

Insolvent employers

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

In addition to the above companies, there are some other participating employers within the RPS that are no longer trading or who are in administration. Further details are given in Note 11 of the Audited Financial Statements.

The Trustee Directors during 2018

1. Christopher Hannon

(Chair of the Trustee from 19 March 2019, Chair of the Integrated Funding Committee)

Chris joined Freightliner Group Limited as their Pensions Director in September 2016, having served for the previous 12 years as Head of Pensions at Network Rail, where he was responsible for the management and operation of its defined benefit and defined contribution pension schemes. He has over 30 years of company pensions experience and has held management and trustee supporting roles with several private sector employers, including Safeway Supermarkets plc and Thomas Cook Group.

Chris was appointed a director of the Trustee Company following his nomination by Network Rail in 2005, he was re-elected in 2012 and then in 2016 was nominated on behalf of the Freight and Support Services Group. In January 2016 Chris was appointed as a Non-Executive Director of RPMI. Chris was appointed as Chair of the Trustee with effect from 19 March 2019.

2. John Chilman

(Chair of the Trustee to 19 March 2019)

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

John was appointed as a director of the Trustee Company in 2007 and has been re-elected three times. In 2014 John was appointed as Chair of the Trustee, and was re-elected in 2018. John stepped down as Chair with effect from 19 March 2019 to become Chief Executive of RPMI.

3. Anthony Cotgreave

(Chair of the Case Committee)

Tony was employed in the railway industry for 39 years until retiring in 1990. He has been a member of the 1994 Pensioners Section Pensions Committee since 1997 representing the British Transport Pensioners Federation and the Retired Railway Officers' Society. Tony was appointed as a Trustee Company Director in June 2005 and has tendered his resignation from the Board with effect from 30 June 2019.

4. Gerard Doherty

Gerry is a pensioner in the 1994 Pensioners Section of the RPS, having worked for the Operations Department of the British Railways Board for over 15 years. Gerry then joined the full-time staff of the Transport Salaried Staffs' Association (TSSA) as its Irish Secretary and after holding a number of positions he was elected as General Secretary in March 2004, serving in that position until taking retirement in November 2011.

Gerry served for a number of years on the General Council and the Executive Committee of the Trades Union Congress (TUC) and was also a member of the Commission for Integrated Transport (CfIT) until its demise in 2010. After he retired, Gerry was a director of South Central Youth (SCY), a charity devoted to deflecting young people from engaging in the gang culture prevalent in areas of south London. Gerry was appointed as a director of the Trustee Company in 2018.

5. Mark Engelbretson

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

6. David Gott

Dave joined British Rail in 1980 and worked in the signalling grades in the Lincoln/Retford areas. He was elected to the BRSF Management Committee in 2001 and elected to the Network Rail Pensions Committee in 2005.

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

7. John Hamilton

John is a Chartered Accountant and is the Group Taxation Director and the Director of Pensions and Employee Benefits at Stagecoach Group plc, where he is also an experienced trustee of the group's pension scheme. John was initially appointed a director of the Trustee Company in 2008, and was re-elected for another six year term in 2014.

8. Charles Harding

Charles has been a Senior CSEU Representative for over 20 years and was employed as an engineer by a leading rail freight company till 2015. He is a member of Unite the Union. Charles was appointed as a director of the Trustee Company in 2007.

9. Richard Jones (Chair of the Defined Contribution Committee from 1 January 2019)

Richard's 30-year railway career included engineering, commercial, corporate real estate and general management positions at BRB, Virgin, Alstom and AECOM. He was involved in the leadership and governance of the Scott Wilson Railways (now AECOM) RPS Section for over 10 years. Richard became a railways pensioner in 2018 and was subsequently appointed to a Civil Service role unrelated to the rail industry.

Richard is a Chartered Mechanical Engineer, an IoD Chartered Director and MBA graduate, and has non-executive experience with a Police Authority, including leading on pensions matters.

Richard was appointed as a director of the Trustee Company in March 2016. In January 2017, he was appointed as a Non-Executive Director of RPMI. In January 2019, Richard was appointed Chair of the Defined Contribution Committee.

10. Christine Kernoghan

Christine is the Head of Financial Services at South Western Rail Limited where she is responsible for management and operation of the pension scheme. She has been involved with the railways pension scheme for 23 years taking an active role in developing effective communications and improved administration. She is a long standing member of the South Western Rail Pension Committee. Christine was appointed a director of the Trustee Company in March 2016.

11. Michael Lynch

Mick is the Assistant General Secretary of the RMT, Britain's largest rail union. Before being elected as a union official in 2015 he worked for 22 years for Eurostar in fleet engineering. He was appointed as a director of the Trustee Company in 2015. Mick has served on the Eurostar Pensions Committee since it was established and is a member of the Network Rail Pensions Committee.

**12. John Mayfield
(Chair of the Audit and Risk Committee)**

John worked as the British Railways Board's Chief Internal Auditor and then as Finance Director at the British Rail Property Board until he retired in 1993. He is a past president of the Retired Railway Officers' Society. He was a member of the 1994 Pensioners Section Pensions Committee from 1994 to 1996 and was appointed as a director of the Trustee Company in 1996. In February 2014, he was appointed as a Non-Executive Director of RPMI Railpen.

13. Meliha Duymaz Oludipe

Meliha has been the Managing Director for Anglia Route Network Rail since July 2017. Before joining Network Rail, she worked for a diverse range of organisations including Serco Plc in the Docklands Light Railway, public relations group Hunstworth Plc and as an auditor in Turkey. Having spent 17 years as a finance professional in various industries, Meliha has extensive experience in franchising and bidding, outsourcing, financial and commercial management in complex organisations.

Meliha is a qualified Chartered Accountant with ACCA and holds an Economics & Business Administration degree. She was appointed as a director of the Trustee Company in March 2016 and a Non-Executive Director of RPMI Railpen in November 2017.

14. Stephen Richards

Stephen joined the rail industry in 1972. He has been the Transport Salaried Staffs' Association nominated director of the Trustee Company and its predecessor since February 1993. Stephen is also a member of the Atos Pensions Committee.

Stephen retired from the board in June 2018 and was replaced by Gerard Doherty.

15. Gary Towse

Gary joined the British Transport Police in 1974 and served in the South East Area. He was a Committee member of the British Transport Police Force Superannuation Fund from 1992 to 2006. He was elected the Treasurer of the British Transport Police Federation between 1996 and 2006. Gary was appointed as a director of the Trustee Company in 2004 and a Non-Executive Director of RPMI in 2009.

16. David Tyson

David worked in the rail industry as a train driver for 38 years and retired in 2018. He has served on the BR, Anglia and 1994 Pensioners Section Pensions Committees and he is the former president of ASLEF's Executive, which he served upon between 1994 and 2004. David was appointed as a Trustee Company director in February 2001 and was a Non-Executive Director of RPMI from 2009 until 2017.

**17. John Wilson
(Chair of the Defined Contribution Committee to 1 January 2019)**

John is an Actuary and was formerly employed by British Rail where he worked with others in establishing the Railways Pension Scheme. He has nearly 40 years' experience advising companies about their pension arrangements. John has been a member of the Pensions Committees of several sections of the RPS.

He was appointed a director of the Trustee Company in 2008. John stepped down as Chair of the Defined Contribution Committee with effect from 1 January 2019.



The Trustee Directors during 2018



14 15

Christopher Hannon
 (Chair of the Trustee from 19 March 2019, Chair of the Integrated Funding Committee)
Appointed by: Freight Train Operating Companies & Support Services
Term of office ending: 2022



9 9

John Chilman
 (Chair of the Trustee to 19 March 2019)
Appointed by: Passenger Train Operating Companies
Term of office ending: 2024



19 21

Anthony Cotgreave
 Chair of the Case Committee
Nominated by: British Transport Pensioners' Federation
Term of office ending: 2020



3 3

Gerard Doherty
Appointed by: Transport Salaried Staffs' Association (TSSA)
Term of office ending: 2024



20 21

Mark Engelbretson
Nominated by: Network Rail
Term of office ending: 2024



14 15

David Gott
Nominated by: National Union of Rail, Maritime & Transport Workers ('RMT') and British Railways Superannuation Fund (BRSF) Management Committee
Term of office ending: 2024



7 15

John Hamilton
Appointed by: Passenger Train Operating Companies
Term of office ending: 2020



14 16

Charles Harding
Nominated by: Confederation of Shipbuilding & Engineering Unions (CSEU)
Term of office ending: 2020



13 13

Richard Jones
Nominated by: All employers
Term of office ending: 2022

The Trustee Directors during 2018



15 15

Christine Kernoghan

Nominated by:
Passenger Train
Operating Companies

**Term of office
ending:** 2022



11 15

Michael Lynch

Appointed by:
National Union of
Rail, Maritime &
Transport Workers
(RMT)

**Term of office
ending:** 2022



9 9

John Mayfield

**Chair of the
Audit and Risk
Committee**

Nominated by:
Retired Railway
Officers' Society

**Term of office
ending:** 2020



7 9

**Meliha Duymaz
Oludipe**

Nominated by:
Network Rail

**Term of office
ending:** 2020



11 13

**Stephen
Richards**

Nominated by:
Transport Salaried
Staffs' Association
(TSSA)

**Term of office
ending:** 2018



11 13

Gary Towse

Nominated by:
British Railways
Superannuation Fund
(BRSF) Management
Committee and
British Transport
Police Federation

**Term of office
ending:** 2022



14 15

David Tyson

Nominated by:
Associated Society of
Locomotive Engineers
and Firemen (ASLEF)

**Term of office
ending:** 2022



22 25

John Wilson

Appointed by:
Freight Train
Operating Companies
and Support Services

**Term of office
ending:** 2020

















Trustee Board and committee meetings attended:

Number of meetings attended Number of meetings eligible to attend

Membership and activities of board and principal committees during 2018

Attendance at the Trustee Board is shown in the table below.

The Trustee Board maintains oversight of the RPS and has delegated certain functions to five principal committees.

Name	Number of meetings attended	Number of meetings eligible to attend
 Christopher Hannon (Chair from 19 March 2019) ¹	4	5
 John Chilman (Chair to 19 March 2019) ²	5	5
 Anthony Cotgreave	5	5
 Gerard Doherty ³	2	2
 Meliha Duymaz Oludipe	4	5
 Mark Engelbretson	5	5
 David Gott	5	5
 John Hamilton	2	5
 Charles Harding	3	5
 Richard Jones	5	5
 Christine Kernoghan	5	5
 Michael Lynch	4	5
 John Mayfield	5	5
 Stephen Richards ⁴	3	3
 Gary Towse	5	5
 David Tyson	5	5
John Wilson	5	5

1. Christopher Hannon was appointed Chair with effect from 19 March 2019.
2. John Chilman resigned as Chair and as a Trustee Director with effect from 19 March 2019.
3. Gerard Doherty was appointed to the Board on 20 June 2018.
4. Stephen Richards resigned from the Board on 20 June 2018.

In addition to the scheduled Trustee Board meetings, there were also ten special committee meetings during the year that 14 Trustee Directors were eligible to attend. In addition to formal meetings, Trustee Directors also attended several workshops, training events, and investment review meetings throughout the year.

A short report has been prepared on each of the Trustee Board's principal committees which provides an overview of the main activities of each committee during the year. The report also lists all meetings which Committee and Board members were eligible to attend. All Trustee Directors may, and some often do, attend meetings of the Trustee Board's committees in addition to those of which they are formally members.

Fees for Trustee Directors

The total fees paid to Trustee Directors are shown in the following table:

	2018	2017
Total remuneration paid to all Trustee Directors	£387,349	£377,883

The total fees paid during 2018 and 2017 fall within the following bandings:







Range	Number
£60,000 - £70,000	1
£30,000 - £40,000	2
£20,000 - £30,000	7
£0 - £20,000	6
Total	16

Note: the above table includes Trustee Directors who have waived their right to remuneration and those that have their remuneration paid directly to their employer.

Audit and Risk Committee ('ARC')

The ARC comprises six directors of the Trustee Board, and includes members with appropriate accounting qualifications and experience. External auditors and the Business Assurance team attend meetings at the invitation of the ARC, and relevant directors and officers of RPMI and RPMI Railpen also attend as appropriate.

Membership and attendance during 2018 are shown in the following table:

	Name	Number of meetings attended	Number of meetings eligible to attend
	John Mayfield (Chair)	4	4
	John Chilman ¹	4	4
	Meliha Duymaz Oludipe	3	4
	Charles Harding	4	4
	Richard Jones	4	4
	Gary Towse	3	4

1. John Chilman resigned from the Committee on 19 March 2019.

In addition to the above scheduled ARC meetings, there were also four RMC meetings during the year that all ARC members were eligible to attend.

The key responsibilities of ARC are outlined in a formal Terms of Reference which is regularly reviewed and updated and includes:

- recommending the appointment of the external auditor;
- reviewing the adoption of accounting principles and policies;
- reviewing all aspects of the annual accounts;
- approve the scope and programme of work of Business Assurance, and monitor delivery;
- reviewing the effectiveness of external audit and Business Assurance; and
- overseeing the control and risk management systems of the Trustee and operating companies.

ARC is scheduled to meet up to four times a year to discuss, consider and review the audit work of the external auditors, financial reporting arrangements, the work of the RPMI Business Assurance team and general internal control and risk management issues. The Committee also reviews the Annual Report and Audited Financial Statements prior to Board approval.

During 2018, ARC met on four occasions. It considered the Annual Report of Business Assurance covering its internal audit and assurance activities during 2017, received reports on the progress of the 2018 audit plans, and considered and approved the internal audit plan for 2018.

In addition, ARC received and considered reports from the Chair of the RMC summarising the activities of the RMC and its work in facilitating the Trustee's risk management process.

ARC co-ordinates and monitors the risk management process, ensuring that it is effective in identifying, evaluating and managing the key risks faced by the Trustee. On a day-to-day basis, this is delegated to members of the RMC, which met four times during 2018 and may be attended by representatives of ARC.

Financial reporting matters considered by ARC in 2018 included the Annual Report and Financial Statements of RHL and the Trustee, the railways pension schemes and pooled funds and the operating companies (RPMI and RPMI Railpen). ARC also received and considered the Report by the External Auditor on the 2017 Report and Financial Statements and the External Audit Strategy for 2018.

As part of these reviews, ARC has specifically considered the processes that enable reliable and relevant valuations of the Scheme's assets. The Trustee retains BNY Mellon to provide the valuation of quoted securities, and two independent property valuers for UK properties, Knight Frank and CBRE. BNY Mellon in turn relies, wherever possible, on independent sources of data, ensuring that the majority of the pooled fund's quoted assets are priced completely independently of the fund managers' valuations. In addition, as part of the audit of the year end financial statements, the external auditors perform their own independent valuation of pooled fund assets and compare this to the Trustee's valuation, reporting any material discrepancies to ARC. ARC is satisfied that these arrangements are robust.

More detail on the specific valuation principles adopted for each category of investments can be found in the accounting policies set out on page 13.










Other matters considered by ARC were the Internal Control Assurance Report (ISAE 3402 and AAF 01/06) prepared for the pensions administration business of RPMI for the period from 1 January 2016 to 31 December 2017, Trustee Expenses and Hospitality & Gifts Policy, an analysis of pooled fund costs, the provision of legal and actuarial services and the progress of Chrysalis.

ARC also receives reports of any significant security incidents or frauds and will consider any governance issues arising from external or internal reports via the Policy for Confidential Reporting of Concerns. There were no reports received under the Confidential Reporting of Concerns Policy. At each meeting of the Committee, private discussions are held in a closed session with the external auditors and the Head of Business Assurance.

ARC is satisfied that it has received sufficient, reliable and timely information to satisfy itself that the control and risk management systems are operating effectively.

Integrated Funding Committee ('IFC')

The IFC was established in 2014 to manage and agree integrated funding plans for the railways pension schemes and their sections, incorporating integrated risk management of employer covenant, investment strategy and funding issues. It determines the allocation of individual schemes' and sections' assets to the Trustee's pooled funds and decides on changes to schemes' and sections' benefit structures. The membership and attendance of the IFC during the year is shown in the following table:

	Name	Number of meetings attended	Number of meetings eligible to attend
	Christopher Hannon (Chair)	10	10
	Anthony Cotgreave	9	10
	Mark Engelbretson	9	10
	John Hamilton	5	10
	Michael Lynch	7	10
	Stephen Richards ¹	5	7
	Gary Towse ²	1	1
	David Tyson	9	10
	John Wilson	8	10

1. Stephen Richards resigned from the Committee on 20 June 2018.
2. Gary Towse was appointed to the Committee on 19 September 2018.

In addition to the nine scheduled IFC meetings, there was one additional meeting scheduled during the year.

Valuation

The actuarial valuation of the RPS as at 31 December 2016 is largely completed for the non-TOC sections. For the 2016 valuation, the Trustee has developed further its integrated funding approach which addresses funding, investment and employer covenant matters together. For sections which are closed to new entrants, the Trustee is adopting a term-dependent approach to setting discount rates which reflects the anticipated progression of the investment strategy as sections mature.

Each of the 106 sections of the RPS as at 31 December 2016 is treated as a separate entity with its own valuation results. This valuation method falls under the Pensions Act 2004, and means that agreement on the valuation results is needed from each sponsoring employer.

By the end of 2018, the Committee had agreed integrated funding proposals with most non-TOC employers. The Trustee has been actively engaged with TOC stakeholders during 2018 and progressing the valuations for each TOC section will be a key focus during 2019.

A report from the Scheme Actuary is included on pages 45 to 47 which refers to the requirement to produce individual Statements of Funding Principles and Schedules of Contributions for each section. The individual actuarial certificates of the latest completed valuation for each section have not been included in the annual report but are available on request from RPMI.

Employer covenant

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

The IFC has agreed a range of covenant enhancement proposals with employers to improve their covenant assessments. These include a range of guarantees, loan subordination agreements, and other security-enhancing arrangements.

As well as assessing employer strength for valuation purposes, the IFC also considered the impact of various corporate transactions and, where appropriate, agreed mitigation or covenant support arrangements with the employers.

Rule changes

During the year, the IFC agreed a range of benefit and contribution changes for individual sections of the RPS. Each proposal from an employer, after review by Pensions Committees where applicable, is considered in detail and the impact on funding and contributions assessed. Where such proposals are approved, changes are then reflected in the Rules of the section.

The IFC also progressed the changes to arrangements for specific sections resulting from corporate reorganisations within groups of sponsoring employers or changes to franchises affecting train operating companies.

Investments








The IFC reviews section-specific investment strategy and allocations to pooled funds. As part of the integrated funding approach, the IFC considers strategy within a framework which allows for individual section characteristics, such as maturity, strength of employer covenant and tolerance for illiquidity, to be taken into account when deciding the appropriate asset allocation. Investment strategies are thus considered as part of overall valuation proposals.

Settlement of liabilities

As sections mature, it is appropriate in some cases to reduce risk by passing liabilities to an insurance company. Bulk annuity policies have been bought which cover liabilities in three sections.

Case Committee ('CC')

The Case Committee meets to consider decisions on case work applications from individual members, where the decision making powers have not been delegated to a Pensions Committee or to RPMI. The membership and attendance of the CC during the year is shown in the following table:

	Name	Number of meetings attended	Number of meetings eligible to attend
	Anthony Cotgreave (Chair)	5	6
	Stephen Richards ¹	3	3
	Mark Engelbretson	6	6
	David Gott	6	6
	Charles Harding ²	3	3
	Christine Kernoghan	6	6
	John Wilson	6	6

1. Stephen Richards resigned from the Committee on 20 June 2018.
2. Charles Harding was appointed to the Committee on 20 June 2018.








In 2018, the CC held six scheduled meetings.

As at 31 December 2018, the CC had responsibility for 85 sections of the RPS and during 2018 considered and made decisions on 89 cases which can be categorised as follows:

- 30 applications and reviews of incapacity benefits;
- 34 applications for payment of lump sum death benefit;
- 3 appeals under stage 2 of the internal disputes resolution procedure;
- 7 applications for early payment of preserved benefits;
- 4 reviews of eligible dependant's pension after being in payment ten years;
- 9 Clause 7E - forfeiture of benefits cases;
- 1 Intersection Transfer of NRA 60 basis; and
- 1 Rule 18E Discretionary Benefits: application for payment of lump sum.

Defined Contribution Committee ('DCC')

The purpose of the DCC is to ensure appropriate management and governance of the AVC and DC arrangements of the railways pension schemes. These comprise BRASS, AVC Extra, the IWDC Section and the RPS Defined Contribution Arrangement (collectively the 'DC arrangements'). The membership and attendance of the DCC during 2018 is shown in the following table:

	Name	Number of meetings attended	Number of meetings eligible to attend
	Richard Jones (Chair from 1 Jan 2019) ¹	4	4
	John Wilson (Chair until 1 Jan 2019) ²	4	4
	Gerard Doherty ³	1	1
	David Gott	3	4
	Charles Harding	3	4
	Christine Kernoghan	4	4
	Gary Towse ⁴	3	4

1. Richard Jones was appointed Committee Chair from 1 January 2019.
2. John Wilson stepped down as Committee Chair with effect from 1 January 2019.
3. Gerard Doherty was appointed to the Committee on 19 September 2018.
4. Gary Towse resigned from the Committee on 19 September 2018.

The Trustee Board has delegated to the DCC responsibility for ensuring that the DC arrangements can deliver good outcomes for members at retirement, and finding the best ways to support members to achieve their objectives. It helps to shape and articulate the Trustee's policy on DC matters. The DCC's mission is to provide DC arrangements which are designed for the long term and offer good value for members. This includes default investment strategies which are suitable for the majority of members throughout their Scheme membership, and an appropriate range of fund choices for those who wish to self-select.

The DCC receives regular reports on the administration of the DC arrangements, reviews RPMI's administration service levels, and monitors the timeliness with which employers remit contributions and data. It sets and monitors the implementation of the Communications Strategy for the DC arrangements and approves RPMI's Guide to Services for the IWDC Section.

Responsibility for evaluating the investment performance of the DC arrangements and ensuring that the investment goals, objectives and characteristics of the DC funds are appropriate is within the DCC remit. It evaluates the performance of the underlying investments to ensure that they are fit for purpose. To do this, it oversees the types of investments offered, including the default options, the options available and members' choices at retirement, and how issues relating to investments in the DC arrangements are communicated to members. The DCC monitors members' investment choices and tailors communications to encourage them to make the best decisions for their circumstances and to plan for their future. The same suite of investment funds is offered to new members of all the DC arrangements, although the default lifestyle strategies may be slightly different to reflect the characteristics of the various arrangement.

The DCC conducts regular investment reviews to ensure the funds are being managed in accordance with the Trustee's objectives. A strategic review is being carried out during 2019 to assess the suitability of the fund range for the future, with a focus on delivering the best possible outcomes for members during the accumulation phase, at retirement, and beyond.

Each year the DCC undertakes a comprehensive assessment of the extent to which the DC arrangements offer good value for members. Its conclusions are included in the Defined Contribution Chair's Statement attached to this Report at Appendix H. This requirement, introduced by legislation in 2015, is designed to give members and employers confidence that the RPS offers high quality DC arrangements.

The DCC assessed the administration, communications, governance, and investment services provided to the Scheme, alongside the level of member-borne charges and available information about transaction costs. Work to deliver further improvements in value for members is due to complete in 2019, as part of the implementation of Chrysalis.

Making sure the DC arrangements are managed in line with the Trustee's DC Vision and Mission is the responsibility of the DCC.

The Trustee's DC Vision Statement is "for the railways pension schemes to be the DC offering of choice for rail employers and their members, to provide good outcomes for members at retirement".

The DC Vision Statement is supported by a framework of core principles, which set out the key areas to focus on to deliver the overall DC vision statement, and sub-principles, which support the achievement of each of the core principles and give direction to RPMI and RPMI Railpen concerning the operation of the DC arrangements in practice.

The DCC has continued to assess the DC arrangements against the requirements of the Pensions Regulator's code of practice and supporting guides to ensure compliance with legislation and the Regulator's expectations. It has also received regular updates on DC consultations, and statutory and regulatory developments. We will continue to engage with policymakers via consultation responses, and review as appropriate the operation of the railways pension schemes to ensure that they remain both compliant and attractive to employers and members.

The RPS IWDC Section retained its Pension Quality Mark (PQM) READY status following a reassessment in June 2018. As a PQM READY scheme, the Trustee and RPMI have demonstrated excellence in the IWDC Section's governance standards (including trustee training), the range of investment options, and its charges. The Section has also been recognised for its clear and comprehensive suite of member communications in both print and digital media. The first participating employer in the Section was awarded Pension Quality Mark PLUS (PQM PLUS) status in November 2015 and other participating employers are encouraged to apply for this certification to demonstrate to members that they are enrolled in a high quality occupational pension arrangement.

The Trustee has applied to the Pensions Regulator for the IWDC Section to become an Authorised Master Trust. This means that in future the Scheme's governance, systems and processes, and the fitness and competence of the Trustee will be supervised by the Regulator.

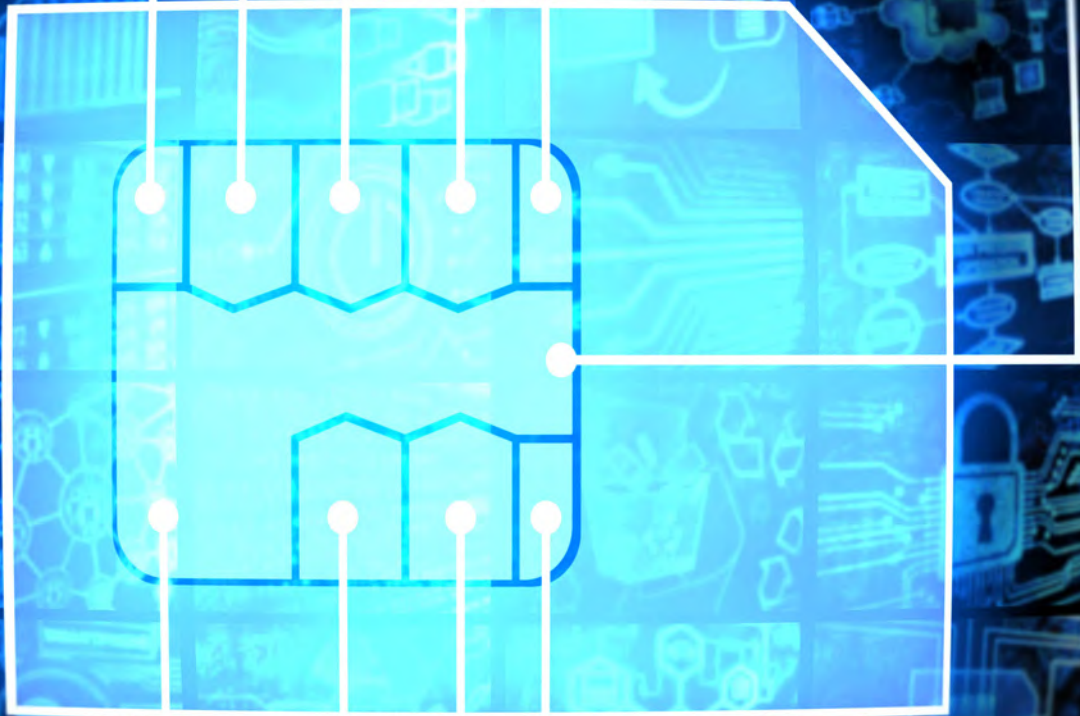
All members and assets were transferred from the DC Arrangement to the IWDC Section on 14 February 2019.

For and on behalf of the Trustee:

Christopher Hannon
Chair, Trustee Company

15 May 2019

The Trustee Investment Report



The Private Equity Pooled Fund produced an aggregate return of 32.0% in 2018.

Introduction

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

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

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

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

Investment management arrangements

The assets of the Scheme are invested through a number of pooled investment funds managed by RPMI Railpen, each with a different risk and return profile. These funds are managed as if they are internal unit trusts and each pooled fund is approved by HMRC. Each section holds units in some or all of the pooled funds. The use of these pooled funds enables sections to hold a broader range of investments more efficiently than may have been possible through direct ownership. In some cases, sections may also hold annuity contracts.

The range of pooled funds has been reviewed and simplified in recent years to ensure it is flexible enough to be tailored to the needs and particular circumstances of individual sections, while also allowing Scheme assets to be invested as much as possible as if they belonged to a single pension fund.

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

RPMI Railpen sets strategic portfolios for each of the multi-asset pooled funds on an annual basis. Each pooled fund has at least one performance comparator and risk parameters within which additional returns may be targeted. Within the pooled funds, RPMI Railpen is able to make use of internal and external fund management capabilities and both passive and active management as appropriate.

The use of external active management has declined substantially within the Scheme. In addition, fee structures in public markets have increasingly moved to flat fees with fewer performance-related payments. In private markets, fees are being reduced through an increase in co-investments and bespoke arrangements.

The focus for pooled fund management in 2018 has been efficient implementation of investments consistent with the agreed strategic portfolios.

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

Within the Growth Pooled Fund, RPMI Railpen has increased the allocation to internally managed portfolios for ARP strategies. These portfolios systematically target investment in equities that exhibit risk premia factors with an economic or behavioral rationale that are expected to provide additional returns over the long-term. Also within the equity portion, RPMI Railpen has gradually increased the allocation to the FGP, a concentrated portfolio investing in industry leading, innovative companies with sustainable structural earnings growth.

Within the property allocation, the in-house team have undertaken significant numbers of new lettings, lease renegotiations and rent reviews to increase the profitability of the portfolio. They have also completed a number of purchases and sales of UK commercial property.

The De-risking Fund Platform has a range of sub-funds with specific characteristics. These include the Government Bond Pooled Fund, Non Government Bond Pooled Fund, Long Duration Index Linked Bond Pooled Fund and Short Duration Index Linked Bond Pooled Fund. There have been no material changes to the De-risking Fund Platform and the focus remains on simple and effective implementation mainly by the in-house team.

Opportunistic investments

The Illiquid Growth Pooled Fund made further allocations during the course of the year, with a particular emphasis on opportunistic investments focused on the communication and innovation sectors. The largest commitment in 2018 was to Capital Constellation, a joint venture with two other large investors to provide seed capital to emerging private equity managers. The in-house team continues to build exposure to private

debt (lending to private companies) and manage significant distributions from legacy investments in the Private Equity and Infrastructure Funds. The Long Term Income Pooled Fund made a number of new allocations in 2018, the largest of which was in a secondary portfolio of infrastructure debt assets which provide good diversification to existing investments.

Investment strategy

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

Furthermore, the Trustee sets principles for the key aspects of section investment strategy, namely the expected 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 IFC uses these principles in assessing and agreeing the investment strategy for each individual section.

Each section's strategy is implemented through investment in the appropriate mix of the pooled funds operated by RPMI Railpen for the Trustee. Investment in return-seeking assets is usually made through the Growth Pooled Fund with a portion held in illiquid assets where appropriate. The De-risking Fund Platform and Long Term Income Pooled Fund are used for defensive assets. The exact mix of pooled funds used for investment strategy is determined for most sections by RPMI.

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

Liquidity of investments

Investments described in the financial statements as 'quoted' or 'exchange traded' are either listed on a recognised investment exchange, or traded in a secondary market where prices are usually readily available from a broker, dealer, industry group or other pricing service, and where those prices are representative of actual market transactions on an arm's length basis. These investments are assumed to be realisable at accounting fair value although, on occasion, markets may experience reduced liquidity, in which case it may not always be possible to realise such assets at short notice at prices at least equal or close to accounting fair value.

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

Economic commentary

Whilst 2017 saw a global growth environment, 2018 was a year in which growth expectations fell and disparities between countries began to emerge. The Chinese economy grew at its slowest annual rate since 1990 whilst the consensus for US growth expectations is for a slowdown in 2019 and 2020. These factors coupled with a year of political turmoil and trade tensions resulted in a period of

poor returns for risk (return-seeking) assets across the board and the return of market volatility.

In 2018, the US Federal Reserve ('The Fed') raised interest rates four times as it had promised on the back of strong employment figures and a growing economy. The Fed rate stood at 2.5% at year end. The Bank of England raised interest rates once during 2018 to 0.75% and the ECB refinancing rate remains at 0.0%. The ECB brought to an end its net asset purchases in December although it will reinvest principal payments from maturing securities.

The impact of this quantitative tightening remains unclear for markets but poses significant risks going into 2019. The Fed said it will likely hike interest rates twice more in 2019, but market pricing shows that some market participants doubt this. What is clear is that central banks have significantly less firepower to use in a negative growth scenario than they have previously.

There was divergence in global bond yields over 2018. The US remains well ahead of the UK, Eurozone and Japan in terms of their monetary tightening cycle and government bond yields reflected this. US yields rose 0.3% to 2.7%, UK yields were broadly flat finishing the year at 1.3% whilst the German 10 year yield fell to 0.2%. In November the spread between US and German yields reached its widest in three decades.

Global equities struggled in 2018. In February, trading strategies based on algorithms were blamed for increased volatility in equity markets. However, worse was to come in the fourth quarter as equities suffered their worst quarterly fall in seven years on the back of poorer outlooks for global growth and trade tensions, combined with a backdrop in which monetary stimulus may no longer come to the rescue. In net local currency terms, the global equity market, represented by

the MSCI All Countries World Index, was down 7.7% over the year, and emerging markets equities were down 10.1%. Corporate bond investors also suffered with the US corporate high yield index down 2.1%.

Of the major currencies, in trade weighted terms the Pound and Euro were down 2.6% and 2.4% in 2018 whilst the US Dollar rallied 4.4%. Despite all the negative geopolitical news, gold fell 1.5% over the year.

Finally, 2018 shed no light on the United Kingdom's potential exit from the European Union. However, scenario modelling has been undertaken to assess the potential impact of Brexit. Based on the Bank of England's three Brexit scenarios, the potential impact on capital values, exchange rates and liquidity has been analysed, and contingency plans prepared.

Investment performance

The Growth Pooled Fund, the largest of the pooled funds managed by RPMI Railpen, invests in a wide range of return-seeking assets. The asset allocation of the Growth Pooled Fund is flexible and will vary, taking into account changing market valuations, consistent with the Trustee's investment beliefs. The aim is to produce an investment return of 4% in excess of UK RPI over the long run. A reference portfolio of market indices (75% equities, 25% bonds) is also used as a comparator.

The largest portfolio allocation in the Growth Pooled Fund is to global equities and over the year the allocation remained around 65%. Other asset classes held within the Growth Pooled Fund include property, fixed income (high yield and emerging market debt) and total return assets. The Growth Pooled Fund also continues to have an allocation to US government bonds, a position that provides diversification and is expected to offer a potential

buffer in the event of a significant equity market downturn.

The Growth Pooled Fund return in 2018 was -4.6%, was below the RPI+4% comparator return and slightly behind the return for the reference portfolio. Over the past three years, the Growth Pooled Fund return of 7.6% per annum was ahead of the RPI+4% comparator and the reference portfolio.

The Passive Equity Pooled Fund is invested in line with a global index weighted by market capitalisation and produced a return of -8.3% in 2018 and 6.2% per annum over the past three years. The Global Equity Pooled Fund has fixed weights in major geographic regions and produced a return for the year of -8.0% and 8.8% per annum over the past three years.

The Private Equity Pooled Fund provides exposure to a highly diversified range of private market investments. It is made up of a series of sub-funds, each representing a different vintage of private equity investment. The Private Equity Pooled Fund produced an aggregate return of 32.0% in 2018 and 21.8% per annum over the past three years. Due to the unquoted nature of these investments, there is often a significant time lag for revised information on underlying investments to flow through to the Private Equity Pooled Fund valuation.

The Infrastructure Pooled Fund delivered a return of 13.9% for the year and 12.4% per annum over the past three years. As most of these investments are unquoted, there is often a significant time lag for revised information on underlying investments to flow through to the Infrastructure Pooled Fund valuation.

The Private Equity and Infrastructure pooled funds are closed to new investments although they still have some existing commitments being drawn

down. New investments in private markets are made by the Illiquid Growth Pooled Fund and the Long Term Income Pooled Fund. These funds are still in the early stages of committing capital for investment.

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

The Government Bond Pooled Fund is a UK government bond portfolio, managed internally by RPMI Railpen on a buy and maintain basis. The Government Bond Pooled Fund achieved a return of 0.7% for the year and 2.2% per annum over the past three years.

The Non Government Bond Pooled Fund is managed on a buy and maintain portfolio by an external fund manager and achieved a return of -2.7% for the year and 2.7% per annum over the past three years.

The Long Duration Index Linked Bond Pooled Fund invests in UK inflation-linked government bonds and is managed internally by RPMI Railpen on a buy and maintain basis. The Fund achieved a return of -1.4% for the year and 10.3% per annum over the past three years.

The Short Duration Index Linked Bond Pooled Fund was launched in October 2017. It is managed internally by RPMI Railpen on a buy and maintain basis. The Fund achieved a return of 1.7% for the year.

Information on the returns of all pooled funds can be found in Appendix J.

Section returns

There is a diverse range of different investment strategies amongst RPS sections, reflecting differences in terms of section liability profiles and employer covenants. In 2018, the investment return produced by section assets ranged between -6% and 3%, net of fees and costs. This range reflected the diversity of returns seen in the major asset classes over the year. The returns for most sections were in a narrower range from -1% to 1%.

Over a three-year period, the investment returns of RPS sections ranged from 4% to 10% per annum, while over a five-year time horizon the range of returns was 5% to 11% per annum. Over a ten-year time horizon, the range of returns was 7% to 10% per annum.

Securities lending

Securities lending forms part of the arrangements sanctioned by the regulatory authorities to maintain an orderly and more liquid securities market. Subject to the agreements in place and the constraints on certain portfolios, custodians are able to make a proportion of securities they hold available for lending to securities houses with short-term requirements. The lending does not impact on the fund managers' investment activities. In place of the lent securities, the pooled funds receive collateral in the form of other securities and/or cash that meet standards set on behalf of the Trustee. For any cash received as security the Agent Lender arranges for these to be reverse repurchased, and replaced by the appropriate securities.

As a result of operating these securities lending arrangements, the pooled funds receive revenues. The custodians also operate indemnification

programmes which protect the pooled funds against defaulting borrowers. The pooled funds retain economic exposure to the lent securities, for example by receiving dividends, but loses voting rights temporarily. The Trustee retains the right, however, to recall securities if an important vote is scheduled. A permanent restriction is in place that ensures that shares held in companies that are sponsoring employers of the Scheme are not included in the lending programme.

Government support

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

Self-investment

The Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 require investments to be diversified so that the failure of one does not affect the security of members' benefits as a whole. Investments in employers' businesses are also restricted to avoid the prospect of the employees losing their jobs and part of their pensions at the same time, should their employer's business fail.

The RPS is in a special position. It is a multi-employer scheme for non-associated employers, with actuarially independent sections. The rules for self-investment therefore apply on a section-by-section basis.

Investment decisions on the purchase and sale of employer-related investments are taken by external investment managers acting within discretions given to them by the Trustee.

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

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

The Scheme holdings in the DC Pooled Fund and other AVCs as at 31 December 2018 were £1,439.7m (2017: £1,533.0m).

The total value of these pooled funds as at 31 December 2018 was £1,446.6m (2017: £1,540.5m).

The AVC arrangements for the RPS, known as 'BRASS' and 'AVC Extra', are administered by RPMI. BRASS is open to all contributing members of the RPS defined benefit sections. AVC Extra is the second contribution top-up arrangement for contributing members of the RPS available to defined benefits sections other than the Network Rail section.

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

- level of outcome (long term return);
- variability of outcome (long term risk); and
- 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. 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.

These lifestyle options offer a changing asset mix over time, 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 target retirement age.

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

Five self-select funds are also available: Global Equity Fund, Long Term Growth Fund, Index Linked

and Global Bond Fund, Aggregate Bond Fund and Deposit Fund.

A further fund, the PAF, has been closed to new members since April 2003 and to new contributions since June 2007.

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

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

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



Revenue from recycling at our property assets is being used in sustainability projects like purchasing bee hives.



Report on Actuarial Liabilities

In 2018, the Trustee commissioned an Impact Mapping tool to identify the positive and negative impacts of our investments on people, the environment and society.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the relevant Employer and set out in a Statement of Funding Principles, which is available to Scheme members on request.

Most of the sections of the RPS are subject to the Pensions Act 2004, the exceptions to this being the 1994 Pensioners Section and the BR Shared Cost Section. Nevertheless, the valuations for these two sections are also carried out in a consistent manner with the requirements of the Act.

The results of the most recent full actuarial valuation formally completed for each section at the time of writing are summarised below:

Date of last valuation	Number of sections	Composite value of the sections' Technical Provisions £m	Composite value of the sections' assets £m
31 December 2010	1	43	35
31 December 2013	32	11,930	10,594
31 December 2015	1	31	31
31 December 2016	70	10,668	10,924

For those Sections that have not already completed a valuation as at 31 December 2016, such valuations are under way. There are two Sections which are currently in PPF assessment period. For these Sections the valuations as at 31 December 2016 are not expected to be completed and have been excluded from the summary above.

In addition to the summary above, for one Section an initial actuarial valuation as at 31 December 2015 and formal actuarial valuation as at 31 December 2016 have not yet been finalised.

Furthermore, initial valuations are being undertaken as at 31 December 2017 for one Section and as at 31 December 2018 for another section. These are sections which have been established since 31 December 2016 but where no formal valuations have yet taken place.

Method

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

sections have different assumptions. All assumptions adopted will be set out in each section's Statement of Funding Principles.

The actuarial method used in the calculation of the technical provisions is the Projected Accrued Benefit Method.

Significant actuarial assumptions

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

Discount rates:

- For sections which are sponsored by employers classified as passenger Train Operating Companies:
 - a single nominal discount rate of 5.68% pa.
- For other sections which are open to new entrants:
 - dual discount rates which differ depending on the Covenant Category of the section. The nominal discount rates assumed for each covenant category are summarised in the following table:

Covenant category	Pre-retirement discount rate % per annum	Post-retirement discount rate % per annum
Other Covenant Category 1 Sections	5.78	4.03
Open Covenant Category 2 Sections	5.27	3.41

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

Future Retail Price inflation: 3.00% per annum

Future Consumer Price inflation: 2.00% per annum

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

Mortality base tables:

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

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

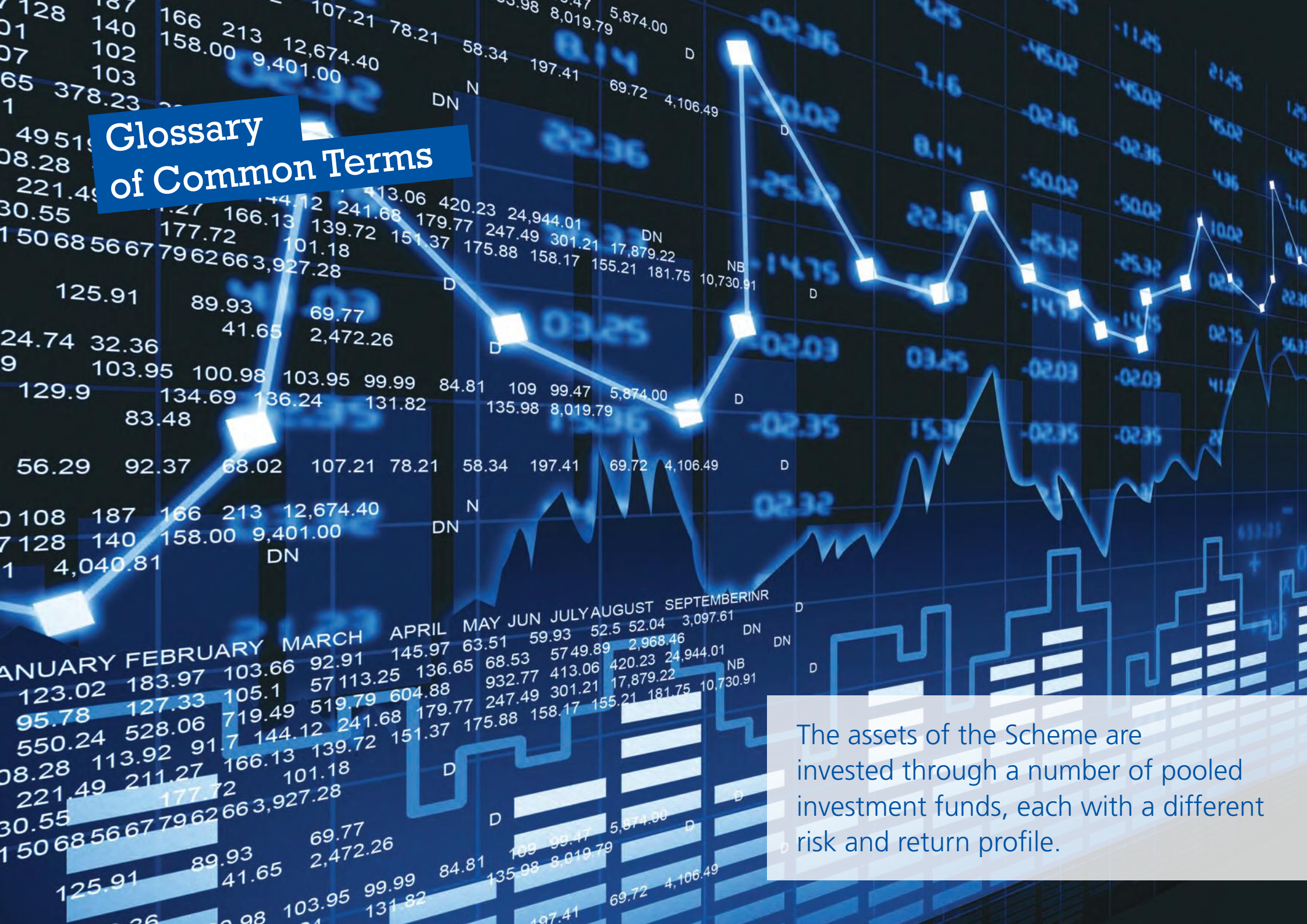
- S2 refers to the SAPS (self-administered pension schemes) mortality tables published by the CMI in February 2014 based on their mortality investigation over the period 2004-2011.
- The SAPS 'heavy' tables are based on mortality experience for pensioners and dependants with relatively low pension amounts.
- 'Normal' refers to pension scheme members who did not retire on grounds of ill health.

The overall resulting life expectancy assumed for each section depends on the proportion of members in each mortality group, which differs significantly between sections.

Future mortality improvements:

Allowance for future improvements in mortality from 1 January 2016 onwards has been made in line with the 2016 version of the 'CMI core projection' model published by the Institute and Faculty of Actuaries, assuming a long-term improvement rate of 1.5% pa. For the period 1 January 2007 to 31 December 2015 allowance for future improvements in mortality has been made in line with the 2015 version of the 'CMI core projection' model.

Glossary of Common Terms



The assets of the Scheme are invested through a number of pooled investment funds, each with a different risk and return profile.

Glossary of Common Terms

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

FX	Foreign exchange
GMP	Guaranteed Minimum Pension
ICAEW	Institute of Chartered Accountants in England and Wales
IFC	Integrated Funding Committee
IoD	Institute of Directors
ISAE	International Standard on Assurance Engagement
ITP	Investment Transformation Programme
IWDC	RPS Industry Wide Defined Contribution Section
LIBOR	London Interbank Offered Rate
Omnibus	Section open to employers with fewer than 50 employees
OTC	Over the counter
PAF	Pension Assured Fund
Pensioners' Federation	British Transport Pensioners' Federation
PPF	Pension Protection Fund
PQM	Pension Quality Mark
PRI	Principles for Responsible Investment
PRP	Pensionable Restructuring Premiums
RHL	Railtrust Holdings Limited
RIB	Railpen Investment Board
RMC	Risk Management Committee
RPMI	RPMI Limited
RRL	Return, risk and liquidity
RMT	National Union of Rail, Maritime and Transport Workers
RPMI Railpen	Railway Pension Investments Limited
RPS	Railways Pension Scheme
RROS	Retired Railway Officers' Society
S2P	Second state pension
s75	Section 75 employer debt
SEE	Social, environmental and ethical

SIP	Statement of Investment Principles
TKU	Trustee Knowledge and Understanding
TOC	Train Operating Company
TPA	Transport Professionals Association
TPAS	The Pensions Advisory Service
Trustee	Railways Pension Trustee Company
TSSA	Transport Salaried Staffs' Association
TUPE	Transfer of undertakings (protection of employment)



We signed the 2018 Global Investor Statement to Governments on climate change.



Appendices

We are a founding member of the Pensions Infrastructure Platform (PIP), a UK infrastructure specialist established to operate and invest for UK pension schemes.

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Appendix A:
Principal advisers to
the Trustee

In 2016 we invested in our first new build residential development which, when complete in 2019, will include 202 apartments.



Professional service	Adviser
Scheme and investment administrator	RPMI
Investment manager and manager of investment managers	RPMI Railpen Aviva
Actuaries	James Mason, Willis Towers Watson Martin Clarke, the Government Actuary (joint actuary for the 1994 Pensioners Section and BR Section)
External auditor	KPMG LLP
Legal advisors	Linklaters Pinsent Masons Sackers Simmons & Simmons Slaughter and May
Principal Custodians	BNY Mellon
Clearing Bankers	The Royal Bank of Scotland PLC
Tax Advisors	PwC





Appendix B: Payment of contributions

Over the past three years the Growth Pooled Fund return of 7.6% p.a. was ahead of the RPI+4% comparator and the reference portfolio.

Participating employers

The Trustee collects contributions from most employers participating in the Scheme. As at the year end, there were 144 participating employers. Each one may operate from several distinct locations, each with its own payroll department and combination of weekly, fortnightly, four-weekly and calendar-monthly paid employees. As a result, the Trustee deals with employers based at approximately 170 different addresses and 200 distinct payroll combinations.

Due dates for payment of contributions

Under the provisions of the Pensions Act 1995, it is the responsibility of each employer to pay contributions on time. The Trustee is required to prepare, maintain and monitor schedules setting out the dates by which contributions should be received. These dates then become the legal due dates for application of the Pensions Act 1995.

Sections in the Shared Cost Arrangement

The Trustee is required to maintain a schedule of contributions for every section of the Scheme. This schedule sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and also shows the dates on which the contributions are due. Each schedule must be certified by the Scheme Actuary as being sufficient to ensure that the funding objective will continue to be met for the next five years, or will be met by the end of the recovery period.

The schedules of contributions that the Trustee has prepared for the Scheme require payment to be made by the due date set out in the Rules, which is seven working days after the relevant members are paid (compared to the 22nd day of the following month under legislation, if paid by BACS, otherwise the 19-day rule applies). The Scheme Actuary revalues the Scheme every three years. The valuation and schedules of contributions must be signed off within 15 months of the valuation date. The schedules of contributions must be signed by both the Designated Employer and the Trustee.

Sections in the Defined Contribution (money purchase) Arrangement and the IWDC Section

As at 31 December 2018, there were 28 employers actively contributing to the Defined Contribution Arrangement and the IWDC Section. Collection of contributions from these employers is governed by a payment schedule. This is similar to a schedule of contributions, and again sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and the dates on which the contributions are due. Payment schedules do not have to be certified by the Scheme Actuary, but must be prepared by the Trustee and revised from time to time as circumstances require. Once put in place, the employer must pay contributions by the date shown in the schedule.

The Defined Contribution Arrangement was closed to new members on 14 February 2019 and existing members transferred to the IWDC.

Late payment of contributions

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

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

Employers are encouraged to participate in the Trustee's direct debit arrangements for all invoiced amounts, which greatly reduces the risk of an employer failing to pay contributions on time.

Appendix C: Custody arrangements



Our internal Property Team made their first significant commercial investment – a high-end restaurant and office complex on the banks of the River Thames.

Custody arrangements

The law of trust imposes a fiduciary duty on trustees to safeguard assets and this has been reinforced by the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has appointed custodians to hold the assets, including cash, which make up the various quoted securities portfolios managed by the investment fund managers including RPMI Railpen. This is in accordance with the Pensions Act 1995 which requires trustees, rather than the employer or the fund manager or some other party, to make the appointment.

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

Core administrative functions performed by the custodians include the following:

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

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

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

As part of the services provided to the Trustee, RPMI reviews the effectiveness of custody arrangements on a regular basis. This includes monitoring the efficiency of transaction settlement, income collection, tax recovery, foreign exchange performance and the appointment and management of overseas sub-custodians. The verification of assets is also conducted by reference to independent records held by the custodians. Great emphasis is placed on asset safety.

In addition, all custodians appointed by the Trustee are required to publish an AAF 01/06, ISAE 3402 or similar document in other jurisdictions. This is a report on the custodian's internal controls, which is made available to third parties, and is reviewed by the custodian's reporting accountant, in accordance with guidance issued by the Audit and Assurance faculty of the ICAEW in its technical release AAF 01/06 'Assurance reports on internal controls of service organisations made available to third parties', or ISAE 3402 (formerly SAS70, as amended following the introduction of the Sarbanes-Oxley Act of 2002, the US equivalent issued by the Auditing Standards Board of the American Institute of Certified Public Accountants ('AICPA') as a Statement on Auditing Standards).

Although not a regulatory requirement, this constitutes best practice and the Trustee will not appoint a custodian that does not produce a report of this type. These reports are reviewed by the Scheme's external auditors as part of their annual audit procedure.

A photograph of an offshore wind farm with several white wind turbines in a row across the ocean under a blue sky with light clouds. A small sailboat is visible in the distance on the right.

Appendix D: Sustainable Ownership

All the electricity used at our property assets now comes from renewable sources.

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 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 'ESG' factors.

Sustainable Ownership is Railpen's approach to incorporating sustainability considerations into the investments we manage on behalf of our beneficiaries. This is underlined by the Trustees' related investment belief:

'Environmental, social and governance ('ESG') factors materially impact long-term investment returns and must be taken into account.'

Our Sustainable Ownership activities span three key areas:

1. Integration in portfolio management

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

- improves investment returns;
- reduces investment risk;
- impacts the reputation of the Trustee as a responsible investor; and
- impacts the world the beneficiaries of the Fund retire into.

We believe that incorporating these lenses into our investment process increases our chances of achieving our Mission to pay members' pensions securely, affordably and sustainably.

2. Active ownership

As a responsible asset owner, we believe that companies with robust corporate governance structures are more likely to achieve superior long-term financial performance and will manage their risks and opportunities effectively. Thoughtful voting alongside constructive engagement with portfolio companies supports our objective of enhancing the long-term investment returns for our beneficiaries.

We are proud supporters of the International Corporate Governance Network ('ICGN'), whose mission is to promote effective standards of corporate governance and investor stewardship worldwide. The eight ICGN Global Governance Principles serve as a primary standard for well-governed companies, and we have adopted these as the baseline for our global voting policy.

Our global voting policy reflects Railpen's three key voting and engagement themes:

- board composition and effectiveness;
- remuneration; and
- shareholder rights and disclosure.

Railpen is a lead participant in a range of investor networks, alliances and trade bodies, such as the UK Investor Forum. By working with other leading investors, including bondholders, we can exert more influence on the issues that we care about.

3. Longer term risks and opportunities

As long-term investors, we monitor risks and opportunities over the timeframe we will be paying members' pensions. We expect the companies we invest in to also take a long-term strategic view of potential risks and opportunities. Climate change remained a key focus area in 2018 as well as governance and conduct themes.

Pooled fund equity holdings

The largest ten direct equity holdings within the pooled fund investments as at 31 December 2018 were as follows:

	£m
Pfizer	114.46
Amazon	112.54
VISA	105.64
Roche Holding	90.89
United Healthcare	87.27
Home Depot	86.00
Apple	85.13
Alphabet	76.68
Accenture	76.36
Johnson & Johnson	72.08

More detail on our Sustainable Ownership activities can be found in our Sustainable Ownership Annual Report, which can be found at www.rpimirailpen.co.uk/sustainable-ownership.



Appendix E:
Risk statement

We have divested from companies which derive greater than 30% of their revenues from the thermal coal and tar sands sector.

The following risk management process operated throughout the year ended 31 December 2018.

Risk policy

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

The objective of the Trustee's risk policy is to limit the exposure of the Scheme, and the assets that it is responsible for safeguarding, to business, financial, operational, compliance and other risks. Implementation of the risk policy is delegated to the boards of the operating companies. The risk policy is reviewed regularly by management and annually by the Trustee and provides a framework for managing risk on a day-to-day basis.

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

The Trustee strongly encourages its investment managers to publish internal control assurance reports, (AAF 01/06, ISAE 3402 or equivalent style reports), on the effectiveness of internal controls, although investment managers are under no regulatory obligation to do so.

Risk identification and management

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

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

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

First line of defence:

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

Second line of defence:

This describes the committees and functions that provide oversight of the effective operation of the internal control environment and will include those receiving reports and management information concerning key business activities, for example, the Senior Leadership Team and the Board. The second line is re-enforced by the monitoring functions of risk management through the 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 ARC. Internal audit output, in terms of any significant findings or risks identified, together with planned actions to mitigate them, are reported to the ARC.

In respect of the pensions administration service provided by RPMI, an internal controls assurance report has been prepared for the year ended 31 December 2017. The report sets out a description of the relevant control objectives and procedures which operated during the period. These have been independently evaluated under the guidelines of the International Standard on Assurance Engagements 3402 (ISAE 3402) and the ICAEW Technical Release, 'Assurance reports on internal controls of service organisations made available to third parties (AAF 01/06)'.

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

The RMC is chaired by the Chief Operating Officer, Investments, 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:
Statement of Investment Principles**

The Trustee's mission is to pay members' pensions securely, affordably and sustainably.

Under the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005, the Trustee is required, following consultation with the employers, to maintain a SIP for the Scheme. Each section of the Scheme has a unique combination of assets, liabilities and strength of employer covenant. In addition, some sections have established Pensions Committees, which in most cases have the power to set investment strategy – although the Trustee retains legal responsibility for implementation of investment policy and for ensuring the policy complies with statutory requirements.

In order to deal with the large diversity of sections, the Trustee has developed an overarching SIP, supplemented by an individual investment policy document for every section. These are reviewed following each triennial actuarial valuation and following any significant change in the investment policy of a section. The Trustee will consult with the relevant employers about any changes, but where changes are only in relation to a section-specific SIP, the employers have agreed that the Trustee will only consult with employers participating in that particular section.

An overview of the provisions in the Scheme SIP is set out as follows. The current SIP was adopted in May 2018.

Investment beliefs

The Trustee has agreed core beliefs that set out a clear view on investment philosophy and Scheme governance. These beliefs are used to inform the investment process used across the Scheme.

Investment objectives

The Trustee's mission is to pay members' pensions securely, affordably and sustainably. It achieves this through investing the assets of each section in a way that enables them to be used to pay the benefits promised when they fall due, whilst balancing this against the cost that must be met by the employers and members.

To facilitate achieving this objective, the Trustee adopts an integrated approach to covenant, funding and investment policy. Due to the different maturity profiles of the liabilities of the individual sections, along with the strength of covenant of each sponsoring employer and any other specific characteristics, investment strategies and therefore expected investment returns will vary widely. Investment objectives therefore have to be set separately for each section, with a consistent framework used for evaluation. The agreed approach takes account of a RRL framework, to enable suitable investment strategies to be adopted for each section.

The RRL framework outlines the expected investment strategy for each Scheme and broad section groupings (effectively grouped by covenant strength and maturity profile). The individual components of the RRL framework are considered as follows:

- expected investment return is considered taking into account risk and affordability, making use of the pooled fund range to accommodate individual section requirements. The expected return of the proposed investment strategy is judged over the long-term and evaluated with reference to the financial assumptions adopted by the Trustee. The technical provisions funding basis used in triennial valuations is considered with reference to these expected returns;

- investment risk is considered using several measures with a focus on downside risk, consistent with the Trustee's belief that investment risk is multi-faceted. The level of investment risk will take account of the strength of covenant; and
- liquidity requirements are evaluated with reference to maturity, the strength of covenant of the sponsoring employer and whether the section is deemed open or closed to new members.

The resultant portfolios and investment strategy for each section are expressed as a mix of return-seeking, defensive and matching assets. Each of these portfolios, in aggregate, is expected to generate a long-term return that will match or exceed the discount rates used in the funding assumptions for the respective section.

Management of pooled funds

The sections invest in a number of HMRC approved pooled funds operated by RPMI on behalf of the Trustee. These funds are used to construct each investment portfolio agreed under the RRL framework and are intended to accommodate the differing investment requirements of the sections.

As such, each pooled fund has distinct return, risk and liquidity characteristics and is either multi-asset or single-asset class by design. The Trustee recognises that the use of a range of traditional and alternative asset classes with distinct risk premia and return drivers may offer diversifying characteristics. Accordingly, the default offering is to use multi-asset pooled funds which invest in a wide range of assets and strategies. However, Pensions Committees and/or employers can request to make use of other pooled funds offered by the Trustee consistent with the agreed investment strategy. The investment performance

of each pooled fund is measured against an agreed objective and the objective and investment guidelines for each pooled fund are set out in the individual fund product particulars.

Under the RRL framework, the proportion of the section assets to be held in a particular pooled fund is not fixed and may, therefore, be changed from time to time by the Trustee (or RPMI under delegated authority) in order to comply with the RRL framework in the manner the Trustee considers appropriate. Where the rules of a section require the investment policy to establish the proportion of section assets to be held in each of the pooled funds, that policy will be recorded in the relevant Investment Policy Document.

The Trustee regularly reviews the pooled fund range and is free to change the range of pooled funds, the associated comparators and investment guidelines from time to time, as it considers appropriate, in accordance with the rules of the Scheme.

The investment of the assets within each pooled fund is delegated under an Investment Management Agreement to a wholly owned subsidiary of the Trustee, RPMI Railpen, or to fund managers appointed by RPMI Railpen (together the 'fund managers'). The investment arrangements are overseen by RIB.

The multi-asset pooled funds are managed within a strategic risk premia framework, agreed on a regular basis with the RIB. The single-asset pooled funds are managed to specific comparators with permitted tolerances. Where relevant, RPMI Railpen and the fund managers are responsible for deviations from agreed asset allocations within delegated authority limits. Active management is not used by default but will be considered when it is judged to be the most efficient implementation of a given strategy.

RPMI Railpen and the fund managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and fund particulars. This includes the power to rebalance funds from available cash or make transfers in order to keep within stipulated asset allocations or restrictions.

In addition to the pooled funds, the sections may invest assets with an insurance company regulated by the Prudential Regulation Authority in order to accomplish a transfer of risk.

Details of the pooled funds operating during the year, including performance information, are set out in the pooled fund accounts in Appendix J.

Performance measurement

The performance of each section, and the investment performance of the portfolios of RPMI Railpen and the fund managers; are measured for the Trustee. Also, investment performance of each section is monitored by RPMI Railpen and reported to the IFC, the Pensions Committees (where appropriate) and the relevant employers. RIB monitors the performance of RPMI Railpen and the fund managers against long-term performance objectives and compliance with operating parameters.

Risk management

The Trustee recognises that there are various investment and operational risks to which any pension scheme is exposed, and gives qualitative and quantitative consideration to such risks. A number of steps are taken to manage such risks including:

- an Integrated Funding Committee with specific responsibilities including agreeing integrated funding plans for each section, using the RRL framework and monitoring performance against their agreed funding plans;
- an Audit and Risk Committee with specific responsibilities including review of financial control and risk management systems;
- appointing a global custodian to hold assets and RPMI monitoring the custodian's service provision and credit-worthiness;
- appointing the RIB with specific responsibilities including oversight of the management of the pooled funds; and
- the establishment of the RPMI Railpen IBRC to oversee monitoring of investment and operational risks.

Defined contribution assets

The Trustee is responsible for providing appropriate fund choices for the investment of DC assets. This includes members' AVCs and contributions in respect of members of the DC Schemes including the IWDC and the Defined Contribution Arrangement. The Defined Contribution Arrangement was closed to new members on 14 February 2019 and existing members transferred to the IWDC.

The range of funds made available for the DC Fund Arrangements is reviewed regularly and may be changed by the Trustee from time to time in accordance with applicable rules of the Scheme. The intention is to ensure an investment philosophy consistent across both defined benefit and defined contribution arrangements to the extent possible.

Costs

The Trustee recognises that strict control of costs is important in contributing to good investment returns. As such, RPMI and RPMI Railpen are asked to ensure that all aspects of cost from the responsibilities and mandates exercised by those involved in the investment process, both internal and external, are kept under regular review. The aim is to implement section strategy in the most efficient manner possible, using internal resources wherever appropriate.

Investments within the pooled funds are considered in terms of the most efficient way to access desired return drivers. As part of this process, fees payable to external fund managers and costs relating to the investment, management, custody and realisation of pooled fund assets are kept under regular review.

Social, environmental and ethical considerations

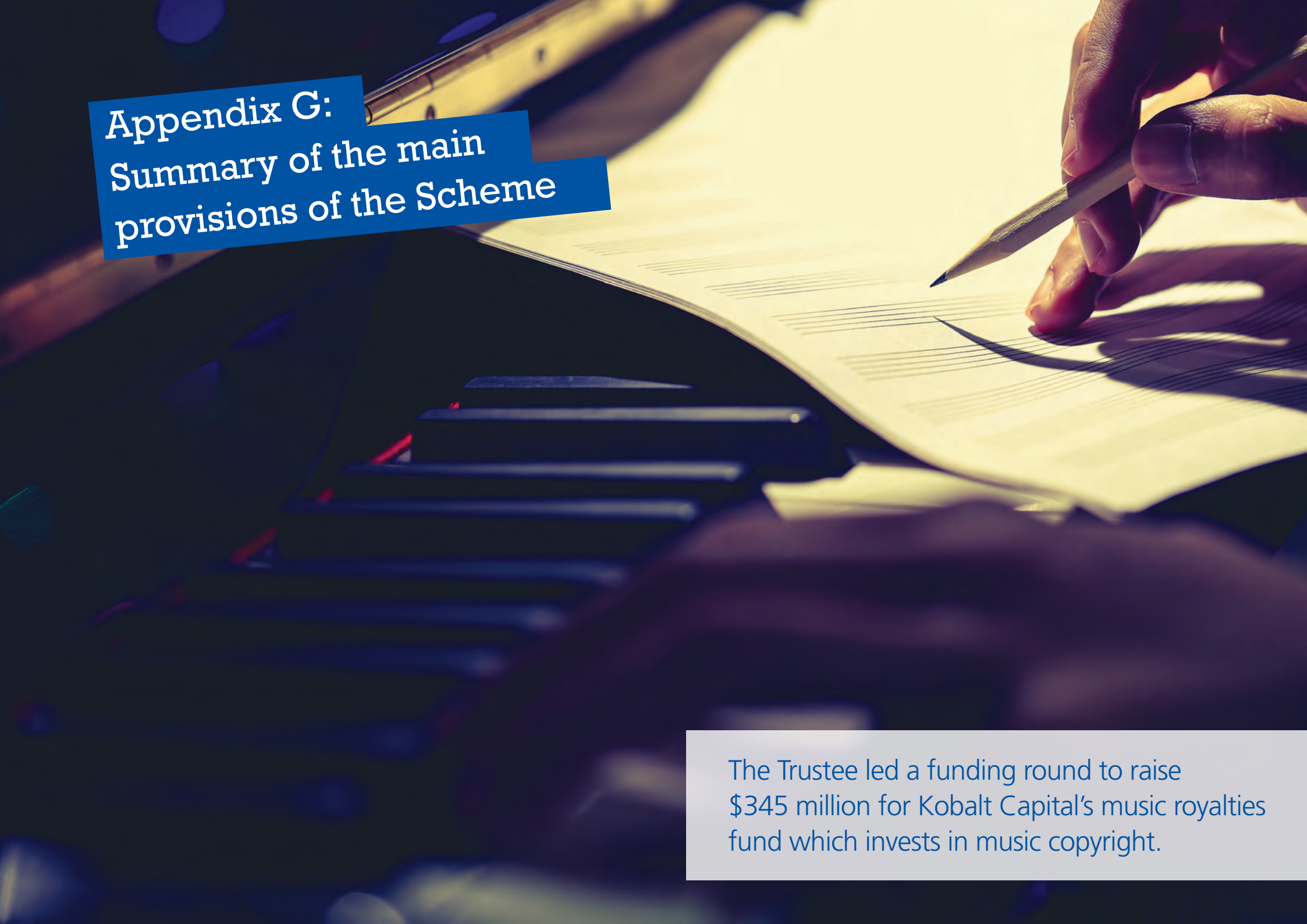
The Trustee expects RPMI Railpen and fund managers to take into account extra-financial considerations in selecting, retaining and realising investments, where these factors are likely to have a material impact on the performance of the portfolios either now or in the future. In addition, the Trustee takes into account the fund managers' policies in relation to these factors when making new fund manager appointments.

Policy on corporate governance and voting

The Trustee believes that companies with robust corporate governance structures are more likely to achieve superior long-term financial performance and will manage their risks and opportunities effectively. It signals its expectations to companies through RPMI Railpen's voting and engagement activities.

RPMI Railpen's global voting policy sets out expectations for issuers, and may be read in conjunction with other market specific guidance, also available on RPMI Railpen's website. Thoughtful voting alongside constructive engagement with portfolio companies supports the Trustee's investment objectives.

RPMI Railpen, on behalf of the Trustee, is a signatory to the UK and Japanese Stewardship Codes, and engages with its external fund managers to encourage them to adopt practices in line with the spirit of these Codes as appropriate.



Appendix G:
Summary of the main
provisions of the Scheme

The Trustee led a funding round to raise \$345 million for Kobalt Capital's music royalties fund which invests in music copyright.

The RPS is a registered scheme under the Finance Act 2004. All railway employees are eligible to join the Scheme if allowed by their contract of employment.

Members of each of the sections of the Shared Cost and the DC Arrangements of the RPS were contracted-out of the S2P until the option to contract-out was abolished, which was from 6 April 2012 for DC schemes and from 6 April 2016 for defined benefit schemes. The IWDC Section has never been contracted-out of S2P.

Rules specific to sections

A broad outline of the main provisions of sections that have adopted the Shared Cost Arrangement is given below. However, some employers have introduced rules specific to their section only which override the summary given. Each section's rules are available from RPMI to members of that section upon request and are summarised in each section's Guide for Members booklet, which is available in the members' area of the Scheme's website.

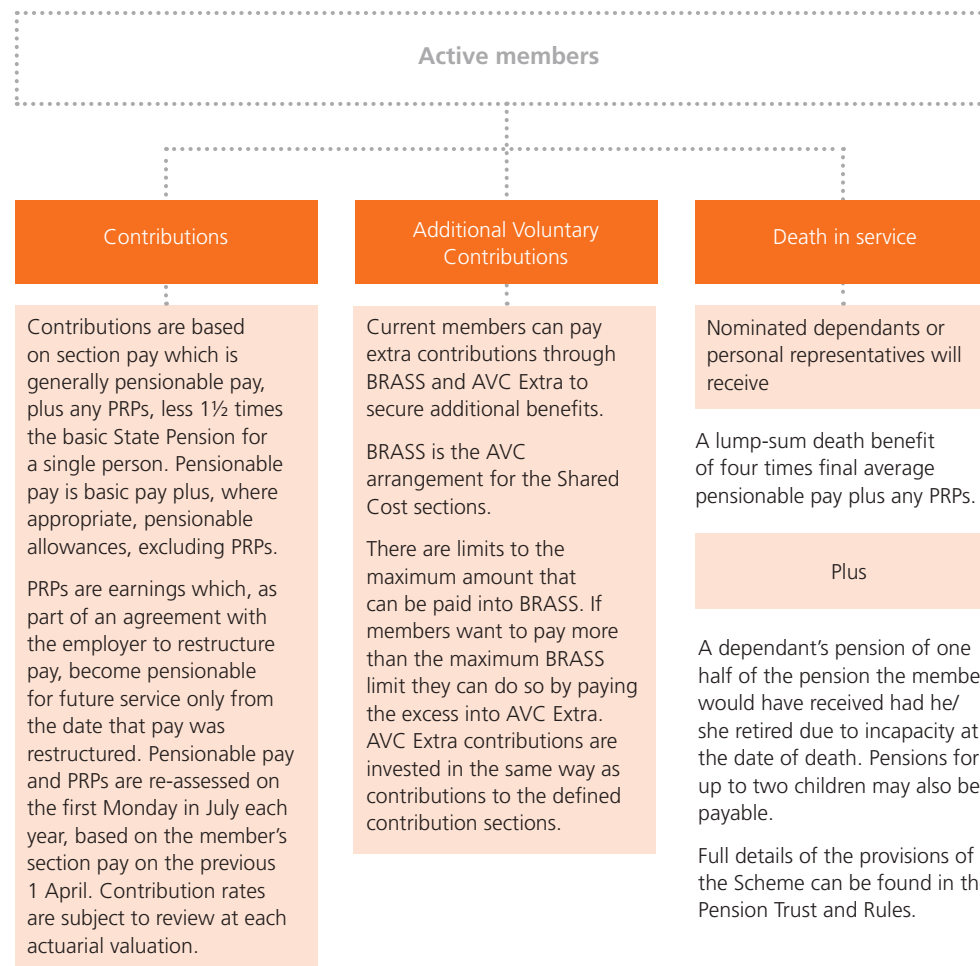
The outline of the main provisions of sections covers the standard situation whereby a section remains ongoing with a solvent employer backing the section. In the event of the employers in a section suffering a qualifying insolvency event, the benefits available from that section will depend on the assets in the section. If there are insufficient assets available to secure a minimum level of benefits, the PPF will pay compensation to members. In these situations, the PPF will take over the pension scheme's assets and provide the compensation to the scheme's members. The compensation provided by the PPF would in many cases be lower than the pensions that members could have received from the scheme that has been taken over.

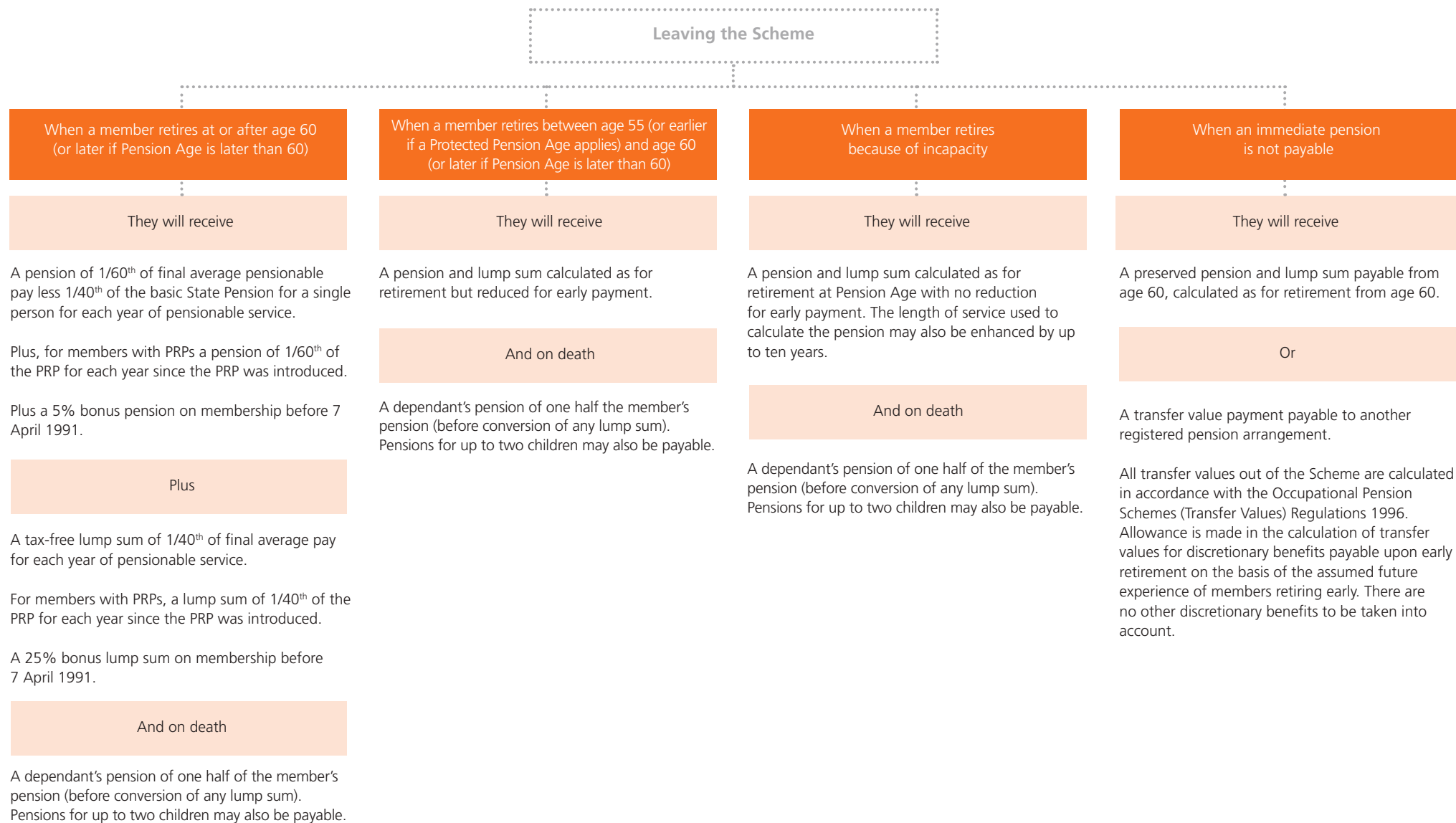
IWDC Section

IWDC Section participating employers can choose their contribution rates, normal retirement date and amount of lump sum on death in service. Contributions range from upwards of 2% of pensionable pay, and retirement ages range from 60 to 65. Lump sums are either one times pensionable pay or four times pensionable pay on death in service. At retirement, members use their accumulated funds to provide an annuity purchased from an insurance company under an open market option, or they can transfer their funds to a specialist drawdown provider. They can also take tax-free cash up to the HMRC limit, or take 100% of their funds as a partially-taxed lump sum direct from the scheme. The remaining members within the DC Arrangement are all preserved pensioners.

Pension increases

Pensions increased by 3% with effect from 9 April 2018. This is based on the CPI inflation figure, which measures changes in the prices of goods and services, as at September 2017. Pensions in payment and deferment in the Scheme are increased in line with Orders laid by the Government under the Pensions (Increase) Act 1971.





A night cityscape with a network overlay of glowing blue lines and red nodes. The background shows a dense urban skyline with illuminated buildings. Overlaid on this is a complex network of white lines connecting numerous red circular nodes, representing a digital or data network.

Appendix H: Defined Contribution Chair's statement

DC members benefit from many of the same investment opportunities and cost controls as members of the defined benefit arrangements.

This statement explains how the Trustee Board has met the legal requirements for running the DC arrangements of the Railways Pension Scheme in the year ending 31 December 2018. The DC arrangements are: the IWDC Section, DC Arrangement, BRASS, and AVC Extra. All members of the DC Arrangement were transferred to the IWDC Section on 14 February 2019.

Funds for members who don't choose their investments (the 'default' investment arrangements)

The Trustee has chosen default investment arrangements for members who have not chosen their own funds. Members can also choose to invest in the default arrangements. Currently more than 60% of members have some or all of their contributions in the default arrangements.

The Trustee has adopted the following strategy for default arrangements:

- To generate long-term growth in excess of inflation over members' working lifetimes. The IWDC Section, DC Arrangement and BRASS are members' main or main additional form of retirement saving and so the default is to seek growth while mitigating risk through diversification by investing in the Long-Term Growth Fund. This Fund seeks to achieve returns similar to global stock markets over the longer term, but with lower volatility. AVC Extra is for members who have built up defined benefit pensions and already saved the maximum allowed in BRASS – the Trustee believes that when they are many years before retirement, these members should seek to maximise the returns on their investments, and to do this at low cost. Therefore, AVC Extra members' funds are invested in the Global Equity Fund by default. Members of some sections may also be able to transfer external pension savings into AVC Extra.

- To reduce investment risk for members as they approach retirement by switching to less volatile funds. For the funds in the IWDC Section, DC Arrangement and AVC Extra this is achieved by automatic switching over 10 years up to the member's target retirement age. The Trustee has assumed that members will draw 25% of their funds as a tax-free lump sum and buy an annuity with the rest. For BRASS members, by automatic switching over 5 years up to their target retirement age, 100% of the member's funds will be invested in the Deposit Fund. This reflects the fact that members will have built up defined benefit pensions and are very likely to use their BRASS account to provide a tax-free lump sum.

Details of the investment strategy and investment objectives of the default arrangements are recorded in a document called the SIP. This document is included as an appendix to the Annual Report, and the consolidated Schedules relating specifically to the DC Arrangements is appended to this Statement

The default arrangements for each of the DC arrangements are shown in the following table:

DC Arrangement	Growth Portfolio	Portfolio at Target Retirement Age	Length of switching period
IWDC Section and DC Arrangement	100% Long-Term Growth Fund	25% Deposit Fund 75% Aggregate Bond Fund	10 Years
AVC Extra	100% Global Equity Fund	25% Deposit Fund 75% Aggregate Bond Fund	10 Years
BRASS	100% Long-Term Growth Fund	100% Deposit Fund	5 Years

Reviewing the default investment arrangements

The Trustee's DCC reviews the market performance of investment funds every quarter. It reviews the investment objectives and the performance of the default arrangements at least once a year, on the advice of RPMI, the Trustee's investment adviser. The DCC also carries out a more in-depth review of the DC investment options offered to members at least every three years. These regular reviews allow the Trustee to assess the extent to which the performance of the funds is consistent with the aims and objectives set out in the Statement of Investment Principles.

The DCC last reviewed the arrangements on 12 March 2018. It considered allocating a small part of the Long-Term Growth Fund to illiquid assets but eventually decided not to do so because of the costs of investing in such assets.

The Trustee is currently reviewing the strategy in light of the new ways of drawing money from pension arrangements at retirement. It is now possible to withdraw funds over a period of time or all in one go, rather than take up to 25% of funds as a tax-free lump sum and use the rest to buy an annuity which provides a regular income. Not all options are currently available within the RPS, but the Trustee is examining an alternative 'at retirement' default portfolio and associated de-risking strategy to better serve members who may wish to make use of pension flexibilities.

The Trustee monitors the use of the default investment strategies and the choices being made by members when benefits come into payment. This helps to inform it about any changes which may be appropriate in the future.

Charges and transaction costs paid by members

From 6 April 2018, the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of charges and transaction costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs and to help members understand the relative merits of different investment options in a DC scheme.

The Trustee has taken account of statutory guidance when preparing this statement about charges and transaction costs. During the Scheme year ending 31 December 2018 the level of charges applicable to the funds under the DC arrangements, including the funds which are part of the default lifestyle strategies, were:

DC fund	Annual management charge %	Property costs %	Total %
Long Term Growth Fund	0.55	0.08	0.63
Global Equity Fund	0.18	-	0.18
Deposit Fund	0.17	-	0.17
Aggregate Bond Fund	0.29	-	0.29
Index Linked and Global Bond Fund	0.31	-	0.31
Pension Assured Fund	0.73	-	0.73

RPMI Railpen, which manages the Scheme's investments, gives full transparency to the DCC on the underlying costs making up the annual management charges, such as investment management costs, internal staff costs, legal costs, and IT costs. RPMI Railpen is also at the forefront in the pensions industry of obtaining full transparency from investment managers about costs in underlying investment funds (indirect costs) that the DC funds may invest in.

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

The Trustee also monitors the level of transaction costs incurred by the funds each year. Such costs include broker commissions, commissions of futures, transfer taxes, and other fees such as bank fees, search fees, legal fees, and stamp duty. It is not possible to obtain complete information about these costs, however, the table below shows the transaction costs obtained for each fund, along with the percentage of the fund by asset value for which we have managed to obtain transaction cost information.

DC fund	Asset value £m	2018 transaction costs as % of assets under management	Proportion of fund for which information is available %
Long Term Growth Fund	854.34	0.108%	93%
Global Equity Fund	195.70	0.054%	100%
Deposit Fund	299.48	0.000%	100%
Aggregate Bond Fund	22.47	0.013%	100%
Index Linked and Global Bond Fund	23.58	0.000%	100%
Pension Assured Fund	144.86	Not available	0%



RPMI Railpen continually reviews its processes for monitoring transaction costs. For 2018 RPMI Railpen has participated in the Pensions and Lifetime Savings Association's pilot of the new cost templates generated by the Financial Conduct Authority's independent Institutional Disclosure Working Group. These templates include a section on transaction costs and have been designed so that managers can provide more consistent and standardised disclosure of costs and charges to institutional investors. The expectation is that the quality of cost information received from managers will improve through the rollout and use of these templates.

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

RPMI Railpen continues to make improvements to ensure that Scheme 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.

We are required to illustrate the 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 Scheme. This illustration is appended to this Statement.

Good value for members

In order to assess whether the Scheme offers good value for members, we have reviewed the level of charges in each fund and the investment returns delivered to members. We have also considered how the charges borne by members (the costs of membership) compare against the services and benefits provided by the DC arrangements (the benefits of membership).

The benefits of membership include, amongst other things:

- the design of the default arrangements and how they reflect the interests of members;
- the range of investment options and strategies;
- the efficiency of administration processes, and the extent to which RPMI, as administrator, met and exceeded its service level standards for the Scheme year;
- the quality of communications delivered to members; and
- the quality of support services and Scheme governance.

As part of assessing these items, we have considered how some of these factors rated against other options available in the market.

Another important area of consideration is the ease and ability by which members can view or make changes to their investments. RPMI offers members a secure online portal, www.railwayspensions.co.uk, to provide a secure personal online account for all DC active members who register for this service. The account provides members with an overview of their investment holdings, the ability to view recent contributions (both member and employer) and the ability to move their investments between different funds.

Based on our assessment, we concluded that the DC arrangements represent good value for members. Where areas for improvement have been identified, plans are already in place to make the necessary changes. This reflects the commitment of both RPMI and RPMI Railpen to continuous improvement on behalf of the Trustee and Scheme members.

Processing core financial transactions

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

- investing contributions;
- transferring assets relating to members in or out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments to or on behalf of members.

Service Level Agreements ('SLAs') are in place for all of these transactions, ranging from two to five working days, and the DCC receives a report from RPMI every quarter setting out whether these have been achieved and explaining any issues that have arisen. The DCC monitors RPMI's performance and ensures that improvements to processes and controls are implemented where necessary.

During 2018 the DCC was kept informed regarding a number of BRASS switch issues which were resolved via support from RPMI's third-party system supplier, and the volume of DC contributions held in suspense due to non-receipt of associated data or reconciliation issues with cash and data received. This has prompted RPMI to develop more granular reporting for the Committee's consideration to provide the necessary reassurance that controls have been strengthened, and client liaison enhanced in this area.

Trustee Knowledge and Understanding ('TKU')

The Trustee Board includes five individuals with extensive experience of managing occupational pension schemes and one retired pension scheme actuary. Other Trustee Directors have finance, audit, project management, and industrial relations experience, including negotiating on pensions and other benefits, thereby bringing a broad range of knowledge that is relevant to the Scheme.

All Trustee Directors have completed the Pensions Regulator's Trustee Toolkit and half hold the Pensions Management Institute's Award in Pension Trusteeship. RPMI also provides its own TKU training for Trustee Directors and others involved in the oversight and running of the Scheme, based on the indicative syllabus published by the Pensions Regulator, to ensure that all obtain and retain the knowledge required to carry out their duties effectively for Scheme members.

The Scheme has a detailed induction and training programme for new Trustee Directors, which includes sessions with in-house secretariat, actuarial, accounting, administration, communications, internal audit, investment, and legal professionals. One new Trustee Director joined the Board during the year. He completed the Regulator's Trustee Toolkit and the induction programme.

RPMI keeps a record of the training completed by each member of the Board. Each Trustee Director completes a training needs assessment each year to identify any gaps in the knowledge and understanding across the Board as a whole. The questionnaire covers many areas including knowledge of the Scheme's trust documentation, the latest Statement of Investment Principles, pensions and trust law and the principles of pension funding and investment. RPMI works with the Trustee Directors and the Scheme's professional

advisors to fill any gaps. Training is included as part of Trustee meetings, workshops, and during the annual Trustee strategy day. Trustee Directors also attend external courses run by professional advisory firms and by industry bodies such as the Pensions and Lifetime Savings Association. A skills matrix is maintained for the Trustee Board, and the skills and experience of the Board as a whole are considered in the Trustee's succession planning.

During the year, RPMI gave training for Trustee Directors on:

- the Scheme's risk, return and liquidity framework;
- master trusts;
- enhanced transfer value exercises;
- investing in private markets;
- leverage in the Long-Term Growth Fund;
- risk management;
- securities lending;
- sustainable ownership; and
- the Government's White Paper on protecting defined benefit pension schemes.

The Trustee Directors complete meeting effectiveness questionnaires after each full Trustee Board or Trustee Committee meeting. Members of the in-house Trustee Governance team discuss the responses with the relevant Chair to seek to improve the operation and running of Trustee meetings.

As a result of the training activities which the Trustee Directors have completed, individually and collectively as a Board, and taking into account the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Board enables it to exercise properly its functions as the Trustee of the DC arrangements and the Railways Pension Scheme generally.

Additional governance requirements for multi-employer schemes

The Trustee is required to comply with additional governance standards because the Scheme is used by non-associated employers from across the rail industry. These are designed to offer additional protections for members and ensure that the Trustee acts in their best interests.

The Trustee Board has considered these requirements and determined that all Trustee Directors, including the 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. 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.

One non-affiliated, member-nominated Trustee Director was appointed during the Scheme year, in accordance with the governing documents of Railtrust Holdings Limited. Nominations were sought from all the relevant organisations (including Trade Unions and Pensions Committees) as part of the Scheme's process for appointing member-nominated Trustee Directors. There was only one nomination and so Gerard Doherty was appointed to the Trustee Board.

The Trustee Board has been kept informed of developments relating to the Pensions Regulator's authorisation and supervision regime being introduced by the Pension Schemes Act 2017 and the Occupational Pension Schemes (Master Trusts) Regulations 2018 and has participated in the consultation process. The Trustee's application

for authorisation in respect of the IWDC Section has been submitted to the Pensions Regulator for consideration. The Trustee and RPMI will be working with the Regulator over the coming months to assist in providing any additional information to support the application, in anticipation of receiving formal authorisation of the Master Trust by the end of September 2019.

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. RPMI provides the facility for members to make their views known via the Scheme's website, and through paper questionnaires that accompany the annual newsletter and retirement statements. It also offers a member Helpline with a free telephone number, through which members may provide feedback. 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. By providing multiple channels and media through which members may contact the Scheme, in line with its Communications Strategy, the Trustee is satisfied that all members from all sections of the Scheme are able to share their views, in particular in response to key communications or Scheme events.

Extract from Schedules to the Statement of Investment Principles in respect of the DC Schemes and AVC arrangements

Introduction

This Schedule is appended to and should be read in conjunction with the SIP adopted by the Trustee, as amended from time to time.

The defined contribution schemes ('DC Schemes') are the defined contribution (also known as 'money purchase') pension arrangement of the RPS for rail industry employees. They include the IWDC Section and the DC Arrangement.

The additional voluntary contribution ('AVC') arrangements include BRASS and AVC Extra.

Objective

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

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

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

- level of outcome (long-term return);
- variability of outcome (long-term risk); and
- volatility of journey, in particular as the member's target retirement age approaches (short-term risk).

Investment strategy

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

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

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

The DCC of the Trustee Board was established to ensure appropriate management and governance of the BRASS, AVC Extra, and DC Schemes' arrangements. Specific responsibilities of the DCC include oversight of investment performance and reviewing communications and investment options as appropriate.

Fund choices

The following funds are available to all members of DC Schemes and both AVC arrangements:

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

The DC Schemes and AVC arrangements also offer lifestyle options:

- DC Long Term Growth Lifestyle (the default option for the DC Schemes);
- BRASS Long Term Growth Lifestyle (the default option for BRASS); and
- Global Equity Lifestyle (the default option for AVC Extra).

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

Certain AVC members may also have holdings in the PAF. However, it is noted that this fund is not accepting new contributions.

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

be appropriate for members close to their target retirement age that plan to receive part of their retirement benefits in the form of tax-free cash.

Fund on-going charges

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

Risks

There are a number of risks within the DC Schemes and AVC arrangements including risk of:

- inadequate long-term returns, in particular that fund values don't increase with inflation. To manage this, the Trustee includes funds that have an expected long-term return above inflation, although this is not guaranteed over any given period;
- deterioration in investment conditions near retirement. To address this the Trustee has made available lower estimated risk funds and lifestyle options that default into lower estimated risk funds as members approach target retirement age;
- lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;

- underlying fund managers and/or RPMI Railpen not meeting their objectives. The DCC provides oversight to the performance of the funds. The Railpen Investment Board oversees the performance of Railpen and fund managers on a regular basis; and
- inappropriate member decisions. This is addressed by:
 - making a default option available which the Trustee believes appropriate for the majority of members;
 - regular member communications; and
 - recommending members seek guidance and independent financial advice where appropriate.

The Trustee also reviews these risks as part of each formal strategy review. These take place at least every three years or more frequently if appropriate.

Note: Further information and factsheets for the DC Schemes' and AVC arrangements' funds can be found on the Railways Pensions website www.railwayspensions.co.uk.

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

The effect of costs and charges for each of the funds that is open to new contributions is provided in the table below:

Years	Long Term Growth Fund		Global Equity Fund		Aggregate Bond Fund		Index Linked and Global Bond Fund		Deposit Fund	
	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£17,403	£17,308	£17,286	£17,249	£16,741	£16,694	£16,702	£16,654	£16,585	£16,554
3	£22,575	£22,236	£22,159	£22,027	£20,288	£20,133	£20,159	£20,000	£19,775	£19,674
5	£28,270	£27,607	£27,456	£27,200	£23,926	£23,643	£23,690	£23,400	£22,994	£22,811
10	£45,101	£43,191	£42,764	£42,044	£33,429	£32,737	£32,851	£32,150	£31,182	£30,752
15	£66,302	£62,335	£61,462	£59,997	£43,555	£42,332	£42,525	£41,287	£39,602	£38,863
20	£92,855	£85,729	£84,183	£81,606	£54,352	£52,441	£52,754	£50,852	£48,296	£47,187
25	£125,957	£114,188	£111,671	£107,504	£65,871	£63,138	£63,584	£60,886	£57,305	£55,767
30	£167,060	£148,679	£144,801	£138,428	£78,168	£74,462	£75,064	£71,435	£66,673	£64,648
35	£217,929	£190,342	£184,604	£175,236	£91,302	£86,465	£87,247	£82,547	£76,446	£73,876
40	£280,706	£240,526	£232,285	£218,925	£105,337	£99,203	£100,191	£94,274	£86,673	£83,500

The effect of costs and charges for each of the default arrangements is also shown:

Years	DC Long Term Growth Lifestyle (IWDC Section and DC Arrangement)		BRASS Long Term Growth Lifestyle (BRASS)		Global Equity Lifestyle (AVC Extra)	
	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£17,403	£17,308	£17,403	£17,308	£17,286	£17,249
3	£22,575	£22,236	£22,575	£22,236	£22,159	£22,027
5	£28,270	£27,607	£28,270	£27,607	£27,456	£27,200
10	£45,101	£43,191	£45,101	£43,191	£42,764	£42,044
15	£66,302	£62,335	£66,302	£62,335	£61,462	£59,997
20	£92,855	£85,729	£92,855	£85,729	£84,183	£81,606
25	£125,957	£114,188	£125,957	£114,188	£111,671	£107,504
30	£167,060	£148,679	£167,060	£148,679	£144,801	£138,428
35	£209,950	£183,858	£217,929	£190,342	£179,006	£169,828
40	£235,893	£204,759	£249,747	£215,924	£201,215	£189,263

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of inflation.
2. The starting pot size is assumed to be £15,000.
3. Inflation is assumed to be 2.5% each year.
4. Member is assumed to be aged 25, with a target retirement age of 65.
5. Monthly contributions are assumed to start at £150, increasing at 4% (assumed earnings inflation of 1.5%) each year until target retirement age.

6. The assumed growth rates, costs and charges for each fund are as follows:

Funds	Assumed growth rates	Costs and charges
Long Term Growth Fund	6.50%	0.61%
Global Equity Fund	5.75%	0.24%
Aggregate Bond Fund	2.25%	0.30%
Index Linked and Global Bond Fund	2.00%	0.31%
Deposit Fund	1.25%	0.20%

7. The projected growth rates, costs and charges for the lifestyle options reflect those of the underlying funds held at a particular point in time.
8. Costs and charges include property expenses and transaction costs.
9. Transaction costs are based on an average of the last 5 years, all other costs and charges are forward looking estimates.
10. Values shown are estimates and are not guaranteed.

For and on behalf of the Trustee:

Christopher Hannon
Chair, Trustee Company

15 May 2019



Appendix I: Where to go for help

The Trustee invested in Gigaclear a company dedicated to building and operating ultrafast, pure fibre-to-the-premises broadband networks in rural Britain.

Trustee and RPMI Railpen

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

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

RPMI

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

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

T: 0800 2 343434 (Customer Services Team)
E: csu@rpmico.co.uk
W: www.railwayspensions.co.uk

The Pensions Advisory Service

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

The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB

T: 0800 011 3797
Online enquiry:
www.pensionsadvisoryservice.org.uk/
contacting-us/online-enquiry-form
W: www.pensionsadvisoryservice.org.uk

Pensions Ombudsman

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

The Office of the Pensions Ombudsman
10 South Colonnade
Canary Wharf
London
E14 4PU

T: 0800 917 4487
E: enquiries@pensions-ombudsman.org.uk
W: www.pensions-ombudsman.org.uk

The Pensions Regulator

The Pensions Regulator can be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

T: 0345 600 0707
E: customersupport@tpr.gov.uk
W: www.thepensionsregulator.gov.uk

Pensions Tracing Service

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

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

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

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

For your information the RPS Registration number is: 10203279

Appendix J: Pooled fund accounts



The Scheme invests in long-term financing of a UK portfolio of operating rooftop solar assets. The solar panels are distributed across England and Wales.

Introduction

This appendix represents a consolidated summary of the Annual Report and non-statutory audited accounts of the pooled funds of the railways pension schemes for the year ended 31 December 2018. 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 2018 was £27,243.31m (2017: £28,110.64m). There are in addition £987.49m (2017: £920.16m) of assets held directly by the railways pension schemes not included in the pooled fund arrangements, bringing total assets to £28,230.80m (2017: £29,030.80m).

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

The range of pooled funds has been reviewed and simplified in recent years to ensure it is flexible enough to be tailored to the needs and particular circumstances of the railways pension schemes whilst also allowing assets to be invested, as far as possible, as if they belonged to a single pension fund.

The focus for pooled fund management in 2018 has been efficient implementation of investments consistent with the agreed strategic portfolios. This included further developing the in-house asset management capabilities of RPMI Railpen, particularly in equities and property.

Property management was brought in-house towards the end of 2017 to facilitate better control of assets and generate cost efficiencies. Throughout 2018 in-house management have completed a number of purchases and sales of UK commercial property as they reshape the portfolio reducing the pooled funds exposure to retail assets. They have also undertaken significant numbers of new lettings, lease renegotiations and rent reviews to increase the profitability of the portfolio.

Also within the Growth Pooled Fund, RPMI Railpen has increased the allocation to internally managed portfolios for ARP strategies. These portfolios systematically target investment in equities that exhibit risk premia factors with an economic or behavioral rationale that are expected to provide additional returns over the long-term. Also within the equity portion, RPMI Railpen has gradually increased the allocation to the Fundamental Growth Portfolio ('FGP'), a concentrated portfolio investing in industry leading, innovative companies with sustainable structural earnings growth.

The Illiquid Growth Pooled Fund made further allocations during the course of the year, with a particular emphasis on opportunistic investments focused on the communication and innovation sectors. The largest commitment in 2018 was to Capital Constellation, a joint venture with two other large investors to provide seed capital to emerging private equity managers. The in-house team continues to build exposure to private debt (lending to private companies) and manage significant distributions from legacy investments in the Private Equity and Infrastructure Funds.

The Long Term Income Pooled Fund made a number of new allocations in 2018, the largest of which was in a secondary portfolio of infrastructure debt assets which provide good diversification to existing investments.

During the year the Trustee approved an expansion of the stock lending programme in order to generate additional income for the railways pension schemes. Borrowers must meet the Trustee's collateral specifications and a permanent restriction is in place that ensures that shares held in companies that are sponsoring employers of the Railways Pension Scheme are not included in the lending programme.

The table on page 82 summarises the investments of each of these pooled funds as at 31 December 2018. The notes on pages 88 to 102 analyse the total pooled assets of £27,243.31m into the categories required by the SORP. The net asset value of each pooled fund at the end of the current and prior years is set out on page 90, and the unit prices on page 89.

Accounting policies

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, are included at the Trustee's estimate of accounting fair value based on advice from the investment managers or other third party advisors.
- 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. The pooled investment vehicle managed by OneFamily Lifetime Mortgages Limited held by the Long Term Income Pooled Fund is stated at amortised cost.
- f. 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, Knight Frank and CBRE. Knight Frank and CBRE have experience in the locations and class of investment properties held by the Trustee.

- g. 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 third party vendors, 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.
- h. Forward foreign exchange contracts are valued at the forward rate at the year end date.
- i. All gains and losses arising on derivative contracts are reported within change in market value of investments during the year.
- j. Loans and deposits, current assets and current liabilities are included at book cost, which the Trustee considers represents a reasonable estimate of fair value.

Foreign currencies

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

Investment income

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

- a. Dividends from quoted equities are accounted for when the security is declared ex-div.
- b. Interest is accrued on a daily basis.
- c. Property rental income is accounted for on an accruals basis in accordance with the terms of the lease.

- d. 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 2018

	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	8,967.01	129.32	1,346.61	-	3,814.71	24.17	(167.21)	1,453.90	43.76	(19.12)	2,098.71	17,691.86
Private Equity	-	-	-	-	2,262.82	0.01	-	91.25	0.04	(0.88)	-	2,353.24
Property	-	-	-	1,916.67	-	-	-	179.61	38.57	(36.18)	-	2,098.67
Government Bond	-	1,365.14	-	-	-	-	-	82.11	7.90	(0.47)	-	1,454.68
Defined Contribution	-	43.11	-	-	206.34	-	-	258.38	1.07	(1.32)	887.98	1,395.56
Illiquid Growth	135.77	6.68	-	-	876.39	0.01	-	31.54	0.03	(0.44)	-	1,049.98
Passive Equity	-	-	-	-	803.37	-	-	0.31	-	(0.26)	-	803.42
Short Duration Index Linked Bond	-	-	763.36	-	-	-	-	28.37	0.59	(0.13)	-	792.19
Long Term Income	-	54.06	-	-	596.89	-	-	12.91	1.98	(0.27)	-	665.57
Global Equity	-	-	-	-	563.23	0.71	(5.20)	104.49	0.09	(0.35)	-	662.97
Infrastructure	-	-	-	-	435.76	-	-	6.65	-	(0.20)	-	442.21
Non Government Bond	-	407.92	-	-	-	0.23	(9.20)	23.40	5.08	(0.37)	-	427.06
Long Duration Index Linked Bond	-	-	195.58	-	-	-	-	2.31	0.14	(0.08)	-	197.95
Cash	-	-	-	-	-	-	-	194.59	0.12	(0.07)	-	194.64
Cross Holdings											(2,986.69)	(2,986.69)
Total	9,102.78	2,006.23	2,305.55	1,916.67	9,559.51	25.13	(181.61)	2,469.82	99.37	(60.14)	-	27,243.31
%	33.41	7.36	8.46	7.04	35.09	0.10	(0.67)	9.07	0.36	(0.22)	-	100.00

The accounting policies on page 81 and the notes on pages 88 to 102 form part of these accounts.

Analysis of cross holdings

	Growth	Long Duration Index Linked Bond	Property	Private Equity	Non Government Bond	Total Cross Holdings
Pooled Fund	£m	£m	£m	£m	£m	£m
Growth	-	-	2,098.67	0.04	-	2,098.71
Defined Contribution	853.25	11.72	-	-	23.01	887.98
Total	853.25	11.72	2,098.67	0.04	23.01	2,986.69

The accounting policies on page 81 and the notes on pages 88 to 102 form part of these accounts.

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	18,992.36	253.19	(696.11)	(1,107.28)	249.70	-	17,691.86
Private Equity	2,255.27	6.52	(444.10)	537.42	(1.87)	-	2,353.24
Property	1,964.68	31.00	-	10.34	92.65	-	2,098.67
Government Bond	1,961.32	288.73	(803.72)	(18.99)	27.34	-	1,454.68
Defined Contribution	1,460.26	179.76	(183.63)	(59.94)	(0.89)	-	1,395.56
Illiquid Growth	469.05	485.00	(24.60)	121.77	(1.24)	-	1,049.98
Passive Equity	909.88	1.84	(35.80)	(71.41)	(1.09)	-	803.42
Short Duration Index Linked Bond	112.81	735.78	(74.28)	(1.68)	19.56	-	792.19
Long Term Income	329.90	374.33	(18.33)	(19.49)	(0.84)	-	665.57
Global Equity	795.79	-	(74.83)	(58.33)	0.34	-	662.97
Infrastructure	608.37	-	(245.00)	79.23	(0.39)	-	442.21
Non Government Bond	622.62	17.49	(194.85)	(37.87)	19.67	-	427.06
Long Duration Index Linked Bond	221.39	13.65	(33.95)	(7.18)	4.04	-	197.95
Cash	302.82	133.05	(242.89)	-	1.66	-	194.64
Cross Holdings	(2,895.88)	-	-	-	-	(90.81)	(2,986.69)
Total	28,110.64	2,520.34	(3,072.09)	(633.41)	408.64	(90.81)	27,243.31

Approved on behalf of the Trustee Company on 15 May 2019.

Christopher Hannon
Chair, Trustee Company

John Mayfield
Director and Chair, Audit and Risk Committee

The accounting policies on page 81 and the notes on pages 88 to 102 form part of these accounts.

Fund statement as at 31 December 2017

	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	7,925.31	701.99	381.04	-	4,846.99	98.55	(11.17)	3,054.93	50.69	(20.69)	1,964.72	18,992.36
Private Equity	1.48	-	-	-	2,161.20	0.07	(0.01)	88.10	5.33	(0.90)	-	2,255.27
Property	-	-	-	1,818.41	-	-	-	178.04	41.31	(73.08)	-	1,964.68
Government Bond	-	1,763.51	-	-	-	-	-	187.09	11.41	(0.69)	-	1,961.32
Defined Contribution	-	83.54	-	-	216.41	-	-	230.24	0.73	(1.82)	931.16	1,460.26
Passive Equity	-	-	-	-	909.83	-	-	0.58	-	(0.53)	-	909.88
Global Equity	-	-	-	-	677.97	11.71	(1.90)	108.56	0.07	(0.62)	-	795.79
Non Government Bond	-	587.45	-	-	-	5.85	(0.16)	23.22	6.87	(0.61)	-	622.62
Infrastructure	-	-	-	-	602.95	-	-	5.72	-	(0.30)	-	608.37
Illiquid Growth	69.71	2.08	-	-	335.74	-	-	62.06	0.02	(0.56)	-	469.05
Long Term Income	-	0.77	-	-	305.91	-	-	23.39	0.03	(0.20)	-	329.90
Cash	-	-	-	-	-	-	-	302.83	0.08	(0.09)	-	302.82
Long Duration Index Linked Bond	-	-	221.03	-	-	-	-	0.35	0.16	(0.15)	-	221.39
Short Duration Index Linked Bond	-	-	111.48	-	-	-	-	1.25	0.09	(0.01)	-	112.81
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(2,895.88)	(2,895.88)
Total	7,996.50	3,139.34	713.55	1,818.41	10,057.00	116.18	(13.24)	4,266.36	116.79	(100.25)	-	28,110.64
%	28.45	11.17	2.54	6.47	35.78	0.41	(0.05)	15.18	0.41	(0.36)	-	100.00

The accounting policies on page 81 and the notes on pages 88 to 102 form part of these accounts.

Analysis of cross holdings

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

The accounting policies on page 81 and the notes on pages 88 to 102 form part of these accounts.

Movement in unit holders' funds

Pooled Fund	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested net income	Change in cross holdings	Total unit holders' funds
	£m		£m	£m	£m	£m	£m
Growth	17,015.30	291.94	(289.79)	1,793.96	180.95	-	18,992.36
Private Equity	2,488.69	42.45	(415.53)	141.63	(1.97)	-	2,255.27
Property	2,071.32	10.00	(130.00)	(69.79)	83.15	-	1,964.68
Government Bond	2,059.17	110.50	(215.06)	(23.24)	29.95	-	1,961.32
Defined Contribution	1,349.49	162.58	(176.90)	126.77	(1.68)	-	1,460.26
Passive Equity	780.55	0.27	(16.18)	146.15	(0.91)	-	909.88
Global Equity	757.65	-	(86.54)	124.18	0.50	-	795.79
Non Government Bond	626.59	25.07	(60.05)	9.57	21.44	-	622.62
Infrastructure	908.12	0.30	(334.80)	35.41	(0.66)	-	608.37
Illiquid Growth	282.83	155.50	-	33.06	(2.34)	-	469.05
Long Term Income	102.17	225.63	(0.03)	3.06	(0.93)	-	329.90
Cash	320.39	0.33	(18.70)	-	0.80	-	302.82
Long Duration Index Linked Bond	225.68	1.81	(11.95)	5.28	0.57	-	221.39
Short Duration Index Linked Bond	-	112.90	-	(0.33)	0.24	-	112.81
Cross Holdings	(2,903.89)	-	-	-	-	8.01	(2,895.88)
Total	26,084.06	1,139.28	(1,755.53)	2,325.71	309.11	8.01	28,110.64

The accounting policies on page 81 and the notes on pages 88 to 102 form part of these accounts.

1.1 Fund statements as at 31 December 2018

Assets	Notes	2018 £m	2017 £m
Equities			
UK quoted		362.45	354.56
UK unquoted		135.86	69.80
Overseas quoted		8,604.47	7,572.14
		9,102.78	7,996.50
Fixed interest securities			
UK quoted - public sector		1,537.57	2,238.60
UK quoted - non-public sector		114.72	128.63
UK unquoted - non-public sector		0.77	0.77
Overseas quoted - non-public sector		346.49	769.26
Overseas unquoted - non-public sector		6.68	2.08
		2,006.23	3,139.34
Indexed linked securities			
UK quoted - public sector		958.94	332.51
Overseas quoted - public sector		1,346.61	381.04
		2,305.55	713.55
UK Property			
Pooled investments vehicles	1.5	9,559.51	10,057.00
Derivative contracts			
Futures - exchange traded	1.6	24.17	35.05
FX contracts - OTC	1.6	0.96	81.13
		25.13	116.18
Other assets			
Other investment assets	1.7	87.26	102.21
Current assets	1.8	12.11	14.36
		99.37	116.57
Cash deposits and cash instruments	1.9	2,469.82	4,266.36
Total assets		27,485.06	28,223.91

Liabilities	Notes	2018 £m	2017 £m
Derivative contracts			
Futures - exchange traded	1.6	(35.89)	(7.41)
FX contracts - OTC	1.6	(145.72)	(5.83)
		(181.61)	(13.24)
Other liabilities			
Other investment liabilities	1.10	(2.08)	(38.40)
Current liabilities	1.11	(58.06)	(61.63)
		(60.14)	(100.03)
Total liabilities		(241.75)	(113.27)
Net assets attributable to unit holders		27,243.31	28,110.64



1.2 Pooled fund unit prices as at 31 December

	2018 £/unit	2017 £/unit
Growth Pooled Fund	17.82	18.69
Property Pooled Fund	92.16	87.59
Government Bond Pooled Fund	13.40	13.30
Illiquid Growth Pooled Fund	14.47	12.42
Passive Equity Pooled Fund	17.03	18.59
Short Duration Index Linked Bond Pooled Fund	10.16	9.99
Long Term Income Pooled Fund	8.28	8.48
Global Equity Pooled Fund	90.70	98.76
Infrastructure Pooled Fund	20.95	18.03
Non Government Bond Pooled Fund	14.11	14.51
Long Duration Index Linked Bond Pooled Fund	92.65	93.95
Cash Pooled Fund	10.37	10.31
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995*	-	5,090.68
Direct Investment Pooled Fund 1997*	-	180.31
Direct Investment Pooled Fund 1999*	-	39.07
Direct Investment Pooled Fund 2000	14.43	15.62
Private Equity Pooled Fund 2001	50.15	41.27
Private Equity Pooled Fund 2004	38.29	36.68
Private Equity Pooled Fund 2005	42.67	36.87
Private Equity Pooled Fund 2007	33.78	27.64
Private Equity Pooled Fund 2009	38.57	31.59
Private Equity Pooled Fund 2011	32.04	24.08
Private Equity Pooled Fund 2013	21.78	16.21
Defined Contribution Pooled Fund		
DC Global Equity Fund	14.15	15.44
DC Long Term Growth Fund	14.51	15.24
DC Deposit Fund	10.17	10.12
DC Index Linked and Global Bond Fund	13.87	14.17
DC Aggregate Bond Fund	13.03	13.21

* These pooled funds were closed on 20 December 2018 and the remaining assets distributed to the unit holders.

1.3 Value of the Pooled Funds

	2018 £m	2017 £m
Growth Pooled Fund	17,691.86	18,992.36
Private Equity Pooled Fund**	2,353.24	2,255.27
Property Pooled Fund	2,098.67	1,964.68
Government Bond Pooled Fund	1,454.68	1,961.32
Defined Contribution Pooled Fund**	1,395.56	1,460.26
Illiquid Growth Pooled Fund	1,049.98	469.05
Passive Equity Pooled Fund	803.42	909.88
Short Duration Index Linked Bond Pooled Fund	792.19	112.81
Long Term Income Pooled Fund	665.57	329.90
Global Equity Pooled Fund	662.97	795.79
Infrastructure Pooled Fund	442.21	608.37
Non Government Bond Pooled Fund	427.06	622.62
Long Duration Index Linked Bond Pooled Fund	197.95	221.39
Cash Pooled Fund	194.64	302.82
Cross holdings		
Property Pooled Fund	(2,098.67)	(1,964.68)
Growth Pooled Fund	(853.25)	(895.01)
Non Government Bond Pooled Fund	(23.01)	(23.04)
Long Duration Index Linked Bond Pooled Fund	(11.72)	(13.11)
Private Equity Pooled Fund	(0.04)	(0.04)
Net assets attributable to unit holders	27,243.31	28,110.64

** See breakdown into pooled fund segments, right.

*** These pooled funds were closed on 20 December 2018 and the remaining assets distributed to the unit holders.

	2018 £m	2017 £m
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995***	-	0.15
Direct Investment Pooled Fund 1997***	-	0.20
Direct Investment Pooled Fund 1999***	-	0.22
Direct Investment Pooled Fund 2000	3.39	6.36
Private Equity Pooled Fund 2001	40.27	51.14
Private Equity Pooled Fund 2004	29.47	37.74
Private Equity Pooled Fund 2005	62.98	82.24
Private Equity Pooled Fund 2007	841.14	880.94
Private Equity Pooled Fund 2009	239.04	234.51
Private Equity Pooled Fund 2011	853.16	731.38
Private Equity Pooled Fund 2013	283.79	230.39
	2,353.24	2,255.27
Defined Contribution Pooled Fund		
DC Long Term Growth Fund	854.34	895.88
DC Deposit Fund	299.48	311.20
DC Global Equity Fund	195.70	206.87
DC Index Linked and Global Bond Fund	23.57	26.09
DC Aggregate Bond Fund	22.47	20.22
	1,395.56	1,460.26

1.4 Investment income

	2018 £m	2017 £m
Dividends from equities	232.86	176.25
Income from fixed interest securities	53.59	83.68
Income from index linked securities	64.97	11.46
Income from pooled investment vehicles	3.74	0.01
Income from stock lending	1.43	0.52
Income from UK property	107.90	97.21
Interest from cash deposits	16.35	12.11
Other income	1.43	5.58
	482.27	386.82
Irrecoverable withholding tax	(11.30)	(7.39)
Total income	470.97	379.43
Administration, custody and other expenses	(25.66)	(24.08)
Investment management fees - base	(7.39)	(15.31)
Investment management fees - performance	-	(0.01)
RPMI fees	(28.06)	(30.61)
Irrecoverable VAT	(0.27)	(0.30)
Tax	(0.95)	(0.01)
	(62.33)	(70.32)
Reinvested net income (accrued in unit prices)	408.64	309.11

1.5 Pooled investment vehicles

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

	2018 £m	2017 £m
UK unquoted - unithised insurance policies	2,891.00	4,354.98
UK unquoted - partnerships	1,084.19	861.24
UK unquoted - other managed funds	607.34	638.91
UK quoted - other managed funds	72.44	83.64
Overseas unquoted - partnerships	3,598.68	2,902.36
Overseas unquoted - other managed funds	1,217.63	1,115.03
Overseas unquoted - hedge funds	88.23	100.84
	9,559.51	10,057.00

The pooled funds are the sole investor in thirteen (2017: eleven) pooled investment vehicles included within the above analysis. The assets underlying these sole investor pooled investment vehicles are:

	2018 £m	2017 £m
Fixed interest securities	336.33	149.29
Insurance	108.74	184.81
Private equity	63.06	164.04
Royalties	125.09	104.95
	633.22	603.09

1.6 Derivative contracts

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

Type of future	Duration	Notional value at year end	Asset value at year end	Liability value at year end
		£m	£m	£m
US treasury notes	Mar 2019	517.25	24.17	-
S&P indices	Mar 2019	696.05	-	(19.10)
Japanese topix index	Mar 2019	190.58	-	(11.13)
MSCI EM indices	Mar 2019	429.40	-	(5.01)
Euro Stoxx index	Mar 2019	24.83	-	(0.56)
Other equity indices	Mar 2019	3.26	-	(0.09)
		1,861.37	24.17	(35.89)

Included within cash balances is £92.73m in respect of initial and variation margins deposited with brokers regarding open futures contracts at the year end.

Forward FX contracts: The pooled funds had open FX contracts at the year end as follows:

Type of contract	Settlement Date	Currency bought million	Currency sold million	Value at year end £m
Assets				
US dollar / Sterling	Jan – Feb 2019	216.70	169.36	0.61
Sterling / Euro	Feb 2019	76.37	84.78	0.14
Sterling / Canadian dollar	Feb 2019	4.11	6.94	0.12
Other	Jan – Feb 2019	-	-	0.09
				0.96
Liabilities				
Sterling / US dollar	Jan – Apr 2019	6,205.99	8,067.60	(110.02)
Sterling / Euro	Jan – Feb 2019	1,095.43	1,238.52	(17.65)
Sterling / Japanese yen	Jan – Feb 2019	293.80	42,362.04	(9.59)
US dollar / Japanese yen	Feb 2019	250.36	28,066.00	(4.89)
Other	Jan – Feb 2019	-	-	(3.57)
				(145.72)

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.

Included within net assets is £151.77m of cash in respect of collateral deposited with counterparties relating to open FX contracts at the year end.

1.7 Other investments assets

	2018 £m	2017 £m
Asset in respect of investment settlements	4.05	24.64
Investment income accrued	34.31	36.83
Recoverable tax	17.91	11.24
Rent receivable	30.99	29.50
	87.26	102.21

1.8 Current assets

	2018 £m	2017 £m
Asset in respect of unit trades	2.61	0.59
Trade debtors	7.19	11.45
Tax	0.34	0.34
Vat and other	1.97	1.98
	12.11	14.36

1.9 Cash deposits and cash instruments

	2018 £m	2017 £m
Cash held in liquidity funds	1,873.98	4,028.32
Cash held at brokers in respect of futures margin	92.73	130.72
Cash at bank	351.34	105.52
Cash collateral held by counterparties	151.77	1.80
	2,469.82	4,266.36

1.10 Other investment liabilities

	2018 £m	2017 £m
Liability in respect of investment settlements	(1.37)	(37.81)
Tax payable	(0.71)	(0.59)
	(2.08)	(38.40)

1.11 Current liabilities

	2018 £m	2017 £m
Accrued management fees and expenses	(20.50)	(24.89)
Property income received in advance	(21.32)	(22.44)
Trade creditors	(8.78)	(6.49)
Liability in respect of unit trades	(2.02)	(2.40)
Tax	(4.89)	(4.35)
VAT and other	(0.55)	(1.06)
	(58.06)	(61.63)

1.12 Stock lending

The Trustee has given 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 and a permanent restriction is in place that ensures that shares held in companies that are sponsoring employers of the RPS are not included in the lending programme.

Further details on the stock lending policy can be found on page 43.

At 31 December 2018, the market valuation of stock that had been lent in the market was £2,520.22m (2017: £196.70m).

Collateral held in respect of the stock on loan at 31 December 2018 had a total value of £2,725.32m (2017: £206.30m).

1.13 Reconciliation of investments held at beginning and end of year

	Value at 31 December 2017	Units issued/ (redeemed)	Net income	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 December 2018
	£m	£m	£m	£m	£m	£m	£m
Directly held assets							
Equities	7,996.50	-	-	8,238.18	(6,622.20)	(509.70)	9,102.78
Fixed interest securities	3,139.34	-	-	1,122.30	(2,214.73)	(40.68)	2,006.23
Index linked securities	713.55	-	-	1,783.63	(172.20)	(19.43)	2,305.55
Pooled investment vehicles	10,057.00	-	-	3,049.81	(4,133.81)	586.51	9,559.51
UK property	1,818.41	-	-	135.11	(47.19)	10.34	1,916.67
	23,724.80	-	-	14,329.03	(13,190.13)	27.04	24,890.74
Derivatives							
Futures	27.64	-	-	377.79	(145.71)	(271.44)	(11.72)
FX contracts	75.30	-	-	2,091.44	(1,847.23)	(464.27)	(144.76)
	102.94	-	-	2,469.23	(1,992.94)	(735.71)	(156.48)
Cross holdings	2,895.88	-	-	79.17	(48.90)	60.54	2,986.69
Other							
Cash and current assets	4,282.90	(551.75)	408.64	(16,877.43)	15,231.97	14.72	2,509.05
	31,006.52	(551.75)	408.64	-	-	(633.41)	30,230.00
Cross holdings	(2,895.88)						(2,986.69)
Net assets	28,110.64						27,243.31



1.14 Transaction costs

Included within the pooled funds' purchases and sales in note 1.13 are direct transaction costs of £19.66m (2017: £13.16m) 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 £1.25m (2017: £0.05m) relating to legal and due diligence fees.

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

Year to 31 December 2018	Fees £m	Commission £m	Stamp duty land tax £m	Legal and other £m	Total £m
Equities	4.46	3.67	-	-	8.13
Futures	-	0.41	-	-	0.41
Pooled investment vehicles	-	2.61	-	1.40	4.01
UK property	-	-	7.35	1.01	8.36
	4.46	6.69	7.35	2.41	20.91

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

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

1.15 Investment fair value hierarchy

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

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than the quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly

Level 3: Inputs are unobservable (i.e. for which market data is unavailable for the asset or liability)

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

At 31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Directly held assets				
Equities	8,965.60	1.32	135.86	9,102.78
Fixed interest securities	1,859.65	146.58	-	2,006.23
Index linked securities	2,305.55	-	-	2,305.55
Pooled investment vehicles	72.44	4,079.79	5,407.28	9,559.51
UK property	-	-	1,916.67	1,916.67
Derivatives				
Futures	(11.72)	-	-	(11.72)
FX contracts	-	(144.76)	-	(144.76)
Other				
Cash and current assets	2,509.05	-	-	2,509.05
	15,700.57	4,082.93	7,459.81	27,243.31

At 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Directly held assets				
Equities	7,926.70	-	69.80	7,996.50
Fixed interest securities	2,892.23	247.11	-	3,139.34
Index linked securities	713.55	-	-	713.55
Pooled investment vehicles	83.65	5,818.50	4,154.85	10,057.00
UK property	-	-	1,818.41	1,818.41
Derivatives				
Futures	27.64	-	-	27.64
FX contracts	-	75.30	-	75.30
Other				
Cash and current assets	4,282.90	-	-	4,282.90
	15,926.67	6,140.91	6,043.06	28,110.64

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 as follows 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.

At 31 December 2018	Investment grade £m	Non Investment grade £m	Unrated £m	Total £m
Fixed interest securities	1,993.83	4.95	7.45	2,006.23
Index linked securities	2,305.55	-	-	2,305.55
Pooled investment vehicles	-	-	9,559.51	9,559.51
FX contracts	(144.76)	-	-	(144.76)
Futures	-	-	(11.72)	(11.72)
Cash	2,469.82	-	-	2,469.82
Stock lending	2,520.22	-	-	2,520.22
	9,144.66	4.95	9,555.24	18,704.85

At 31 December 2017	Investment grade £m	Non Investment grade £m	Unrated £m	Total £m
Fixed interest securities	2,897.37	237.81	4.16	3,139.34
Index linked securities	713.55	-	-	713.55
Pooled investment vehicles	-	-	10,057.00	10,057.00
FX contracts	75.30	-	-	75.30
Futures	-	-	21.36	21.36
Cash	3,974.25	-	-	3,974.25
Stock lending	192.91	-	-	192.91
	7,853.38	237.81	10,082.52	18,173.71

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 investment grade credit rated.

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

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

	2018 £m	2017 £m
Unitised insurance policies	2,891.00	4,354.98
Partnerships	4,682.87	3,763.60
Other managed funds	1,897.41	1,837.58
Hedge funds	88.23	100.84
	9,559.51	10,057.00

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 £1,739.14m (2017: £1,437.63m).

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:

	2018 £m	2017 £m
Currency		
US dollar	6,072.09	6,977.98
Euro	671.59	999.74
Japanese yen	389.22	456.89
Other	2,461.19	2,872.13
	9,594.09	11,306.74

Interest rate risk

The pooled funds are subject to interest rate risk on fixed interest securities and index linked securities 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:

	2018 £m	2017 £m
Direct		
Fixed interest securities	2,006.23	3,139.34
Index linked securities	2,305.55	713.55
Fixed interest securities	24.17	(1.52)
Indirect		
Fixed interest pooled investment vehicles	1,727.93	1,427.57
Index linked pooled investment vehicles	11.21	10.06
	6,075.09	5,289.00

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:

	2018 £m	2017 £m
Direct		
Equities	9,102.78	7,996.50
UK property	1,916.67	1,818.41
Equity futures	(35.89)	29.16
Indirect		
Equity pooled investment vehicles	2,952.23	4,428.57
Private equity pooled investment vehicles	3,926.01	2,952.75
Infrastructure pooled investment vehicles	435.76	602.95
Other managed funds	418.14	534.26
Hedge funds	88.23	100.84
	18,803.93	18,463.44

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:

	2018 £m	2017 £m
RPMI Railpen*	10,974.69	10,040.38
Northern Trust Asset Management	4,051.16	3,262.06
Legal & General Investment Management	2,625.58	4,039.95
AQR Capital Management	1,904.20	1,880.46
Blackstone Alternative Asset Management	1,129.77	952.64
Horsley Bridge Partners	568.03	464.36
Insight Investment	441.66	636.52
Credit Suisse ILS Limited	362.35	184.81
BlackRock Advisors (UK)	347.49	431.33
Intermediate Capital Group	308.28	301.48
Aspect Capital Limited (from September 2018)	299.06	-
OneFamily Lifetime Mortgages Limited	222.43	149.29
Kobalt Music Group	200.70	103.79
Morningside Ventures	191.07	89.34
Sequoia Capital	190.92	142.14
Macquarie Infrastructure (from December 2018)	184.39	-
Columbia Capital	161.06	64.42
Arcus Infrastructure Partners	152.04	275.58
Goldman Sachs Asset Management	140.53	179.77
Long Harbour	132.62	99.97
Riverside Europe Fund Associates	130.34	82.89
Innisfree Limited	130.05	130.06
HealthCare Royalty Partners	125.09	104.95
Venor Capital Management	115.39	63.33
Maddox Capital	113.90	72.88
Owl Rock Capital Advisors	82.14	39.78
Accel partners	81.27	74.94
HarbourVest Partners	80.74	116.01
Pensions Infrastructure Platform	76.98	84.53
Bain Capital	74.28	71.76
Carried forward	25,598.21	24,139.42

*Included in this balance is cash invested in Liquidity Funds totalling £1,716.76m (2017 : £3,696.19m)

	2018 £m	2017 £m
Brought forward	25,598.21	24,139.42
Orion Energy Partners	61.30	34.12
Westbridge Capital Partners	60.35	66.15
Khosla Ventures	59.58	47.30
Adam Street Partners	59.14	72.72
Duke Street (from January 2018)	57.91	-
White Oak (from January 2018)	55.36	-
Apax Partners	52.90	56.22
Dalmore Capital Limited	52.60	49.09
Pantheon Ventures	50.80	56.66
Standard Life Investments	50.04	61.96
WP Global Partners	48.42	16.26
Great Hill Partners	48.17	45.58
H.I.G. Capital	44.17	36.89
General Atlantic	41.69	37.67
Constellation (from February 2018)	41.50	-
Thoma Bravo	39.31	41.63
Innovation Works	38.15	29.15
Scale Venture Partners	37.22	32.45
Cinven	36.52	56.01
Highland Capital Partners	36.51	31.71
Grosvenor Capital Management	36.47	44.24
Balderton Capital	33.21	34.74
Warburg Pincus	30.97	35.03
Amplo Partners	29.31	1.48
Index Ventures	27.03	16.25
Hony Capital	26.39	36.26
Charlesbank Capital Partners	25.00	29.04
Private Advisors	24.12	27.96
Andreessen Horowitz	23.87	16.23
Institutional Venture Partners	23.57	29.14
Clearsight Investments	23.54	28.92
KPS Capital Partners	23.39	20.46
Bessemer Venture Partners	22.89	17.51
Carried forward	26,919.61	25,248.25

	2018 £m	2017 £m
Brought forward	26,919.61	25,248.25
Ares Management	22.32	26.52
Innova	22.14	22.43
Anacap Financial Partners	21.76	31.19
ClearVue Partners	20.50	22.36
Limerston Capital Partners	18.76	31.37
Mount Elbert (from November 2018)	17.08	-
Domain Partners	16.44	15.52
Sankaty Advisors	15.34	19.90
Navis Capital Partners	15.22	12.52
EQT Funds Management	14.32	8.73
Archer Capital	14.18	17.58
Peak Rock Capital	13.39	16.53
Cranemere (from November 2018)	11.89	-
CI Capital Investors	11.57	13.74
Blakeney General Partners	10.34	12.02
Oaktree Capital Management	10.00	13.29
General Catalyst	9.91	9.88
Triton Partners	9.84	8.40
Berkshire Partners	9.76	12.66
Southern Cross Group	9.60	10.19
Headland Capital Partners	8.38	9.30
Soundcore (from July 2018)	5.58	-
Palatine Private Equity	5.28	3.68
Abry Partners	4.56	4.53
Blossom (from February 2018)	3.30	-
Amaranthine Partners (from June 2018)	1.77	-
Alinda Capital Partners	0.38	11.74
Governance For Owners Group	0.09	0.09
Bridges Community Ventures (value is <£0.01m)	-	0.03
Unigestion (to October 2018)	-	945.60
Russell Fund Management (to September 2018)	-	915.69
Capital Fund Management (to September 2018)	-	337.43
Wellington Management International (to February 2018)	-	329.47
	27,243.31	28,110.64

1.18 Performance

Performance is calculated by RPMI based on changes in the relevant pooled fund unit prices, which are net of fees, over the period.

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

	2018 %	2017 %
FTSE North America Index	25.00	25.00
FTSE All Share Index	20.00	20.00
FTSE Developed Europe (ex UK) Index	20.00	20.00
FTSE Developed Asia Pacific Index	20.00	20.00
MSCI Emerging Markets Index (50% hedged to GBP)	15.00	15.00
	100.00	100.00

The Global Equity Pooled Fund adopts a passive hedging strategy whereby 50% of the overseas developed markets currency exposure in the pooled fund is hedged back to Sterling.

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

Pooled Fund	Comparator
Growth	UK Retail prices Index plus 4%
Private Equity*	MSCI ACWI Index
Property	MSCI UK Monthly Property Index GBP
Government Bond	FTSE World Government Bond Index (WGBI) 3-7 Years GBP
DC Global Equity	FTSE Developed Markets GBP Hedged
DC Long Term Growth	Composite comparator comprising: 75% MSCI ACWI Net 50% GBP Hedged 25% FTSE World Government Bond Index (WGBI) 100% GBP Hedged
DC Deposit	GBP 1M Libor
DC Index Linked and Global Bond	Composite comparator comprising: 50% FTSE Actuaries UK Conventional Gilts over 15 years Index 50% Bloomberg Barclays Global Aggregate Corporate GBP Hedged
DC Aggregate Bond	Composite comparator comprising: 50% FTSE Actuaries UK Conventional Gilts over 15 years Index 50% Bloomberg Barclays Global Aggregate Corporate GBP Hedged
Infrastructure	UK Retail Prices Index plus 4%
Passive Equity	FTSE Developed Markets GBP Hedged
Non Government Bond	Bloomberg Barclays Global Aggregate Corporate Index GBP Hedged
Cash	GBP 1M Libor
Illiquid Growth	UK Retail Prices Index plus 4%
Long Duration Index Linked Bond	Bloomberg Barclays UK Gilt 15+ Year
Long Term Income	UK Retail Prices Index
Short Duration Index Linked Bond	Bloomberg Barclays UK Gilt 1 to 10 Year.

* Prior to February 2018 the comparator of the Private Equity Pooled Fund was MSCI ACWI index plus 1%.

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

Pooled Fund	Actual 2018	Comparator 2018	Actual last 5 years	Comparator last 5 years
	(%)	(%)	(%)	(%)
Growth	(4.6)	6.8	7.2	6.6
Private Equity	32.0	(3.8)	20.2	9.9
Property	5.2	6.8	6.9	6.5
Government Bond	0.7	0.7	3.5	3.3
Illiquid Growth ¹	18.7	6.8	12.1	7.2
Passive Equity	(8.3)	(8.7)	5.8	5.5
Short Duration Index Linked Bond ¹	1.7	1.8	1.3	1.6
Long Term Income ¹	1.8	2.7	0.4	3.4
Global Equity	(8.0)	(8.2)	6.9	6.7
Infrastructure	13.9	6.8	16.2	6.5
Non Government Bond	(2.7)	(2.7)	3.3	3.1
Long Duration Index Linked Bond	(1.4)	(1.6)	11.3	11.3
Cash	0.6	0.6	0.4	0.5
DC Long Term Growth	(4.8)	(4.4)	7.0	6.5
DC Deposit	0.5	0.6	0.3	0.5
DC Global Equity	(8.3)	(8.7)	5.1	4.8
DC Aggregate Bond	(1.4)	(1.1)	6.1	6.2
DC Index Linked and Global Bond	(2.1)	(1.9)	7.3	7.3

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

