RAILWAYS PENSION TRUSTEE COMPANY LIMITED ("THE TRUSTEE")

STATEMENT OF INVESTMENT PRINCIPLES ("SIP")

Introduction

1. Railways Pension Trustee Company Limited is the trustee body (the "Trustee") for the railways pension schemes listed in Schedule 1 (the "Schemes") and for each separate Section (a "Section") within the Railways Pension Scheme ("RPS") and the British Transport Police Force Superannuation Fund ("BTPFSF").

2. The Trustee is required under legislation to produce and maintain a SIP to set out the investment principles governing decisions about investments for each Scheme. The Trustee considers each Scheme individually and collectively, and this document represents the combined SIP for the Schemes.

3. The Schemes are occupational pension schemes providing defined benefit ("DB") and defined contribution ("DC") benefits. The main body of the SIP relates to DB and DC elements of the Schemes (unless otherwise stated), whereas Schedules 2 and 3 apply to certain DC elements only.

4. The Trustee has drawn up this SIP to comply with the requirements of the Pensions Act 1995 (as amended) and subsequent legislation, including The Occupational Pension Schemes (Investment) Regulations 2005 (the "Investment Regulations"). The Trustee has received written advice from the Trustee's wholly-owned subsidiary, Railway Pension Investments Limited ("RPIL"), whom the Trustee believes to be suitably qualified and experienced to provide such advice, before adopting this SIP. The Trustee has two wholly-owned operating subsidiaries, Railpen Limited ("Railpen") and RPIL, to which it delegates the day-to-day operation of the Schemes.

5. This draft SIP was considered by the Trustee on 17 September 2024 and is being consulted on with relevant employers.

Responsibilities and Process

6. The Trustee is responsible under the Pensions Act 1995 for determining the overarching investment principles used across the Schemes. These are outlined in this SIP, and supporting documents can be found online at https://www.railpen.com/investing/.

7. The Trustee has investment powers under the Pensions Act 1995, the Railways Pension Scheme Pension Trust, the Rules of the British Railways Superannuation Fund, the British Transport Police Force Superannuation Fund Trust Deed and Rules, and the BR 1974 Pension Fund Trust Deed and Rules.

8. Within the DB arrangements, for RPS Sections where the employer has elected to establish a Pensions Committee ("PC") and for Schemes where a Management Committee ("MC") is in place, power to determine an investment policy to establish the proportion of assets to be held in each of the Pooled Funds lies with the Committee (with the exception, at the time of drawing up this SIP, of the British Transport Police Force Superannuation Fund, the RPS Govia Thameslink Railway Section, and the RPS London Overground Section). Save for the

1994 Pensioners Section of the RPS, this is subject to a veto right for the Trustee if in its opinion the proposed policy would be likely seriously to prejudice the security of members' interests. In the case of the 1994 Pensioners Section of the RPS only, this is subject to the consent of the Trustee and the Secretary of State. The Trustee manages interactions with the PCs and MCs to ensure compliance with this SIP and applicable laws. Where a PC or MC is not in place, the Trustee has sole responsibility for setting the investment strategy. The Trustee has delegated this responsibility to a sub-committee, the Integrated Funding Committee ("IFC"). The investment strategy for each Scheme and/or Section is included in their respective Quarterly Investment Report, which is shared with the sponsoring employer. A copy of each Scheme and/or Section's investment strategy is also available to the sponsoring employer upon request.

9. The Trustee is responsible for investment strategy implementation, and has in turn delegated this to RPIL. The Trustee is also responsible for ensuring that any strategy and/or policies adopted comply with the applicable legal requirements.

10. The SIP is reviewed following each triennial actuarial valuation and following any significant change in investment policy. The Trustee will consult with the relevant employers about any changes to the SIP.

Investment Beliefs

11. The Trustee and RPIL co-created a set of core beliefs that set out a clear view on investment philosophy and Scheme governance. These beliefs are used to inform the investment process used across the Schemes. The Trustee reviews the Investment Beliefs periodically and they are available to view online at https://www.railpen.com/investing/how-we-invest/beliefs/.

Investment Objectives

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

13. With respect to the DB elements of the Schemes, it achieves this through investing the assets of each Scheme and 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. The Trustee adopts an integrated approach to covenant, funding, and investment, and the investment strategy applied to a particular Scheme or Section within the ambit of the Trustee's investment policies and applicable laws will take into account a range of factors including, but not limited to, the Scheme or Section's funding level, maturity characteristics, liquidity and return requirements, risk tolerance and the strength of the employer covenant. Due to the different characteristics of the Schemes and Sections, investment strategies will vary widely amongst them and from time to time. The overall investment policy objectives for the Schemes and Sections are:

    13.1. To achieve and maintain, together with any contributions, a funding level of at least 100% measured on an on-going basis over time; and

    13.2. To target a long-term return that is sufficient to support the discount rates used in the funding assumptions, with an acceptable level of expected volatility and taking account of liquidity requirements.

14. Investment strategy considerations for the DC elements of the Schemes are included in Schedules 2 and 3.

Investment Policy for Securing Compliance with Section 36 of the Pensions Act 1995

15. Before investing in any manner, the Trustee obtains and considers written advice from RPIL on the question of whether the investment is satisfactory, having regard to relevant factors, including the need for suitable and appropriately diversified investments. The Trustee's policy is to obtain written advice from RPIL in relation to any retained investment at regular intervals.

16. The Trustee exercises its powers of investment with a view to giving effect to the principles in this SIP, as far as reasonably practicable.

Kinds of Investments to be Held and Management of the Pooled Funds

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

18. The Schemes and Sections invest in a number of HMRC-approved pooled funds (the "Pooled Funds") operated by RPIL on behalf of the Trustee. These funds are used to implement the investment strategy for Schemes and Sections, and are intended to accommodate their different investment requirements and objectives. In terms of the balance between different kinds of investments, the assets of the Schemes and Sections consist predominantly of investments admitted to trading on regulated markets. Investments that are not admitted to trading on regulated markets may be held where it is deemed beneficial from a risk and return perspective, but are in any event kept to a prudent level.

19. Each Pooled Fund has distinct expected return, risk, and liquidity characteristics, and is either multi-asset or single-asset class by design. The Trustee recognises that Schemes and Sections can benefit from the diversification offered by investing across various asset classes, due to their different risk and return drivers. 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 Pooled Fund Policy document and Pooled Fund Directive document.

20. The proportion of Scheme or Section assets to be held in a particular Pooled Fund at any point in time may differ from the investment strategy, for example due to market movements or implementation constraints. RPIL monitors the proportion of assets held in a particular Pooled Fund and the balance between the different kinds of investments on behalf of the Trustee. The Trustee, and RPIL under delegated authority, may take actions to change these proportions as it considers appropriate.

21. The Trustee regularly reviews the Pooled Fund range and may change the range of Pooled Funds, the associated objectives, and the investment guidelines from time to time as it considers appropriate, in accordance with the rules of the Schemes and with the benefit of advice from RPIL and the Trustee's independent investment expert.

22. The investment of the assets within each Pooled Fund, including day-to-day investment decisions, are delegated under an Investment Management Agreement to RPIL, the investment manager for the railway pension schemes, or to fund managers appointed by RPIL (together the "Fund Managers"). The Investment Management Agreement sets out the parameters and policies within which RPIL operates.

23. The investment arrangements are overseen by the Investment Oversight Committee ("IOC"),

a Committee within RPIL, which ensures adherence to the Trustees' investment policy, oversees the investment process, and approves risk guidelines and limits. More information on the delegated structure can be found at: https://www.railpen.com/about-us/our-governance/. The Trustee reviews and monitors performance (and fees) to ensure that the activities of RPIL continue to be aligned with the Trustee's investment policy.

24. In turn, RPIL is responsible for ensuring that the Fund Managers invest scheme assets in line with the Trustee's investment policy, and that the Fund Managers' approaches to stewardship and environmental, social and governance ("ESG") integration, including climate change, align where relevant with the Trustee's investment beliefs and with the Trustee's own approaches to stewardship and ESG integration (including climate change), which are detailed below. This includes assessing how the relevant Fund Manager makes investment decisions based on the medium- to long-term financial and non-financial performance of investee companies, and how it engages with investee companies to improve their performance.

25. RPIL reviews and monitors the contractual arrangements with Fund Managers, including their remuneration and length of appointment, on at least an annual basis through relationship meetings and investment reporting, to ensure that they are consistent with the Trustee's investment policy and that Fund Managers' investment decisions and approach are aligned with the Trustee's investment policy and role as a responsible investor. This includes ensuring that Fund Managers are appropriately incentivised to make decisions based on assessments about medium- to long-term financial and non-financial performance of investee companies, and to engage with investee companies to improve their performance in the medium- to long-term. The method for reviewing these arrangements at least annually is appropriate given the time horizon and in line with the Trustee's policies set out in this SIP. More information on how RPIL ensures that remuneration structures are aligned with the long-term perspective of beneficiaries can be found within our Voting Policy reports on the Railpen website: https://www.railpen.com/knowledge-hub/reports/.

26. The Trustee is satisfied that RPIL has the appropriate knowledge and experience for managing the investments of the Schemes and that it carries out its role in accordance with the criteria for investment set out in the Investment Regulations, the principles contained in this SIP, any applicable investment policy, and any applicable investment guidelines and restrictions agreed with the Trustee.

27. The multi-asset Pooled Funds are managed in accordance with the Pooled Fund Policy, approved on a regular basis by the IOC. The single-asset Pooled Funds are managed to specific objectives with permitted tolerances. Where relevant, RPIL 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.

28. RPIL 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, the Pooled Fund Policy document, and Pooled Fund Directive. This includes the power to rebalance funds from available cash or make transfers in order to keep within stipulated asset allocations or restrictions.

29. In addition to the Pooled Funds, the Schemes and Sections may invest assets with an insurance company regulated by the Prudential Regulation Authority in order to accomplish a transfer of risk.

Performance Measurement

30. The performance of each Scheme and/or Section and the investment performance of the portfolios of RPIL and the Fund Managers are measured for the Trustee. Also, investment performance of each Scheme and/or Section is monitored by RPIL and reported to the IFC, the PCs and MCs (where appropriate), and the relevant employers. The IOC monitors the performance of the Pooled Funds against long-term performance objectives and compliance with operating parameters to ensure the investment approach aligns with the Trustee's investment policy and beliefs. RPIL is responsible for monitoring the performance of the Fund Managers against long-term performance objectives and compliance with operating parameters to ensure alignment with the Trustee's investment policy and beliefs.

Risk Management

31. The Trustee recognises that there are various investment and operational risks to which any pension scheme is exposed, including, but not limited to, interest rate, inflation, credit, industry- and issuer-specific, legal, and (for DB arrangements) longevity risks. The Trustee gives qualitative and quantitative consideration to such risks. A number of steps are taken to manage such risks, including:

    31.1. taking advice from RPIL and other advisers;

    31.2. maintaining a Trustee risk register;

    31.3. appointing an IFC with specific responsibilities including agreeing integrated funding plans for each Scheme and Section and monitoring performance against their agreed funding plans;

    31.4. appointing an Audit and Risk Committee with specific responsibilities including review of financial control and risk management systems;

    31.5. appointing a global custodian to hold assets, with RPIL monitoring the custodian's service provision and credit-worthiness;

    31.6. delegating to RPIL specific responsibilities including oversight of the management of the Pooled Funds;

    31.7. establishing the Railpen Enterprise Risk Committee and the Investment Risk Committee to oversee monitoring of operational and investment risks respectively.

Defined Contribution Assets

32. The Schemes provide DC benefits in the form of additional voluntary contributions ("AVCs") in the DB Sections and the Industry-Wide Defined Contribution ("IWDC") Section, a standalone DC Section of the RPS. The IWDC Section is the authorised master trust within the RPS. The Trustee is responsible for investing DC assets in the best interests of members and beneficiaries, providing appropriate fund choices and ensuring good value for members. The Trustee's strategy and approach to the DC elements are set out in Schedules 2 and 3, to the extent they differ to the Scheme's DB elements.

33. The range of funds made available for the DC fund arrangements is reviewed regularly and may be changed by the Trustee from time to time in accordance with applicable rules of the Schemes. The intention is to ensure an investment philosophy consistent across both DB

and DC arrangements to the extent possible.

34. Further information on AVC Funds can be found in Schedule 2 and further information on the IWDC Section can be found in Schedule 3.

Costs

35. The Trustee recognises that strict control of costs is important in contributing to good investment returns. As such, RPIL and Railpen are asked to ensure that all aspects of cost from the responsibilities and mandates exercised by those involved in the investment process, both internal and external, are kept under regular review. The aim is to implement Scheme and/or Section strategy in the most efficient manner possible, using internal resources wherever appropriate. Investments within the Pooled Funds are considered in terms of the most efficient way to access desired return drivers. As part of this process, fees payable to external Fund Managers and costs relating to the investment, management, custody and realisation of Pooled Fund assets are kept under regular review.

36. RPIL and Railpen give full transparency to the Trustee on the underlying costs making up the annual management charges including, but not limited to, investment management costs, internal staff costs, legal costs and IT costs. The Trustee also monitors the level of transaction costs incurred by the funds on a yearly basis. These costs include, but are not limited to, broker commissions, commissions of futures, transfer taxes, and other fees such as bank fees, search fees, legal fees, and stamp duty. More information on the breakdown of costs can be found in the annual report and accounts published on the Railpen website (https://www.railpen.com/knowledge-hub/reports/).

37. The Trustee does not have a targeted portfolio turnover or turnover range, but instead reviews costs in conjunction with net of fees performance figures for the Pooled Funds, and Fund Managers are encouraged to take a long-term approach to investing in order to align with the Trustees' investment beliefs and investment policy.

Environmental, Social and Governance (including climate change) integration and Stewardship (including engagement and voting)

38. The Trustee recognises its legal duty to consider factors that are likely to have a financially material impact on investment returns over the period during which Schemes' assets are invested. The Trustee considers such factors, takes advice on them and, if appropriate, takes them into account in the selection, retention and realisation of investments.

39. These factors include, but are not limited to, environmental, social and governance (ESG) factors, including, but not limited to, climate change.

40. The Trustee requires RPIL and Fund Managers to consider and, if appropriate, take account of ESG factors including climate change in the selection, retention and realisation of investments. In addition, the Trustee requires RPIL to take into account the quality of stewardship and ESG integration (including climate change) when selecting Fund Managers, and to monitor relevant Fund Managers' stewardship and ESG integration (including climate change) during the investment period.

41. The Trustee will continue to monitor and assess ESG factors (including climate change) and the risks and opportunities arising from them, as follows:

    41.1. the Trustee will undertake annual training on ESG considerations in order to understand fully how ESG factors including climate change could impact investments;

41.2. the Trustee will require RPIL and Fund Managers to provide regular information on their approaches to stewardship and ESG integration (including climate change).

42. 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, and seeks to influence, companies through RPIL's stewardship activities, including engagement and voting.

43. The Trustee expects RPIL to exercise rights attaching to investments and to undertake engagement activities in accordance with RPIL's global voting policy and current best practice, including the UK Stewardship Code.

44. RPIL's global voting policy sets out expectations for issuers. Constructive engagement with portfolio companies and policy makers, alongside thoughtful voting, supports the Trustee's investment objectives.

45. Acting on the Trustee's behalf, RPIL is currently focussed on the following stewardship priorities: climate change; workforce treatment; responsible uses of technology; and supporting more sustainable financial markets. The Trustee believes that these issues are stewardship priorities because they are financially material to all or a significant proportion of the Schemes' investments.

46. RPIL and the Trustee jointly issue an annual report on stewardship activities which seeks to achieve compliance with the UK Stewardship Code. RPIL, on behalf of the Trustee, engages with external Fund Managers to encourage them to adopt practices in line with the spirit of this Code as appropriate. Compliance with the UK Stewardship Code can be found on the Railpen website at https://www.railpen.com/knowledge-hub/reports.

Non-financial matters

47. Non-financial matters may be considered on a case-by-case basis in relation to the selection, retention, and realisation of investments. The Trustee assesses whether there is reasonable cause to believe that members would share concerns (including as a result of their views on ESG issues) that the selection, retention, and/or realisation of an investment would be inconsistent with the values or good reputation of the Trustee, members, and the relevant Scheme. Non-financial matters may be taken into account where the Trustee has received advice that to do so would be in accordance with applicable laws.

48. The Trustee will review its policy on non-financial matters in conjunction with its regular review of the SIP.

Schedule 1

RAILWAYS PENSION SCHEMES

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

Railways Pension Scheme (“RPS”)

British Railways Superannuation Fund (“BRSF”)

British Transport Police Force Superannuation Fund (“BTPFSF”)

BR (1974) Fund

Schedule 2

ADDITIONAL VOLUNTARY CONTRIBUTION ("AVC") FUNDS

1. Introduction

This Schedule is appended to and should be read in conjunction with the Statement of Investment Principles ("SIP") adopted by the Railways Pension Trustee Company Limited ("the Trustee") for the railways pension schemes (the "Schemes"). Items in the SIP that also apply to the AVC fund and strategy range cover the majority of the requirements of the Pensions Act 1995 and the underlying Occupational Pension Schemes (Investment) Regulations 2005 (both as amended). This Schedule covers additional requirements that are not covered in the main body of the SIP.

The main AVC arrangement, which is open to all contributing members of the defined benefit ("DB") Sections of the Railways Pension Scheme ("RPS"), is known as BRASS. It is also open to members of the British Transport Police Force Superannuation Fund ("BTPFSF") who joined before 1 April 2007, and eligible members of the British Railways Superannuation Fund ("BRSF").

AVC Extra is the second contribution top-up arrangement for contributing members of the DB Sections of the RPS (other than the Network Rail Section) and members of the BTPFSF who joined before 1 April 2007. It is also open to members of the BTPFSF who joined after 1 April 2007 as their main AVC arrangement.

2. Objective

The overall objective of the Trustee for the AVC arrangements is to provide a range of funds and lifestyle strategies that can meet the needs of most members looking to invest their contributions. For members who do not wish to make their own investment choice, the Trustee makes available a default option that aims to be suitable for the majority of members. Furthermore, the Trustee aims to provide good value for money for all members.

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

3. Investment strategy

The Trustee considered a range of asset classes, their associated expected return and volatility of returns, the suitability of different investment management styles, 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 strategies available to members, which aim to target various retirement options. These strategies are designed to strike a balance between maximising the value of a member's assets at retirement and protecting the value of the accumulated assets, particularly in the years approaching retirement.

The allocations between Funds within the lifestyle strategies change through time, in order 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 a higher-risk fund into lower-risk funds as a member approaches their nominated Target Retirement Age ("TRA"). In the absence of specific input from the member, this adjustment occurs automatically based on the member's TRA. The TRA can be changed by the member.

Both BRASS and AVC Extra offer a lifestyle strategy that operates as a default vehicle, should a member not wish to make their own selection from the available fund range. These default lifestyle strategies are designed to be appropriate for a typical member with a predictable TRA. More on the respective default strategies is provided in Section 5.

4. Fund choices

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

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

The BRASS and AVC Extra arrangements also offer three lifestyle strategies:

- Target Annuity
- Target Flexible Drawdown **(the default strategy for AVC Extra)**
- Target Lump Sum **(the default strategy for BRASS)**

The fund range is provided through a "white-labelled" framework to help accommodate underlying manager changes and future enhancements without undue disruption.

Further information and factsheets for the BRASS and AVC Extra funds and strategies (including their asset allocation, risks and returns) can be found on the Railways Pensions website:

https://member.railwayspensions.co.uk/defined-benefit-members/saving-more-BRASS-AVC-Extra/brass-fund-choices

5. Default strategies

The BRASS arrangement is a "top-up" or additional benefit to the main Scheme DB benefit. At retirement, the BRASS benefit is linked to the main Scheme DB benefit. Members tend to take this mainly as tax-free cash, and this is reflected in the default strategy for BRASS members.

AVC Extra is a further "top-up" arrangement. For AVC Extra members, the default strategy has been constructed on the basis that members are expected to flexibly draw their benefits.

The aim of both default strategies is to generate long-term growth in excess of inflation over members' working lifetimes. The default strategies are intended such that assets are invested in the best interests of members and beneficiaries, however by their nature they cannot capture differences across all individual members.

For both BRASS and AVC Extra, a higher risk tolerance is assumed when members are far from retirement, with the aim of generating higher real (after inflation) returns and increasing retirement savings. The default strategies invest fully in the Long Term Growth Fund until ten years before a member's TRA. The Long Term Growth Fund is a well-diversified, multi-asset fund, which aims to generate returns above inflation over the medium-to-long term.

For BRASS, the "at retirement" portfolio has been constructed on the basis that BRASS members are expected to draw their benefits as cash. Over the ten years to the TRA, the asset allocation transitions to 10% in the Long Term Growth Fund, 75% in the UK Government Fixed Interest Gilt Fund, and 15% in the Corporate Bond Fund. This aims to reduce material losses as retirement approaches.

For AVC Extra, the "at retirement" portfolio has been constructed on the basis that AVC Extra members are expected to flexibly draw their benefits. Over the ten years to the TRA, the asset allocation transitions to 25% in the Long Term Growth Fund, 25% in the UK Government Fixed Interest Gilt Fund, and 50% in the Corporate Bond Fund. This aims to reduce material losses as retirement approaches while maintaining a moderate allocation to growth assets.

Illiquid assets are held within the Long Term Growth Fund that the default strategies utilise, including property, royalties, reinsurance, and infrastructure investments. These provide additional diversification benefits to the Fund, as their risk profile is typically lowly correlated to that of liquid growth assets such as equities. They are also expected to help the Fund deliver improved risk-adjusted returns. There is a hard limit of 30% allocation to illiquid assets within the Fund, which ensures that they do not adversely impact its daily liquidity. The Fund is invested in by all members within the default strategies, with members' allocations to the Fund reducing from 100% to 10% (BRASS) / from 100% to 25% (AVC Extra) as members move towards their TRA. At the time of drawing up this SIP, the level of illiquid assets held within the Fund is c.23%, and the plan is for this level to be broadly maintained.

6. Fund annual charges

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

7. Risks

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

- Risk of inadequate long-term returns, in particular that fund values don't increase with inflation. To manage this, the Trustee includes funds that are expected to generate long-term returns above inflation, although this is not guaranteed over any given period;

- Risk of deterioration in investment conditions near retirement. To address this, the Trustee has made available funds with lower estimated risk, as well as lifestyle options that default into lower estimated risk funds as members approach their TRA;

- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;

- Risk of underlying Fund Managers and/or Pooled Funds not meeting their objectives. The Trustee's Defined Contribution Committee ("DCC") provides oversight to the performance of the Funds. The IOC oversees the performance of the Fund Managers and the Pooled Funds on a regular basis;

- Risk of inappropriate member decisions. This is addressed by making a default option available which the Trustee believes appropriate for the majority of members.

- Other risks include illiquidity, inflation, currency, suitability of the default strategy and range of self-select funds, operational risk, and market risk including equity, interest rate and credit risks.

8. Ongoing monitoring

The DCC was established to ensure appropriate management and governance of the Schemes' DC arrangements (including AVCs). Specific responsibilities of the DCC include oversight of investment performance and reviewing communications and investment options as appropriate.

The DCC reviews the default investment strategy and the performance of the default arrangements (including investment returns net of charges and costs) at least every three years, and without delay after any significant change in investment policy or the demographic profile of relevant members. There is no requirement to review the other lifestyle arrangements and funds, but this is done in line with the review of the default strategy. This review is carried out in conjunction with a review of the IWDC funds and strategies. This Schedule will be updated after every review, unless it is decided that no action is required.

The DCC reviews risks as part of each strategy review. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default strategies, the DCC considers the trade-off between risk and expected returns.

Realised returns and volatilities of the funds are monitored quarterly by the DCC.

Schedule 3

INDUSTRY-WIDE DEFINED CONTRIBUTION ("IWDC") SECTION

1. Introduction

This Schedule is appended to and should be read in conjunction with the Statement of Investment Principles ("SIP") adopted by the Railways Pension Trustee Company Limited ("the Trustee") for the railways pension schemes (the "Schemes"). Items in the SIP that also apply to the IWDC Section cover the majority of the requirements of the Pensions Act 1995 and the underlying Occupational Pension Schemes (Investment) Regulations 2005 (both as amended). This Schedule covers additional requirements that are not covered in the main body of the SIP, including the requirement to produce a "Default SIP" covering the default IWDC arrangement.

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

2. Objective

The overall objective of the Trustee is to provide a range of funds and lifestyle strategies that can meet the needs of most members looking to invest their contributions. For members who do not wish to make their own investment choice, the Trustee makes available a default option that aims to be suitable for the majority of members. Furthermore, the Trustee aims to provide good value for money for all members.

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

3. Investment strategy

The Trustee considered a range of asset classes, their associated expected return and volatility of returns, the suitability of different investment management styles, 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 strategies available to members, which aim to target various retirement options. These are designed to strike a balance between maximising the value of a member's assets at retirement and protecting the value of the accumulated assets, particularly in the years approaching retirement.

The allocations between Funds within the lifestyle strategies change through time, in order 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 a higher-risk fund into lower-risk funds as a member approaches their nominated Target Retirement Age ("TRA"). In the absence of specific input from the member, this adjustment occurs automatically based on the member's TRA. The TRA can be changed by the member.

One of the lifestyle strategies operates as a default vehicle, should a member not wish to make their own selection from the available fund range. The default lifestyle strategy is designed to be appropriate for a typical member with a predictable TRA. More on the default strategy is provided in Section 5.

4. Fund choices

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

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

The IWDC Section also offers three lifestyle strategies:

- Target Annuity
- Target Flexible Drawdown **(the default strategy)**
- Target Lump Sum

The fund range is provided through a "white-labelled" framework to help accommodate underlying manager changes and future enhancements without undue disruption.

IWDC Section funds and strategies (including their asset allocation, risks and returns) can be found on the Railways Pensions website at:

https://member.railwayspensions.co.uk/iwdc-members/managing-investments/fund-choices

5. Default strategy

The default strategy has been constructed on the basis that members of the IWDC Section are expected to flexibly draw their benefits.

The aim of the default strategy (the Target Flexible Drawdown lifestyle strategy) is to generate long-term growth in excess of inflation over members' working lifetimes. The default strategy is intended such that assets are invested in the best interests of members and beneficiaries, however by its nature it cannot capture differences across all individual members.

As the IWDC Section may be a members' main form of retirement saving, a higher risk tolerance is assumed when members are far from retirement, with the aim of generating higher real (after inflation) returns and increasing retirement savings. The default strategy invests fully in the Long Term Growth Fund until ten years before a member's TRA. The Long Term Growth Fund is a well-diversified, multi-asset fund, which aims to generate returns above inflation over the medium-to-long term.

Over the ten years to the TRA, the asset allocation transitions to 25% in the Long Term Growth Fund, 25% in the UK Government Fixed Interest Gilt Fund, and 50% in the Corporate Bond Fund.

This aims to reduce material losses as retirement approaches while maintaining a moderate allocation to growth assets.

Illiquid assets are held within the Long Term Growth Fund that the default strategy utilises, including property, royalties, reinsurance, and infrastructure investments. These provide additional diversification benefits to the Fund, as their risk profile is typically lowly correlated to that of liquid growth assets such as equities. They are also expected to help the Fund deliver improved risk-adjusted returns. There is a hard limit of 30% allocation to illiquid assets within the Fund, which ensures that they do not adversely impact its daily liquidity. The Fund is invested in by all members within the default strategy, with members' allocations to the Fund reducing from 100% to 25% as members move towards their TRA. At the time of drawing up this SIP, the level of illiquid assets held within the Fund is c.23%, and the plan is for this level to be broadly maintained.

6. Fund annual charges

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

7. Risks

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

- Risk of inadequate long-term returns, in particular that fund values don't increase with inflation. To manage this, the Trustee includes funds that are expected to generate long-term returns above inflation, although this is not guaranteed over any given period;
- Risk of deterioration in investment conditions near retirement. To address this, the Trustee has made available funds with lower estimated risk, as well as a lifestyle option that defaults into lower estimated risk funds as members approach their TRA;
- Risk of lack of diversification. The Long Term Growth Fund is diversified across a range of asset classes and managers. Other funds are diversified by underlying holdings;
- Risk of underlying Fund Managers and/or Pooled Funds not meeting their objectives. The Trustee's Defined Contribution Committee ("DCC") provides oversight to the performance of the Funds. The IOC oversees the performance of the Fund Managers and the Pooled Funds on a regular basis;
- Risk of inappropriate member decisions. This is addressed by making a default option available which the Trustee believes appropriate for the majority of members.
- Other risks include illiquidity, inflation, currency, suitability of the default strategy and range of self-select funds, operational risk, and market risk including equity, interest rate and credit risks.

8. Ongoing monitoring

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

The DCC reviews the default investment strategy and the performance of the default arrangement (including investment returns net of charges and costs) at least every three years, and without delay after any significant change in investment policy or the demographic profile of relevant members. There is no requirement to review the other lifestyle arrangements and funds, but this is done in line with the review of the default strategy. This review is carried out in conjunction with a review of the AVC funds and strategies. This Schedule will be updated after every review, unless it is decided that no action is required.

The DCC reviews risks as part of each strategy review. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default strategy, the DCC considers the trade-off between risk and expected returns.

Realised returns and volatilities of the funds are monitored quarterly by the DCC.