



The Network Rail DC Pension Scheme

Statement of Investment Principles

March 2021

Version Update

Version	Effective From
1.0	May 2011
2.0	June 2012
3.0	May 2013
4.0	May 2014
5.0	November 2015
6.0	December 2018
7.0	September 2019
8.0	September 2020
9.0	March 2021

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1.0 Introduction

This document constitutes the Statement of Investment Principles (the “SIP”) required under Section 35 of the Pensions Act 1995 for the Network Rail DC Pension Scheme (the “Scheme”). It describes the investment policy being pursued for the Scheme by the Directors of Network Rail Pension Trustee Limited (the “Trustee” of the Scheme) and is in compliance with the Government’s voluntary code of conduct for Institutional Investment in the UK (the “2001 Myners Principles”). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and the Code of Practice in relation to governance of DC pension schemes issued by the Pensions Regulator in July 2016 (as amended).

The Trustee confirms that, before preparing this SIP, it has consulted with Network Rail Infrastructure Ltd (the “Employer”) and taken appropriate advice from its Advisers. The Investment Adviser is River and Mercantile Investments Limited and the Legal Adviser is Squire Patton Boggs (UK) LLP, collectively termed “the Advisers”.

The Trustee believes the Advisers to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge, and experience of the management of the investment arrangements that the Scheme requires. The Trustee also confirms that it will consult with the Employer and take advice from the relevant Advisers as part of any review of this SIP.

The Trustee is responsible for the strategic decisions regarding the investment of the Scheme’s assets, but the day-to-day management has been delegated to the Platform Manager (who provides the platform for member investments) and the underlying investment managers. Where it is required to make an investment decision, the Trustee always receives written advice from the relevant Advisers first in order to achieve an appropriate level of understanding of the issues concerned.

In accordance with the Financial Services & Markets Act 2000, the Trustee sets general investment policy, but has delegated the day-to-day investment of the Scheme’s assets to professional fund managers (the “Managers”) in accordance with Section 34(2) of the Pensions Act 1995. The Managers are authorised under the Financial Services & Markets Act 2000, provide the expertise necessary to manage the investments of the Scheme competently and will comply with the requirements of Section 36 of the Pensions Act 1995.

1.1 Declaration

The Trustee acknowledges that it is its responsibility, with guidance from the Advisers, to gain comfort that the assets of the Scheme are invested in accordance with these Principles.

Signed Samantha Pitt **Date** 23 March 2021

For and on behalf of the Trustee of the Network Rail DC Pension Scheme

2.0 *Scheme Governance*

The Trustee is responsible for the governance and investment of the Scheme's assets. It considers that the governance structure set out in this SIP is appropriate for the Scheme, as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Manager or the relevant Advisers as appropriate. The responsibilities of each of the parties involved in the Scheme's governance are detailed in Appendix A.

The Trustee has appointed an Investment Sub-Committee (the "ISC") to deal with investment matters on its behalf. The ISC deals with day to day investment matters and acts as a coordinator between the Investment Adviser and the Trustee. The ISC has the power to make certain decisions on behalf of the Trustee, but strategic decisions will be subject to oversight and ratification by the Trustee. The Trustee acknowledges that it is responsible for the decisions of the ISC. The ISC maintains a Statement of Investment Arrangements ("SIA") which sets out the specifics of investment implementation. This document is referred to later in this SIP.

The full responsibilities of the ISC are detailed in a separate document stating its Terms of Reference as agreed between the Trustee and the ISC.

3.0 Objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. It also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee regards its duty as making available a range of investment options (managed by high quality investment managers) sufficient to enable members to tailor, to their own needs, their investment strategy.

The Trustee's Scheme objectives are:

- To provide a pension plan designed to deliver valuable benefits into retirement.
- To encourage increased engagement with pensions and savings through education and by keeping things simple.
- To help members manage the risks they face as far as possible.
- To provide members with a range of investment options to enable them to tailor investment strategy to their needs.
- To achieve this through innovation, a desire to be market leading, and strong ongoing governance.

In aiming to meet these Scheme objectives, the Trustee has specified a number of investment objectives:

- To provide members with a range of investment options to enable them to tailor investment strategy to their needs, and to manage the inherent risks by making available vehicles which aim to:
 - Maximise the value of members' assets at retirement;
 - Maintain the purchasing power of members' savings; and
 - Protect the value of accumulated assets as members approach retirement.
- To avoid over-complexity in investment in order to keep administration costs and member understanding to a reasonable level.

4.0 *Default Arrangements*

The Trustee has made available to members a default strategy (the “Managed Lifestyle Option”).

In addition, the Scheme’s self-select Cash option (NRDC Cash Fund) is technically a default arrangement (the “Cash Strategy”) in respect of some members’ assets:

- Between April 2020 and September 2020, the Scheme’s Property self-select option was temporarily suspended to dealing, with member contributions over this period temporarily redirected to the Cash self-select option.
- As a result, the Cash self-select option has become a default arrangement within the Scheme in respect of these members and their redirected contributions over the period set out above.

Together, the two default arrangements set out above – i.e. the Managed Lifestyle Option and the Cash Strategy - are referred to as the “Default Arrangements”.

4.1 **Aims and objectives of the Default Arrangements**

Managed Lifestyle Option: The Trustee’s aims and objectives in relation to the Managed Lifestyle Option are to support members’ investment needs where members either choose the Managed Lifestyle Option or do not choose any option. The Trustee recognises that these investment needs may change during the course of members’ working lives and therefore a key objective for the Managed Lifestyle Option is to provide a pension plan which is designed to deliver valuable benefits in retirement.

Cash Strategy: The objective of the Cash Strategy is to offer capital preservation.

4.2 **Trustee policies in relation to the Default Arrangements**

i. **The kinds of investment to be held**

ii. **The balance between different kinds of investments**

The kinds of investments within the Managed Lifestyle Option and balance between them are designed to be adequately diversified and suitable. See sections 5.3, “Diversification” and 5.5, “Suitability” for more details.

The Cash Strategy primarily holds short term deposits with a range of high quality financial institutions, consistent with its capital preservation objective.

iii. **Risks (including the ways in which risks are to be measured and managed)**

Risks applicable to the Scheme as a whole are shown in section 9, “Risks”. All of the risks shown, including how they are measured and managed, are relevant to the Default Arrangements.

iv. **Expected return on investments**

The Trustee's policy on expected return is considered in section 5.2 "Expected Return", which covers both the Default Arrangements and the investment strategy as a whole.

v. Realisation of investments

Liquidity is considered in section 5.6, "Liquidity".

vi. Environmental, Social and Governance ("ESG") considerations

The extent to which the Trustee considers ESG issues within the Default Arrangements is shown in Section 10 "Other Risks".

vii. Exercise of rights (including voting rights) attaching to the investments

The extent to which the Trustee considers the exercise of rights within the Default Arrangements is shown in Section 10 "Other Risks".

4.3 Best interests of members and beneficiaries

In designing the Managed Lifestyle Option, the Trustee carried out a comprehensive review of the previous Managed Lifestyle Option and alternatives (in conjunction with the Investment Adviser), with a key focus on member needs and outcomes. The Trustee believes the Managed Lifestyle Option is in the best interest of members and beneficiaries, and undertakes periodic reviews on the suitability of the Managed Lifestyle Option.

The Trustee believes the capital preservation characteristics of the Cash Strategy are in the best interests of members and beneficiaries, in respect of those contributions that could not be directed to the Property self-select option during its suspension. Following its reopening, impacted members were able to transfer their Cash Strategy assets to the Property self-select option, or any other investment option available within the Scheme, at their discretion.

5.0 *Investment Strategy of the Scheme*

Having considered advice from the Investment Adviser, and also having due regard for the objectives and the members of the Scheme, the Trustee has made available a number of investment options. Members can choose to invest their contributions in one or more of these investment options, detailed in the SIA.

The Trustee will instruct the Administrator to invest each member's investments in accordance with the fund options selected by the member.

5.1 **Investment Options**

A range of funds has been made available to members. These are detailed in the SIA.

5.2 **Expected Return**

The Trustee considered the expected returns of the investment strategy (including the Default Arrangements) in constructing a number of benchmarks to assess performance against. These benchmarks may change from time to time. More details are set out in the SIA.

5.3 **Diversification**

The choice of investment options for members (including the Default Arrangements) is designed to enable members to choose investments that are adequately diversified and suitable for their profile. The Trustee monitors the strategy regularly to satisfy itself that it is comfortable with the choice of funds offered to members.

5.4 **Active and Passive Management**

The Trustee has selected a range of both active and passive fund options for Scheme members.

5.5 **Suitability**

The Trustee has taken advice from the Investment Adviser that the range of investment options offered to members (including the Managed Lifestyle Option) is suitable. Members are responsible for choosing which of the funds are most appropriate or may choose to rely on a Default Arrangement for the investment of their own and their employer's contributions, based on their own individual circumstances.

The suitability of the range of investment options, including the Managed Lifestyle Option, will be reviewed regularly.

5.6 **Liquidity**

The assets are held in asset classes that are considered sufficiently liquid.

6.0 *Strategy Implementation*

The Trustee has decided to delegate the day-to-day investment of the Scheme's assets to professional managers. The details of the Managers' mandates are detailed in the SIA.

6.1 **Investment Managers**

The Trustee has appointed a Platform Manager, Legal & General Assurance (Pensions Management) Limited, to provide the platform for member investments and carry out investment administration. The Trustee has selected a range of investment options for the members of the Scheme. Full details can be found in the SIA.

6.2 **Fund Options**

The range of funds offered to members was chosen from those offered by the Platform Manager to give members a diversified range of investments from which they can select according to their individual circumstances. The funds available to members are detailed in the SIA.

6.3 **Investment of Contributions**

A member's contributions will be invested in line with their selected choice of funds. Where a member has not made an active selection, their contributions will be invested in the Managed Lifestyle Option provided, which is detailed in the SIA.

6.4 **Performance Objectives**

The performance objectives vary depending on the fund in question. A detailed breakdown of the objectives can be found in the SIA.

6.5 **Transitions**

The Trustee will look to mitigate the potential risks and costs to members as a result of any investment transitions to the best of its ability. The Trustee will take advice from its Advisors in relation to different transition methods and other ways in which these potential risks/costs can be mitigated.

7.0 *Monitoring*

7.1 **Managers**

The Trustee, or the Advisers on behalf of the Trustee, will monitor the performance of the Investment Managers against their own or Trustee specified benchmarks.

The Trustee, or the Advisers on behalf of the Trustee, will regularly review the activities of the Investment Managers to satisfy themselves that each Investment Manager continues to carry out their work competently and has the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustee will consider whether or not each Investment Manager:

- Is carrying out its work competently. The Trustee will evaluate the Investment Manager based on, amongst other things:
 - i. Each Investment Manager's performance versus their respective benchmarks or Trustee specified benchmarks.
 - ii. The level of risk given the specified risk tolerances.
 - iii. For funds used in the Default Arrangements, the extent to which returns are consistent with the aims of the Trustee (if appropriate)
- Has regard to the need for diversification of investment holdings.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with an Investment Manager, it will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustee's requirements, the Trustee will remove the Investment Manager and appoint another.

7.2 **Advisers**

The Trustee will monitor the advice given by the Advisers on a regular basis.

7.3 **Statement of Investment Principles**

The Trustee will review this SIP on an annual basis, or, as soon as practical following any changes to the investment strategy or significant change to member demographics, and modify it with consultation from the relevant Advisers and the Employer if deemed appropriate. There will be no obligation to change any Investment Manager, Platform Manager or Adviser as part of such a review (although strategy changes made will be reflected in this SIP, if appropriate).

7.4 Trustee Recordkeeping

The Trustee maintains a record of all investment related decisions it has taken, together with the rationale in each case.

8.0 Fees

8.1 Managers

Details of the fund charges are set out in the SIA and will continue to be reviewed on a regular basis.

8.2 Advisers

Fees paid to the Advisers are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects.

8.3 Custodian

There is no custodian appointed directly by the Trustee.

8.4 Trustee Directors

The Trustee Directors are not paid for their role.

8.5 Value for Money

The Trustee reviews all sources of fees levied on members' accounts (including management charges, additional expenses, platform charges and administration, as appropriate), and levels of service provided to use best efforts to ensure value for money is present.

9.0 Risks

The Trustee recognises a number of key risks both to itself and to the members of the Scheme:

- i. **Value for money risk** – the risk that the Scheme fails to offer value for money to members. This is addressed through regular value for money reviews.
- ii. **Inflation risk** – the risk that the purchasing power of members' investment accounts is not maintained. To try and manage this risk, the Trustee has offered a range of funds designed to achieve a return above the rate of inflation.
- iii. **Conversion risk** – the risk that the value of pension benefits that can be purchased by or drawn from a given defined contribution amount is not maintained. This risk cannot easily be mitigated as it depends on market conditions ahead of retirement, and the member's retirement income decision. However, the Trustee has offered options designed to reflect different retirement income decisions (i.e. annuity purchase, income drawdown and encashment). Relative to the higher expected risk/return options, these options reduce the risk of large asset value falls adversely impacting the size of pension afforded by those close to retirement.
- iv. **Capital risk** – the risk that the value of the element to provide a cash sum or income drawdown pot is not maintained. This could be due to the impact of any of the risks above and is addressed where possible in the same ways.
- v. **Active Manager risk** – the risk that the active investments underlying the Scheme's investment options underperform due to the underperformance of the underlying investment managers. The Trustee has mitigated this risk by taking advice from its Investment Advisors in relation to active asset management. The Investment Advisor considers a wide range of funds, diversified across asset class, sub asset class and investment manager to reduce the active manager risk.
- vi. **Platform risk** – the assets are currently held by the Platform Manager. This risk relates to potential losses that could arise if the Platform Manager ran into financial difficulties. On behalf of the Trustee, the Investment Advisors carried out a comprehensive platform review at the implementation phase of the current strategy and recommended the current Platform Manager. The Trustee duly appointed and continues to monitor the Platform Manager.
- vii. **Manager risk** – the assets are invested in funds managed by the Managers. This risk relates to potential losses that could arise if the Managers ran into financial difficulties. This is addressed through understanding the security of members' assets and protections available.
- viii. **Communication risk** – the risk that communication to members is misleading or unclear and leads to inappropriate decisions being made. This is addressed through the Trustee receiving advice from the Advisers and regular monitoring and updates, where appropriate, of member communications.

- ix. Inappropriate member decision** – the risk that members make inappropriate decisions regarding their investments. This is addressed where possible through communication to members and the recommendation that members seek independent financial advice.
- x. Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Investment Managers and Advisers.
- xi. Liquidity risk** – the risk that members are not able to realise the value of their funds when required. The Trustee has addressed this risk by not offering funds which are considered illiquid.
- xii. Environmental, Social and Governance (“ESG”) risks** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by ESG assessment at the point of investment with the Managers where applicable, or by requesting information on the ESG policies, adopted by the Managers.

The Trustee recognises that an efficient process for identifying, evaluating, managing and monitoring risk needs to be in place for the Scheme. The Trustee will identify and assess the impact of any risk, what controls can be put in place to manage or identify risk and regularly review both the individual risks and the effectiveness of the risk management process as a whole.

10.0 *Other Risks*

10.1 **Corporate Governance and Stewardship Policy**

As part of the appointment of the Investment Managers to the Scheme, the Trustee has accepted the terms of pooled investment vehicles, setting out the scope of each pooled fund vehicle's activities, their charging basis and other relevant matters. The Trustee periodically reviews the overall value-for-money of using the Investment Adviser (as specified in the Scheme's Investment Consultant objectives) and Investment Managers.

The Scheme's investments are made via pooled investment funds via the Platform Manager, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to the Investment Managers.

The Trustee has delegated responsibility for monitoring and voting on decisions relating to its Underlying Manager holdings to the Platform Manager, which implements its fund voting policy.

The Trustee and Investment Adviser undertake regular reviews of the Investment Managers. These reviews incorporate benchmarking of performance and fees as well as performance reviews (including understanding key drivers of performance). The Trustee and Investment Adviser review the governance structures of the Investment Managers, as well as assessing whether their fees, expenses and any other charges are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Trustee and Investment Adviser assess whether the Investment Managers' remuneration arrangements are aligned with the Trustee's objectives. The Trustee expects the Investment Managers':

- to align their investment strategy and decisions with the Trustee's investment policies, such as its return target and any restrictions detailed in the Trustee's policy documentation with the Platform Manager.
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is reflected and measured relative to the Trustee's long-term performance objectives.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and Investment Adviser monitor this as part of

ongoing review. As an FCA regulated firm, the Investment Adviser is required to prevent or manage conflicts of interest. The Investment Adviser's Conflicts of Interest policy is available publicly here:

https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf

The Trustee oversees the transaction costs, including turnover costs (where available) incurred by the Investment Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Adviser's expectations. Where there are material deviations the Trustee and Investment Adviser engage with Investment Managers to understand the rationale for such deviations and take appropriate action.

10.2 Financially material investment considerations

These considerations which include the above "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as ESG) where relevant. The Trustee delegates the consideration of financially material factors to the Platform Manager, who consider these factors for funds that are available to beneficiaries through the Default Arrangements and as self-select funds, when making funds available on its investment platform. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered in the context of long term performance, by the Trustee (in conjunction with its advisors) as part of the manager selection criteria. This review occurs before funds are approved for investment. For invested funds, the Trustee request the Platform Manager monitor ongoing compliance with ESG and other factors, like stewardship, as a part of overall engagement.

10.3 Non-financial matters

The Trustee does not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as part of the Default Arrangements, as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustee has no plans to seek the views of the membership on ethical considerations. This policy is reviewed periodically.

Appendix A – Responsibilities

Trustee

The main investment related responsibilities of the Trustee of the Scheme include:

- i. Reviewing, at least annually, or following a change in investment strategy or significant change in member demographics, the content of this SIP and modifying it if deemed appropriate.
- ii. Reviewing, at least triennially, or following a change in investment strategy or significant change in member demographics, the content of the SIA and modifying it if deemed appropriate.
- iii. Assessing the quality of the performance and process of the Investment Managers by means of regular reviews of the investment results and other information, through meetings and written reports.
- iv. Monitoring compliance of the investment arrangements with the SIP on an ongoing basis.
- v. Appointing and dismissing Platform Managers and Investment Managers.
- vi. Assessing the performance of the Advisers.
- vii. Consulting with the Employer when reviewing investment policy issues.
- viii. Providing any appointed organisations/individuals with a copy of the SIP or SIA, where appropriate.

Platform Manager

The main responsibilities of the Platform Manager are:

- i. At their discretion, but within the guidelines agreed with the Trustee, selecting and undertaking transactions in specific investments within each fund.
- ii. Acting in accordance with the principles set out in the SIP.
- iii. Providing the Trustee with sufficient information each quarter to facilitate the review of its activities, including:
 - Performance and rationale behind past and future strategy for fund options offered to members.
 - A full valuation of the assets.
 - A transaction report.
- iv. Informing the Trustee immediately of:
 - Any breach of this SIP in relation to services carried out by the Platform Manager.
 - Any serious breach of internal operating procedures.
 - Any material change in the knowledge and experience of those involved in the Scheme's investment options.

Investment Adviser

The main responsibilities of the Investment Adviser are:

- i. Participating with the Trustee in reviews of this SIP.
- ii. Advising the Trustee of any changes in the Scheme's Investment Managers or Platform Manager that could affect the interests of the Scheme.
- iii. Advising the Trustee of any changes in the investment environment that could either present opportunities or problems for the Scheme.
- iv. Undertaking reviews of the Scheme's investment arrangements including reviews of the Scheme structure, current Investment Managers, and selection of new managers as appropriate.

Legal Adviser

The Legal Adviser will be responsible for, amongst other things:

- iv. Liaising with the Trustee to maintain legal compliance including those in respect of investment matters.