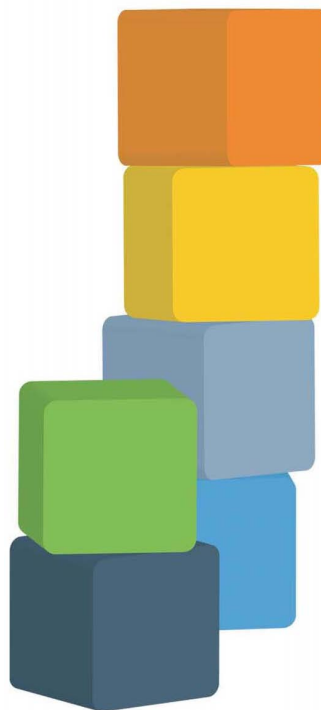


# **Network Rail Defined Contribution Pension Scheme**

**Scheme Registration Number: 10269688**

**Trustee's Report and Financial Statements  
For the Year Ended 31 December 2020**



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## Chair's Introduction

I am pleased to present the annual report and financial statements of the Network Rail Defined Contribution Pension Scheme (the 'Scheme') for the year ending 31 December 2020.

There are now 14,301 active members (14,010 last year) while the total membership (including leavers who still have funds invested) has increased to 30,542 (from 27,939 last year). The total value of the Scheme's assets at 31 December 2020 was £469.1 million, an increase of £67.6 million (from £401.5 million at 31 December 2019) in the last year.

Your Trustee Directors continued to work hard on your behalf during another year of political and economic uncertainty. The main areas we have focussed on during the year were:

### **Investment Strategy**

We continue to review the Scheme's investments, in consultation with the investment adviser, at least every quarter at our Board and Investment Sub-Committee meetings and we will also continue to call ad hoc meetings should the need for urgent decisions arise.

The beginning of 2020 saw the global outbreak of COVID-19 (Coronavirus) which continues to impact the global investment markets, affecting investors, companies and employees across the world. As Trustees of the Network Rail and NRDC Pension Scheme we take a long-term outlook for the performance of investments in the Scheme. Along with our advisors, we carefully monitor the Schemes' investments and have done so on a day-to-day basis with the continued development of the COVID-19 situation. Our priority remains to pay pension benefits as and when they become due both now and in the future to our members.

### **Changes to your Trustee Board and Network Rail Pensions Team**

As you will see on page 5, there has been a number of changes on the Board since the last report.

During 2020 we have seen a number of changes to the Trustee Board. In April 2020 following a member nominated election process, Ben Millway was re-elected to the Trustee Board. However, Ben left Network Rail in November 2020 and resigned from his position as member nominated trustee director. A further election was held to replace Ben and I am pleased to announce that Robert Arnold was elected to replace Ben on 4<sup>th</sup> December 2020.

Anit Chandarana, Chair of Trustees decided to step down from his role in September 2020 after serving on the Board for a number of years. Law Debenture Pension Trust Corporation (LawDeb Pensions), represented by myself, were appointed to replace Anit as Chair in November 2020. As some of you may know, I have previously served on the Trustee Board between January 2013 and July 2018 as an employee of Network Rail. Since leaving Network Rail, I have become a fully accredited professional trustee, working across 12 Schemes, 6 of which are as Chair on behalf of LawDeb Pensions.

Finally, Mark Langman retired from Network Rail and as a Trustee Director, in December 2020 and Eoin O'Neill stepped down from his role as Trustee Director in March 2021. Mark has been replaced by Mark Engelbretson, Head of Pensions and Eoin has been replaced by Kathryn Andrews, both as employer appointed Trustee Directors. I look forward to working with all of my Trustee Director colleagues as we embark on another full programme of work in the coming year.

## Chair's Introduction

The Pensions Regulator expects trustees to review their advisers and other providers and we are conducting a rolling review of the Scheme's advisers and providers. In 2019 we retendered the third party pension administration services and the Trustees reached the decision to appoint Willis Towers Watson to replace Capita. Following a diligent mobilisation period, I am pleased to announce that Willis Towers Watson commenced administration services to the Scheme on 1 February 2021.

SAMANTHA PITT

**Samantha Pitt**  
**Chair of the Trustee**

## Trustee's Report

The Trustee of the Network Rail Defined Contribution Pension Scheme (the "Scheme" or "NRDC") presents its annual report together with the investment report, summary of contributions payable, compliance statement and financial statements for the year ended 31 December 2020.

## Scheme Constitution and Management

### The Scheme

The Scheme commenced with effect from 31 March 2004 as a tax registered pension scheme established by way of a definitive Trust Deed and Rules. The Trust is managed by Network Rail Pension Trustee Limited ('The Trustee') which also acts as Trustee of the Network Rail CARE Pension Scheme ('NR CARE'), established on 1 November 2008.

The Scheme is a money purchase pension scheme and is one of three pension schemes offered to employees of Network Rail. The Scheme is used to automatically enrol all eligible employees into a workplace pension arrangement. The Scheme runs alongside the NR CARE and the Network Rail Section of the Railways Pension Scheme ('RPS').

Since the Scheme was established, there have been several Deeds of Amendment, mainly to take account of legislative changes. These amending deeds were formally consolidated with the definitive Deed and Rules into a new Consolidated Trust Deed and Rules for the Scheme, executed on 1 December 2011. A further revised Consolidated Trust Deed and Rules was executed on 31 January 2013 covering detailed rule changes in respect of automatic enrolment legislation arising from the Pensions Act 2008, various other legislative changes and also to reflect current best administration practice of the Trustee.

### Changes to the Scheme's Rules

During the year ending 31 December 2020, no Deeds of Amendment were executed.

### Appointment of Trustee Directors

There are eight directors, four appointed by Network Rail Infrastructure Limited (the Principal Employer), three nominated by trade unions recognised by Network Rail and one nominated by Eligible members<sup>1</sup> of NR CARE and NRDC. The employer nominated directors are appointed by Network Rail Infrastructure Limited at its discretion. Network Rail's three recognised trade unions (TSSA, RMT and Unite) nominate one person each to sit on the Trustee Board and the member nominated director is appointed following a nomination and selection process.

The term of office is normally four years, but operated by rotation. These arrangements are intended to ensure the Scheme continues to be managed effectively and also meets its statutory requirements.

<sup>1</sup> Nominations can be accepted from Eligible Members. There are two types of Eligible Members; firstly, 'active members' i.e. those who are either in NRDC or CARE who are still employed by Network Rail and in respect of whom pension contributions are being paid; 'pensioner members' i.e. members of the CARE Scheme who have retired and are receiving a CARE Scheme pension. There are no 'pensioner members' in the NRDC Scheme as the Scheme does not provide retirement benefits directly, annuities are purchased with insurance companies or taken as a cash payment (partly taxable) or transferred to an external pension vehicle.

# Trustee's Report

## Appointment of Trustee Directors (continued)

The Trustee's main duties are to administer the Scheme in accordance with the Trust Deed and Rules and in the interests of members in consultation with the Employer as appropriate.

Trustee Directors during the year ending 31 December 2020 were as detailed below:

<b>Trustee Directors:</b>	<b>Nominated by:</b>
Anit Chandarana	Employer, resigned 18 September 2020
Timothy Craddock	Employer, appointed 17 March 2020
Mark Engelbretson	Employer, appointed 4 December 2020
Andrew Fielding	Unite
Mark Langman	Employer, resigned 4 December 2020
Benjamin Milway	Eligible members, resigned 24 November 2020
Robert Arnold	Eligible members, appointed 4 December 2020
Paul Norris	RMT
Eoin O'Neill	Employer, resigned 19 March 2021
Urvish Pandya	TSSA
The Law Debenture Pension Trust Corporation Ltd (represented by Samantha Pitt)	Independent Employer nominated, appointed 9 November 2020
Network Rail Corporate Secretary Ltd	Company Secretary to the Trustee

Subsequent to the year end, Kathryn Andrews was appointed on 21 March 2021, as an Employer nominated Director.

## Scheme Governance

There were 6 board meetings held during the year ending 31 December 2020. The table below shows the number of meetings attended by each Trustee Director from the number they were eligible to attend:

<b>Trustee Directors</b>	<b>No. of meetings</b>	<b>No. attended</b>
Anit Chandarana (Chair, until 18 September 2020)	4	4
Timothy Craddock	6	6
Mark Engelbretson (from 4 December 2020)	1	1
Andrew Fielding	6	6
Mark Langman (until 4 December 2020)	6	3
Benjamin Milway (until 24 November 2020)	5	4
Robert Arnold (from 4 December 2020)	-	-
Paul Norris	6	5
Eoin O'Neill	6	5
Urvish Pandya	6	6
Law Debenture, represented by Samantha Pitt (from 9 November 2020)	1	1

# Trustee's Report

## Scheme Governance (continued)

In addition, the Trustee has the following sub-committees:

- *Audit and Risk sub-committee* to identify, monitor and recommend methods of managing key risks associated with the Scheme. The sub-committee met on 4 occasions during the year ending 31 December 2020.
- *Investment sub-committee* to review with fund managers and the investment consultant, the investment performance of the pension funds and make recommendations to the Trustee on any aspects relating to the investment of the fund. The sub-committee met on 4 occasions during the year ending 31 December 2020.
- *Benefits sub-committee* comprises any two Trustee Directors or any Trustee Director and the NR Pensions Manager. The Trustee has delegated authority to this committee to exercise discretion and make decisions regarding the payment of benefits in certain circumstances where referral to the full Board is not deemed necessary. This will usually involve deciding who is to receive lump sums and dependants' benefits on the death of a member and approving member requests for early retirement on grounds of incapacity. Cases are usually reviewed by the sub-committee electronically and decisions made via memorandum. If a decision cannot be reached, then a meeting is convened to discuss. If there is no consensus then the case is referred and decided by the full Trustee Board.

## Trustee Directors' Training

Since inception, arrangements have been in place to ensure that those with responsibility for the Scheme receive appropriate training and access to information to carry out their significant responsibilities effectively. All Trustees Directors are conversant with the all of the main Scheme documents including the Trust Deed and Rules and Statement of Investment Principles (SIP). As part of a Trustee Director's induction, they are provided with an introduction to each document so that they understand the part it plays in the running of the Scheme, Directors also have direct access to each of the Scheme's documents to be able to carry out their duties. An annual review of the Trustee's training policy and individual Trustee Directors' training needs was conducted in order to monitor compliance with the Pension Regulator's Trustee Knowledge and Understanding (TKU) Code of Practice.

Under the Trustee's training policy, new Trustee Directors are required to complete the Pensions Regulator's e-learning Trustee Toolkit within six months of appointment. Trustee Directors are also encouraged to gain the Pensions Management Institute ('PMI') Award in Trusteeship qualification. With the exception of the most recent appointment (Robert Arnold), all of the current Trustee Directors have either completed the Trustee Toolkit or gained the PMI Award in Trusteeship or both. Training sessions are held at most Board and sub-committee meetings during the year. This year the Trustee Directors have received training from various facilitators at Board meetings on areas such as Actuarial Valuations, DC investment strategy, internal managed fund strategies and Fiduciary management. The Trustee Directors also attend a number of externally arranged seminars and conferences on topical matters to help develop their knowledge and understanding to carry out their role. A full training log for each Director is held by the NR Pensions Management.

## Trustee's Report

### Trustee Directors' Training (continued)

Directors' Continuous Professional Development ("CPD") hours in the year ending 31 December 2020 are set out below:

Trustee Director	CPD hours logged	Trustee Director	CPD hours logged
Anit Chandarana <i>(Resigned 18 September 2020)</i>	4.25	Benjamin Milway <i>(Resigned 24 November 2020)</i>	4.00
Tim Craddock <i>(Appointed 17 March 2020)</i>	11.75	Paul Norris	19.50
Mark Engelbretson <i>(Appointed 4 December 2020)</i>	41.25	Eoin O'Neill <i>(Resigned 19 March 2021)</i>	5.00
Andrew Fielding	7.25	Urvish Pandya	4.00
Mark Langman <i>(Resigned 4 December 2020)</i>	2.25		

In addition, Samantha Pitt, representing Law Debenture, is a fully accredited professional trustee who is required to complete a minimum of 25 hours CPD per year.

### Trustee Advisers

The Trustee must appoint suitable professional advisers and give full consideration to the advice it receives. The Trustee's appointed advisers are listed on page 39.

The Trustee continually monitors the performance of its advisers and undertakes formal reviews when deemed necessary.

### Changes in and Other Matters Relating to Scheme Advisers

As previously reported, following a review and thorough tender process, the Trustee agreed to appoint Willis Towers Watson as the administrator for the Scheme, replacing Capita Employee Solutions. The transition to Willis Towers Watson from Capita was completed with effect from 1 February 2021.

### Audit

The reports of RSM on the financial statements, their auditor's report and statement about contributions are included on pages 34 and 37 respectively.



# Trustee's Report

## Financial Statements

The financial statements included in this Annual Report and Financial Statements are required by the Pensions Act 1995. They were prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

A summary of the Scheme's Financial Statements for the year ended 31 December 2020 and the prior year ended 31 December 2019 is set out in the following table:

	<b>2020</b> <b>£000</b>	2019 £000
Member related income	<b>46,167</b>	41,835
Member related payments	<b>(12,610)</b>	(13,544)
Scheme expenses	<b>(94)</b>	(26)
Net additions from dealings with members	<b>33,463</b>	28,265
Net returns on investments	<b>34,151</b>	42,438
Net increase in the fund during the year	<b>67,614</b>	70,703
Net assets at start of year	<b>401,463</b>	330,760
Net assets at end of year	<b>469,077</b>	401,463

## Financial Developments

During the year ending 31 December 2020, there were no significant developments affecting the financial position of the Scheme.

In January 2020, the Scheme changed platform provider to Legal & General Assurance Limited from Old Mutual Wealth Life Assurance Limited.

## Recent Events – Going Concern

Markets across the world have suffered from volatile movements due to the uncertainty that Covid-19 presents to the world economy. The Trustee is monitoring this on a regular basis, however, due to the type of investments the Scheme is invested in and the strategy it has followed to reduce risk, this has so far not had a material impact on the Scheme's funding position. It will continue to monitor the Scheme's investments closely and is prepared to take the necessary action to protect the Scheme and continue to reduce risk if necessary.

As a result of Covid-19, the Trustee Board adapted well to a new virtual way of working. Board meetings have taken place online as well as a number of online strategy and training sessions at Board and Committee level.

The Trustee has undertaken an annual going concern review and is of the opinion that these financial statements are appropriately prepared on the going concern basis.

# Trustee's Report

## Membership and Benefits

### Membership

The following table shows the changes in the Scheme's membership during the year:

	Actives	Deferreds	Options pending	Total
	No.	No.	No.	No.
<b>At 1 January – as previously reported</b>	<b>14,010</b>	<b>13,601</b>	<b>328</b>	<b>27,939</b>
Add/(less) late notifications:-				
New starters	31	-	-	31
Reinstated / (leavers)	(218)	258	(1)	39
Status change	(221)	267	(9)	37
<b>At 1 January – as revised</b>	<b>13,602</b>	<b>14,126</b>	<b>318</b>	<b>28,046</b>
New starters	3,131	-	-	3,131
Retirements	(9)	(6)	-	(15)
Commutated pensions	(27)	(36)	(1)	(64)
Members flexibly accessed benefits	(31)	(46)	-	(77)
Deferred pensions	(2,091)	2,091	-	-
Transferred out	(82)	(194)	(4)	(280)
Refunded	(125)	-	(3)	(128)
Deaths	(23)	(9)	-	(32)
Options pending	(6)	-	5	(1)
Joined in error	(38)	-	-	(38)
<b>At 31 December</b>	<b>14,301</b>	<b>15,926</b>	<b>315</b>	<b>30,542</b>

The updates in respect of the opening membership numbers arise following an exercise by the administrator to review the membership data, whereby it was identified that some members had been enrolled in error by the sponsoring employer. In addition, a number of members who were classified as a refunded members in prior years, have been reinstated as deferred members, as a result of those members retaining a fund holding within the Scheme.

### Transfer Values

The cash equivalents paid during the year were calculated and verified in a manner prescribed by regulations under section 97 of the Pension Schemes Act 1993, and none were less than the amount for which section 94(1) of that Act provides.

# Trustee's Report

## Contributions

The Scheme Rules require that the Employer will contribute the appropriate percentage of the member's Pensionable Earnings, basic pay plus London or South East Allowance, corresponding to the rate of contribution chosen by the member as follows:

<b>Members' Contribution % of Pensionable Earnings</b>	<b>Employer's Contribution % of Pensionable Earnings</b>
0%	3%
1%	4%
2%	5%
3%	6%
4%	7%

These rates are now subject to a minimum contribution underpin introduced for qualifying employees under automatic enrolment legislation (set out below).

## Automatic Enrolment into the Scheme

Automatic enrolment legislation was enacted via the Pensions Act 2008 and subsequent Regulations. The Principal Employer, with the agreement of the Trustee, resolved to use the NRDC Scheme as the qualifying scheme for automatic enrolment purposes, so that existing employees who meet the relevant earnings and age criteria are automatically enrolled (new employees are contractually enrolled) in a manner which complies with the requirements, unless the employee chooses to join another Network Rail Infrastructure Limited (NRIL) qualifying scheme. Members may opt-out of NRDC or just opt-out of the contribution underpin requirements whilst remaining in active membership.

Automatic enrolment requires minimum contributions, known as an 'underpin', to be paid which will be increased over time as set out in Regulations. These are calculated using 'qualifying earnings', broadly gross pay<sup>1</sup>, rather than pensionable earnings. Consequently, a minimum contribution underpin applied in the year as follows:

	<b>Minimum contribution underpin % of Qualifying Earnings</b>	
	<b>Member</b>	<b>Employer</b>
April 2018 to April 2019	3%	2%
April 2019 onwards	5%	3%

Network Rail Payroll were late to update the Notional Earnings Cap in the payroll system, which was identified and updated in July 2020. As a result a project was initiated by Network Rail who worked with the administrator to review the contributions paid for 19/20 and the first three pay periods of 20/21 to ensure they were correct and contributions had not been deducted incorrectly. It was concluded that the members of the DC Scheme exceeding the Earnings Cap during the period had not been affected as they were auto enrolled members whose contributions were based on Qualifying Earnings rather than the incorrect Earnings Cap.

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<sup>1</sup> Between £6,136 and £50,000 for 2019/20.

# Trustee's Report

## Investment Management

### Investment Managers

Until 31 December 2020, all investment funds were accessed via a platform operated by Old Mutual Wealth Life Assurance Limited ("Old Mutual Wealth"). With effect from 1 January 2020, the platform provider was switched to Legal & General Assurance (Pensions Management) Limited ("L&G").

### Investment Adviser

River and Mercantile Investments Limited, part of the River and Mercantile Group, is the Investment Adviser to the Scheme.

### Statement of Investment Principles and Statement of Investment Arrangements

In accordance with the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles, which sets out its policy on investment issues, including risks, performance targets, diversification of investments and details of the key elements of the investment arrangements of the Scheme.

The Statement of Investment Principles ("SIP") sets out how the Scheme takes into account financially material considerations, including Environmental, Social and Governance ("ESG") factors, in its investment decision making process.

A copy of the SIP is available for inspection and may be obtained from the [www.myNRpension.co.uk](http://www.myNRpension.co.uk) website.

### Departures from the Statement of Investment Principles

As at 31 December 2020, the Scheme's strategy had departed from the SIP.

The NRDC Cash Fund had become an unintentional default arrangement during the year as a result of temporary contributions it received whilst the NRDC Property Fund was suspended due to property valuation uncertainty as a result of the Covid-19 pandemic. The SIP will be updated to reflect the two default arrangements it has in operation.

### Employer Related Investments

As at 31 December 2020, the NRDC investment assets included approximately £290,000 invested in Network Rail. This was via: a 0.69% holding in the Legal and General Investment Grade Corporate Bond - All Stocks Index Fund, a 0.06% holding in the Legal and General Multi Asset Fund and a 0.21% holding in the Legal & General Pre-Retirement Fund. The combined percentage of the Employer related investments was 0.06% of total NRDC investment assets.

### Investment Strategy Overview

The Scheme's assets are all invested through a unit-linked insurance policy, designed for company pension schemes. The unit-linked policy invests in a wide range of investments through several investment managers. Members are provided with a choice of 12 "member funds" to invest in, collectively known as the "investment strategy". The funds in which the investment funds themselves invest are known as "underlying funds".

## Trustee's Report

### Investment Strategy Overview (continued)

The member funds are invested in a wide range of “underlying investments” (through the underlying funds) in different asset classes, including stocks and shares (equities), bonds, cash and other types of investment. The value of the member funds is worked out daily and will rise or fall. Members’ investments are directly linked to the performance (after any applicable fees or charges) of the underlying funds in which money is invested.

For example, members may invest in the NRDC Cash Fund – this is a member fund. This fund is itself 100% invested in the L&G Cash Fund – this is an underlying fund. The L&G Cash Fund will hold various cash investments – these are underlying investments.

The value of the total policy is also worked out daily, based on the total number of units each member has in the unit-linked policy. As the value of the underlying funds rises or falls, so will the value of members’ holdings in the policy. The policy can be cashed in on any working day that reflects up to date market valuations.

The investment strategy includes several options for members. The “Managed Lifestyle” arrangement switches members across three member funds, called Core Options, and a Cash Fund as members approach retirement. Each Core Option is made up of a variety of underlying funds, managed by different investment managers.

Each Core Option is made up of a variety of underlying funds, managed by different investment managers. Each Core Option also has its own risk and return objective, thereby taking account of members’ changing needs as they approach retirement.

For members who choose not to use the Managed Lifestyle arrangement, the investment strategy includes a range of self-select, or “Pick ‘n’ Mix” funds. This range includes the Core Options underlying the Managed Lifestyle arrangement, as well as nine funds broadly representing more traditional equities, bonds, cash and property.

To facilitate the investment strategy, an “investment platform” is necessary. The Trustee has appointed Legal & General Assurance (Pensions Management) Limited as provider and therefore assets are held by L&G.

Over the year to 31 December 2020, the underlying funds comprised a series of funds managed by professional investment managers (the “underlying managers”): Aviva Investors, BlackRock, BNY Mellon (Insight), Columbia Threadneedle Investments, Fundsmith, HSBC Global Asset Management, Legal & General Investment Management Limited, M&G Investments, Newton Investment Management, PIMCO Investment Management and PineBridge Investments.

All assets held by the Scheme are held through Pooled Investment Vehicles (“PIVs”).

Each of the underlying investment managers has a custodian that holds assets in safekeeping.

The Scheme’s assets are held in a life fund where L&G owns the assets. The Trustee holds an insurance contract with L&G on members’ behalf, where the value of the contract is equal to the value of the underlying investments.

# Trustee's Report

## Performance

Performance of the Scheme's assets against the objectives is shown in the following table:

Fund	One Year (%)	3 Years p.a. (%)	5 Years p.a. (%)
<b>NRDC Higher Risk Fund</b>	<b>10.3%</b>	<b>7.0%</b>	<b>8.2%</b>
Long-Term Target	5.0%	5.9%	5.7%
<b>NRDC Balanced Risk Fund</b>	<b>9.5%</b>	<b>6.6%</b>	<b>6.2%</b>
Long-Term Target	4.1%	4.9%	4.7%
<b>NRDC Lower Risk Fund</b>	<b>8.5%</b>	<b>5.0%</b>	<b>4.8%</b>
Long-Term Target	3.0%	3.9%	3.7%
<b>NRDC Annuity Protection Fund</b>	<b>11.1%</b>	<b>6.8%</b>	<b>9.7%</b>
Benchmark	11.4%	7.0%	8.0%
<b>NRDC Cash Fund</b>	<b>0.2%</b>	<b>0.5%</b>	<b>0.4%</b>
Benchmark	0.1%	0.4%	0.3%
<b>NRDC Emerging Markets Equity Fund</b>	<b>11.2%</b>	<b>2.8%</b>	<b>10.5%</b>
Benchmark	11.7%	6.1%	14.4%
<b>NRDC Global Equity Fund</b>	<b>0.4%</b>	<b>4.0%</b>	<b>9.3%</b>
Benchmark	1.3%	4.2%	9.4%
<b>NRDC Aggregate Bond Fund</b>	<b>8.0%</b>	<b>5.0%</b>	<b>5.7%</b>
Benchmark	8.4%	5.2%	5.8%
<b>NRDC Property Fund</b>	<b>-5.3%</b>	<b>0.2%</b>	<b>2.3%</b>
Long-Term Target	-1.1%	2.3%	3.9%
<b>NRDC Index-Linked Gilts Fund</b>	<b>12.9%</b>	<b>6.0%</b>	<b>9.4%</b>
Benchmark	12.4%	5.9%	9.2%
<b>Legal &amp; General Ethical Global Equity Index</b>	<b>11.0%</b>	<b>N/A</b>	<b>10.1%<sup>1</sup></b>
Benchmark	11.4%	N/A	10.5% <sup>1</sup>
<b>HSBC Islamic Global Equity Index</b>	<b>22.9%</b>	<b>N/A</b>	<b>21.2%<sup>2</sup></b>
Benchmark	23.7%	N/A	21.9% <sup>2</sup>

Source: Legal & General. Performance is shown net of fees.

# Trustee's Report

## Performance (continued)

Past Performance, as reported in the table of investment returns on page 13, is not a guide to future returns. The value of investments and the income from them can fall as well as rise and members may not get back the full amount originally invested.

1. Inception date of the Legal & General Ethical Global Equity Index is 31 July 2018 (date first contribution received).
2. Inception date of the HSBC Islamic Global Equity Index is 31 October 2018 (date first contribution received).

Long-term targets and short-term benchmarks are shown below:

Fund	Active/Passive	Benchmark/Long-Term Target
<b>NRDC Higher Risk Fund</b>	Active	CPI + 4% p.a.
<b>NRDC Balanced Risk Fund</b>	Active	CPI + 3% p.a.
<b>NRDC Lower Risk Fund</b>	Active	CPI + 2% p.a.
<b>NRDC Annuity Protection Fund</b>	Passive	In line with bonds <sup>1</sup>
<b>NRDC Cash Fund</b>	Active	Seven Day LIBID
<b>NRDC Emerging Markets Equity Fund</b>	Passive	FTSE Emerging Markets Index
<b>NRDC Global Equity Fund</b>	Passive	50% FTSE All-Share Index, 50% Overseas Equities
<b>NRDC Aggregate Bond Fund</b>	Passive	50% FTSE A Government (All Stocks) Index, 50% iBoxx £ Non-Gilts Index
<b>NRDC Property Fund</b>	Active	Outperform IPD/PFFI All Balanced Weighted Average by 1% p.a.
<b>NRDC Index-Linked Gilt Fund</b>	Passive	FTSE UK Gilts Index-Linked Over 5 Years Index
<b>Legal &amp; General Ethical Global Equity Index</b>	Passive	FTSE 4Good Developed Index
<b>HSBC Islamic Global Equity Index</b>	Passive	DJ Islamic Market Global Titans 100 Index

Source: Legal & General (data, as at 31 December 2020).

# Trustee's Report

## Review of Investment Performance

Over the year to 31 December 2020 most return-seeking asset classes performed positively despite the significant falls seen in Q1 as a result of the Covid-19 pandemic.

Regarding the funds within the Managed Lifestyle arrangement, all funds performed in line with or ahead of their targets/benchmarks over the 12 month period to 31 December 2020.

Regarding the Pick 'n' Mix funds (excluding those already mentioned above):

- The passively managed funds (NRDC Global Equity Fund, NRDC Aggregate Bond Fund, NRDC Index-Linked Gilt Fund, OMWIPL Legal & General Ethical Global Equity Index and OMWIPL HSBC Islamic Global Equity Index) effectively tracked their respective benchmarks over the 12 month period to 31 December 2020.
- The performance of the NRDC Emerging Markets Equity Fund was reviewed in 2019, with the underlying actively-managed fund replaced with a passive index-tracking fund. The fund effectively tracked its benchmark over the 12 month period to 31 December 2020.
- The NRDC Property Fund underperformed its long-term target over the 12 month period to 31 December 2020, with Covid-19-related uncertainty and continued Brexit-related uncertainty adversely affecting property valuations.

## UK Stewardship Code

All of the investment managers above subscribe to the UK Stewardship Code, which is a set of principles for managers to follow in relation to voting rights and good corporate governance of companies they invest in.



# Trustee's Report

## Statement of Trustee's Responsibilities

The audited financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements.

- 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 that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

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

- 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 trustees' annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The Trustee is responsible for 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, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the pension and financial information included on the Network Rail Defined Contribution Pension Scheme website.

# Trustee's Report

## Compliance Matters

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with Schedule 3 of The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 or voluntarily by the Trustee. The information deals with matters of administrative routine.

### Internal Disputes Resolution Procedure

Members who have a complaint with regard to any Scheme matter should contact the Pensions Manager in the first instance at the address given on page 40 of this report.

However, if the complaint is not resolved informally in this way, members may make a formal complaint under the Trustee's two stage dispute resolution procedure. During the Scheme year, 2 complaints were dealt with under this procedure.

### The Money and Pensions Service ("MaPS")

The Money and Pensions Service (MaPS) brings together three respected financial guidance bodies: The Pensions Advisory Service (TPAS), the Money Advice Service and Pension Wise providing information to the public on matters relating to workplace and personal pensions.

Address 120 Holborn, London, EC1N 2TD

Telephone: 0115 965 9570

### Pensions Ombudsman

The Pensions Ombudsman will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme.

The Pensions Ombudsman may be contacted at 1st Floor, 10 South Colonnade, Canary Wharf, London E14 4PU

Telephone: 0800 917 4487

Early resolution email: [helpline@pensions-ombudsman.org.uk](mailto:helpline@pensions-ombudsman.org.uk)

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

Website address: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

### Pensions Regulator

The Pensions Regulator is able to intervene in the running of schemes where trustees, Employers or Professional Advisers have failed in their duties.

The Pensions Regulator may be contacted at Napier House, Trafalgar Place, Brighton, BN1 4DW.

Telephone: 0345 600 7060

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

Website address: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

# Trustee's Report

## Pension Tracing

A pension tracing service is carried out by the Department for Work and Pensions.

The Pension Tracing Service may be contacted at The Pension Service 9, Mail Handling Unit A, Wolverhampton, WV98 1LU.

Telephone: 0800 731 0193

## Financial Advice

The Trustee is not authorised to give financial advice. The Financial Services & Markets Act 2000 states who is able to provide investment advice, and any queries relating to specific arrangements should always be referred to a Financial Adviser authorised to give such advice. Should a member have any other queries, relating to their own Personal Retirement Account, they should contact the Network Rail Pensions Team at the address shown on page 40.

## General Data Protection Regulations ("GDPR")

From 1 January 2021, the UK GDPR came into effect which will run alongside the Data Protection Act 2018, and the EU GDPR 2018.

Our obligations as Trustee under UK GDPR are fundamentally the same as our obligations under the EU GDPR and we continue to remain subject to UK Data Protection laws.

The Trustee is registered with the Data Protection Registrar, as required by the Act. The Trustee continues to review its processes and recording keeping, ensuring that the Act's provisions are adhered to. Other appointed service providers must also comply with the Act and contracts for services will reflect this as part of the contract provisions.

## Taxation

The Scheme is a registered Scheme under the Finance Act 2004. The Trustee has no reason to believe that there have been any changes to the tax status of the Scheme during the year.

## Related Party Transactions

The Principal Employer has paid the majority of the costs of administering the Scheme for the year. Further details of related party transactions are given in note 16 to the financial statements.

## Approval of the Trustee's Report

The Trustee's Report was approved by the Trustee on 23rd June 2021 and signed on its behalf by:

SAMANTHA PITT

**Samantha Pitt**  
**Trustee Director**

ANDREW FIELDING

**Andrew Fielding**  
**Trustee Director**

## Fund Account for the Year Ended 31 December 2020

	Note	2020 £	2019 £
<b>Contributions and benefits</b>			
Employer contributions		39,719,170	35,599,182
Employee contributions		3,201,761	2,878,222
<b>Total contributions</b>	4	42,920,931	38,477,404
Individual transfers in		847,420	1,711,521
Other income	5	2,398,656	1,646,637
		46,167,007	41,835,562
Commutations and lump sums retirement benefits	6	(2,748,936)	(2,841,354)
Death benefits		(3,592,710)	(2,245,294)
Payments to and on account of leavers	7	(6,268,561)	(8,457,809)
Administrative expenses	8	(93,739)	(26,171)
		(12,703,946)	(13,570,628)
<b>Net additions from dealings with members</b>		33,463,061	28,264,934
<b>Returns on investments</b>			
Investment income - interest receivable		1,413	4,354
Change in market value of investments	9	34,149,421	42,433,852
Investment management expenses	10	-	-
<b>Net return on investments</b>		34,150,834	42,438,206
<b>Net increase in the Fund during the year</b>		67,613,895	70,703,140
<b>Net assets at start of the year</b>		401,463,174	330,760,034
<b>Net assets at end of the year</b>		469,077,069	401,463,174

The notes on pages 21 to 33 form an integral part of these financial statements.

# Statement of Net Assets Available for Benefits as at 31 December 2020

	Note	2020 £	2019 £
<b>Investment assets</b>			
Pooled investment vehicles	11	470,573,688	400,557,013
Other investment balances		11,103	1,387,780
<b>Net investment assets</b>	9	470,584,791	401,944,793
<b>Current assets</b>	14	2,323,791	1,506,679
<b>Current liabilities</b>	15	(3,831,513)	(1,988,298)
<b>Net assets of the Scheme at end of year</b>		469,077,069	401,463,174

The notes on pages 21 to 33 form an integral part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

The financial statements were approved by Network Rail Pension Trustee Ltd and authorised for issue on 23rd June 2021 and signed on its behalf by:

SAMANTHA PITT

**Samantha Pitt**  
**Trustee Director**

ANDREW FIELDING

**Andrew Fielding**  
**Trustee Director**

# Notes to the Financial Statement

## 1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with guidance set out in the Statement of Recommended Practice (Revised 2018).

The financial statements have been prepared on the going concern basis. Having considered operational matters and the position of the Principal Employer the Trustee considers the preparation of the financial statements on a going concern basis to be appropriate.

## 2. Identification of the financial statements

The Scheme is established as a trust under English Law. The registered address of the Scheme is at Network Rail Pension Trustee Limited, One Eversholt Street, London NW1 2DN.

## 3. Accounting policies

The following principal accounting policies have applied in the preparation of the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Contributions

Normal contributions, both from the members and from the employer, are accounted for as they fall due in accordance with the latest Payment Schedule. Additional voluntary contributions from the members are accounted for in the month they are deducted from the payroll.

### Benefits and payments to and on account of leavers

Retirement benefits are accounted for on the later of the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken, and the date of retiring or leaving. If there is no member choice, on the date of retiring, leaving or notification of death.

Other benefits are accounted for from the date the member leaves the Scheme, or on requesting an Uncrystallised Funded Lump Sum, or on death.

Refunds are accounted for when the Trustee is notified of the member's decision to leave the Scheme.

Where the Trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits.

### Transfer from and to other schemes

Individual transfers in or out of the Scheme are accounted for when member liability is accepted or, discharged which is normally when the transfer amount is paid or received.

## Notes to the Financial Statement

### 3. Accounting policies (continued)

#### **Administrative and other expenses**

Administrative and other expenses, when incurred by the Scheme, are accounted for on an accruals basis, net of recoverable VAT.

#### **Investment income and expenditure**

Income from cash and short term deposits is accounted for on an accruals basis.

Income from pooled investment vehicles is reinvested within the funds and is therefore not directly paid to the Scheme, but included within change in market value.

Investment management fees are accounted for on an accruals basis and shown separately within investment returns.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

#### **Valuation and Classification of Investments**

Investment assets and liabilities are included in the financial statements at fair value as described below:

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

# Notes to the Financial Statement

## 4. Contributions

	2020 £	2019 £
Members contributions:		
Normal	1,765,737	1,597,890
Additional voluntary	1,436,024	1,280,332
Employer's normal contributions	20,128,626	18,910,479
Employer's SMART contributions	19,590,544	16,688,703
<b>Contributions receivable for the year</b>	<b>42,920,931</b>	<b>38,477,404</b>

There is a salary sacrifice arrangement (known as SMART) in place giving members the option to increase their take-home pay as National Insurance Contributions payable by both employee and employer are reduced.

## 5. Other income

	2020 £	2019 £
Claims on life assurance policy	2,341,304	1,630,512
Other income	57,352	16,125
	<b>2,398,656</b>	<b>1,646,637</b>

## 6. Commutations and lump sum retirement benefits

	2020 £	2019 £
Commutations and lump sum retirement benefits	2,518,761	2,680,104
Purchase of annuities	230,175	161,250
	<b>2,748,936</b>	<b>2,841,354</b>



# Notes to the Financial Statement

## 7. Payments to and on account of leavers

	2020 £	2019 £
Individual transfers to other schemes	6,268,258	8,454,364
Refunds to members leaving service	303	3,445
	<b>6,268,561</b>	<b>8,457,809</b>

## 8. Administration expenses

The Trust Deed and Rules provide that the costs of administering and managing the Scheme are met by the employer and/or from unallocated funds within the Scheme (known as the Special Fund).

	2020 £	2019 £
Investment consulting	-	21,000
Pension levies	25,509	-
Other professional fees	34,780	5,080
Other fees and expenses	33,450	91
	<b>93,739</b>	<b>26,171</b>

The costs reported above were all funded during the year from the Special Fund (Scheme cash not allocated to members).

The Employer paid other administration costs and the life assurance premiums as disclosed under Note 16.

# Notes to the Financial Statement

## 9. Reconciliation of net investments

	Market value at 1 Jan 2020 £	Purchases at Cost £	Sales proceeds £	Change in Market Value £	Market value at 31 Dec 2020 £
Pooled investment vehicles	400,557,013	58,127,632	(22,260,378)	34,149,421	470,573,688
Other investment balances	1,387,780				11,103
	401,944,793				470,584,791

Other investment balances of £11,103 (2019 - £1,387,780) relates to cash in transit to the investment manager.

Indirect costs are incurred through the bid-offer spread on investments within the pooled investment vehicles. The amount of indirect cost is not separately provided to the Scheme.

In January 2020, the investment platform provider transitioned from Old Mutual Wealth to Legal & General Investment Management. The purchases and sales reported above relate solely to member related transactions in the year and do not reflect the transition of investment assets between the two providers.

## 10. Investment management expenses

Fund management fees relating to the management of the assets of the Scheme are calculated as a percentage of the value of the fund and are included within the unit prices of the investments held. They are therefore reflected in the market value of the investments.

## 11. Pooled investment vehicles

During the year, investment assets were managed by Legal & General Investment Management ("L&G") who are registered in the United Kingdom.

The L&G policy was held in the name of the Network Rail Defined Contribution Pension Scheme. The policy was held by the Scheme in a unit-linked insurance bond for use by Trustees of Eligible Schemes. Each fund held by the policy holder was a separate account within L&G's long term business fund. These funds were maintained to calculate plan values. Each fund represented a group of investments held by L&G and was divided into units which represented shares in the investment of each Fund. The allocation to units was notional and was a means of calculating plan values. The policy holder had no beneficial interest in the units, the Fund or any of the underlying investments, all of which were solely the property of L&G.

# Notes to the Financial Statement

## 11. Pooled investment vehicles (continued)

Investments purchased by the Scheme are allocated to provide money purchase benefits to the individuals on whose behalf the corresponding contributions were paid. Accordingly, the assets identified as designated to members in the net assets statement do not form a common pool of assets available for members generally. Members each receive an Annual Benefit Statement confirming the contributions paid by them, on their behalf or for them, and the value of their Personal Retirement Account. It also includes a Statutory Money Purchase Illustration.

The market value of investments at 31 December 2020 and 31 December 2019, by investment fund is shown in the table below:

	2020 £	2019 £
NRDC Higher Risk Fund	5,566,443	5,079,263
NRDC Balanced Risk Fund	262,947,632	215,665,808
NRDC Lower Risk Fund	65,339,553	52,118,709
NRDC Retirement Protection Fund	6,243,068	4,186,658
NRDC Emerging Markets Equity Fund	11,351,529	10,276,114
NRDC Global Equity Fund	53,194,404	53,280,808
NRDC Property Fund	10,683,084	11,187,107
NRDC Aggregate Bonds Fund	6,664,478	6,042,696
NRDC Index Linked Gilt Fund	28,510,319	25,318,355
NRDC Cash Fund	18,770,791	16,637,657
HSBC Islamic Global Equity Index	922,541	443,002
Legal & General Ethical Global Equity Index	379,846	320,836
	<b>470,573,688</b>	<b>400,557,013</b>

The pooled investment vehicles of £470,573,688 (2019: £400,557,013) were wholly allocated to the members of the Scheme.

The underlying legal structure of the above funds is summarised in note 13, page 31.

The pooled investment vehicles are managed by companies registered in the UK.

The property fund holdings are considered to be illiquid investment holdings due to the nature of the underlying investment in properties.

With effect from March 2020, the property fund holdings became subject to a temporary transaction suspension until September 2020.

### Additional Voluntary Contributions (AVC) Funds

The Trustee Board holds assets within the above Funds to provide for members' main money purchase benefits and for those members electing to pay AVCs.

# Notes to the Financial Statement

## 12. Fair value of investments

The fair value of financial instruments has been determined 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 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 Scheme's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

<b>As At 31 December 2020</b>	<b>Level 1 £</b>	<b>Level 2 £</b>	<b>Level 3 £</b>	<b>Total £</b>
Pooled Investment Vehicles	-	470,573,688	-	470,573,688
Other Investment Balances	11,103	-	-	11,103
	<b>11,103</b>	<b>470,573,688</b>	<b>-</b>	<b>470,584,791</b>

<b>As At 31 December 2019</b>	<b>Level 1 £</b>	<b>Level 2 £</b>	<b>Level 3 £</b>	<b>Total £</b>
Pooled Investment Vehicles	-	400,557,013	-	400,557,013
Other Investment Balances	1,387,780	-	-	1,387,780
	<b>1,387,780</b>	<b>400,557,013</b>	<b>-</b>	<b>401,944,793</b>

# Notes to the Financial Statement

## 13. Investment risk disclosures

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 of 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 of 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 of 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.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

### Investment strategy

The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Scheme payable under the trust deed and rules as they fall due.

The Trustee sets the investment strategy for the Scheme taking into account considerations such as the strength of the employer covenant, the long term liabilities of the Scheme and the funding agreed with the Employer. The investment strategy is set out in its Statement of Investment Principles (SIP).

The current strategy of the Scheme is outlined in the Investment Management section of the Trustee Report on pages 11 to 15.

### Scheme risk assessment

The Scheme is subject to various types of risks, but member level risk exposures will be dependent on the member funds invested in by members. The main types of risks include (but are not limited to) credit risk and market risk, arising from the underlying investments in the underlying funds. Market risk is composed of foreign exchange ("FX"), interest rate and other price risks.

While the Trustee governs the underlying funds individually, it considers risks at a member fund level to be more important, recognising the benefit of diversification and offsetting risks within the investment funds.

# Notes to the Financial Statement

## 13. Investment risk disclosures (continued)

### Scheme risk assessment (continued)

Risks are classified as “Direct” if they relate to an investment held directly by the Scheme, or “Indirect” if they relate to an investment held by one of the pooled underlying funds.

All member funds would be exposed to different risks to some degree (for example, a large shift in interest rates could affect equity markets) - the main risk exposures of each of the member funds within the investment strategy are set out below.

Fund ↓	Risk→	Credit (Direct)	Credit (Indirect)	FX	Interest Rate	Other Prices
NRDC Higher Risk Fund		✓	✓	✓	✓	✓
NRDC Balanced Risk Fund		✓	✓	✓	✓	✓
NRDC Lower Risk Fund		✓	✓	✓	✓	✓
NRDC Annuity Protection Fund		✓	✓		✓	✓
NRDC Cash Fund		✓			✓	✓
NRDC Emerging Markets Equity Fund		✓		✓		✓
NRDC Global Equity Fund		✓		✓		✓
NRDC Aggregate Bond Fund		✓	✓		✓	✓
NRDC Property Fund		✓				✓
NRDC Index-Linked Gift Fund		✓	✓		✓	✓
Legal & General Ethical Global Equity Index		✓		✓		✓
HSBC Islamic Global Equity Index		✓		✓		✓

## Notes to the Financial Statement

### 13. Investment risk disclosures (continued)

#### Credit risk

All assets of the Scheme are subject to direct credit risk in relation to L&G through the Scheme's holding in unit linked insurance funds provided by L&G. Direct credit risk relates to insolvency of L&G, the underlying managers or the custodians used by the underlying managers to hold fund assets.

L&G is authorised by the Prudential Regulation Authority, regulated by the Financial Conduct Authority and the Prudential Regulation Authority and maintains capital for its policy holders. In the event of default by L&G, the Trustee can apply for compensation from the Financial Services Compensation Scheme ("FSCS").

As well as the regulatory environment in which the investment platform operates, direct credit risk is mitigated at the investment platform level by the assets backing the Scheme's policy being ring-fenced from those of the investment platform.

Direct credit risk in the underlying funds operated by the underlying managers is mitigated by the underlying investments being ring-fenced from those of the underlying manager and through the regulatory environments in which the underlying managers operate. The amount that can be claimed by the investment platform in the event of an insolvency of the underlying manager will depend on the structure of the underlying fund and the contractual terms between the manager and the investment platform. In the event of a custodian becoming insolvent, the level of asset recovery will depend on the custody agreement in place between the underlying manager and the custodian.

The Trustee carries out due diligence checks on the appointment of the investment platform and new investment managers. On an ongoing basis, it monitors any changes to the regulatory and operating environments of both.

The Scheme's investments are all held in pooled investment vehicles. At the end of the year, the total value of member funds subject to direct credit risk was £470.6m (£400.6m at 31 December 2019).

The Scheme is also subject to indirect credit risk arising on the underlying investments held by the underlying funds. Credit risk is mitigated by utilising investment managers whose mandate includes one or more of the following:

- invest in government bonds where the credit risk is minimal;
- invest in corporate bonds which are rated at least investment grade;
- diversification of the underlying investments.

# Notes to the Financial Statement

## 13. Investment risk disclosures (continued)

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

	2020 £	2019 £
Unit linked insurance contracts	354,412,723	294,261,900
Open ended investment companies	116,160,965	106,295,113
	<b>470,573,688</b>	<b>400,557,013</b>

### Currency risk

Some member funds are subject to indirect currency risk because some of the underlying investments are held in overseas markets via pooled investment vehicles. The Trustee regards currency risk as one which can, in some cases, add value and manages this risk through advice from its investment advisor.

There is no direct exposure to currency risk. All member and underlying funds are priced in GBP and no foreign denominated assets are directly held.

### Interest rate risk

Some member funds are subject to indirect interest rate risk because some of the underlying investments are held in bonds or cash through pooled vehicles. If interest rates fall the value of these investments will rise (all else equal) and vice versa.

The Scheme manages this risk through the following:

- diversification, where appropriate, to reduce the impact of a change in interest rates; or
- allowing the risk, where appropriate, in recognition that a change in interest rates will likely be correlated with a change in annuity rates and therefore this degree of “matching” is desirable.

No assets are subject to direct investment rate risk as no interest rate sensitive investments are held directly.

### Other price risk

All assets are subject to indirect other price risk. Other price risk arises in relation to risks not mentioned above, such as those affecting equity markets, property, non-investment grade bonds etc.

The Scheme manages this risk by making available member funds with a diverse portfolio of investments across various markets, designed to minimise the overall price risk. Members may also invest in funds with a higher degree of overall price risk should they choose.

No assets are subject to direct other price risk as no price sensitive investments are held directly.



# Notes to the Financial Statement

## 14. Current assets

	2020 £	2019 £
Bank balances	2,323,791	1,380,267
Death insurance claims receivable	-	120,748
Other debtors	-	5,664
	<b>2,323,791</b>	<b>1,506,679</b>

Of the bank balance stated above, an amount of £144,599 (2019 - £221,851) was not allocated to members and represents the Special Fund.

Assets not allocated to members are amounts belonging to the Employer that have accumulated as a result of refunds to members leaving the Scheme within the first two years of joining. In such a situation, the member is refunded their contributions adjusted for any investment gain or loss. The Scheme accumulates the employer contributions adjusted for any investment gain or loss and these are applied either to offset future employer contributions due, or to meet administration expenses of the Scheme as agreed with the Employer.

## 15. Current liabilities

	2020 £	2019 £
Unpaid benefits	2,282,520	665,408
Prepaid contributions	1,313,185	1,260,192
Other creditors	235,808	62,698
	<b>3,831,513</b>	<b>1,988,298</b>

# Notes to the Financial Statement

## 16. Related party transactions

The Trustee and the Principal Employer have provided administrative services free of charge during the period under review.

Expenses from third parties in respect of administration and investment advice (except as disclosed in notes 8 and 11 of these financial statements) totalling £710,003 (2019 - £249,568) have been paid by the Principal Employer on behalf of the Scheme. Included within this amount, fees of £nil (2019 - £nil) were payable to the Trustee Director, Law Debenture Pension Trust Corporation, in respect of the services of Samantha Pitt, as Chair of the Scheme.

In addition, the cost of providing lump sum death benefits through an insurance policy of £2,259,836 (2019: £2,169,255) was met by the Principal Employer on behalf of the Scheme.

During the year, transfers in from NR CARE totalled £7,753 (2019 - £2,092) and transfers out to NR CARE totalled £790,739 (2019 - £634,665).

Trustee Directors, who have served during the year, were members of the following related pension schemes during their tenure:

<b>Trustee Director</b>	<b>Network Rail Pension Scheme</b>
Anit Chandarana	RPS Active / RPS Deferred / NRDC Deferred
Samantha Pitt*	RPS Deferred / NRDC Deferred
Timothy Craddock	RPS Active
Mark Engelbretson	NR CARE Active
Andrew Fielding	RPS Active
Mark Langman	RPS Active – now retired
Benjamin Milway	NR CARE Active
Robert Arnold	NR CARE Active
Paul Norris	N/A
Eoin O'Neill	RPS Active
Urvish Pandya	RPS Active

*\*Representative of Law Debenture Pension Trust Corporation*

RPS – Railways Pension Scheme

NRDC – Network Rail Defined Contribution Pension Scheme

NR CARE– Network Rail CARE Pension Scheme

# Independent Auditor's Report to the Trustee of the Network Rail Defined Contribution Pension Scheme

## Opinion

We have audited the Financial Statements of the Network Rail Defined Contribution Pension Scheme for the year ended 31 December 2020 which comprise the Fund Account, the Statement of Net Assets (available for benefits) and notes to the Financial Statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Financial Statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2020, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A 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 under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial documents, we have concluded that the Scheme's Trustee use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

Our responsibilities and the responsibilities of the Scheme's Trustee with respect to going concern are described in the relevant sections of this report.

## Other information

The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon. The Scheme's Trustee is responsible for the other information. Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

## Independent Auditor's Report (continued)

### Other information (continued)

Our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 16, the Trustee is responsible for the preparation of Financial Statements and for being satisfied that they give a true and fair view, and for such internal controls as the Trustee determine are necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Trustee is responsible for 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 the Trustee either intend to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

### The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Financial Statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the Financial Statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the Financial Statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

## Independent Auditor's Report (continued)

### The extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory framework that the Scheme operates in and how the Scheme is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the Financial Statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the Financial Statements are FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP) and the relevant legislation as outlined in the Pensions SORP. We performed audit procedures to review the Financial Statements for compliance with the relevant legislation and to inquire of management and those charged with governance whether the Scheme is in compliance with these law and regulations.

The audit engagement team identified the risk of management override of controls as the area where the Financial Statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and evaluating the business rationale in relation to any significant, unusual transactions and transactions entered into outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the Scheme's Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them 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 and the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

*RSM UK Audit LLP*

**RSM UK Audit LLP**

Statutory Auditor, Chartered Accountants

Portland

25 High Street

Crawley RH10 1BG

Date: 24 June 2021

# Independent Auditor's Statement about Contributions, under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the Network Rail Defined Contribution Pension Scheme

## Statement about contributions payable under the Payment Schedule

We have examined the summary of contributions payable to Network Rail Defined Contribution Pension Scheme on page 38, in respect of the Scheme year ended 31 December 2020.

In our opinion the contributions for the Scheme year ended 31 December 2020 as reported in the summary of contributions on page 38 and payable under the Payment Schedule have in all material respects been paid at least in accordance with the Payment Schedule certified by the actuary on 31 March 2016.

## Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 38 have in all material respects been paid at least in accordance with the Payment Schedule. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Payment Schedule.

## Respective responsibilities of Trustee and Auditor

As explained more fully on page 16 in the Statement of Trustee's Responsibilities, the Scheme's Trustee are responsible for ensuring that there is prepared, maintained and from time to time revised a Payment Schedule showing the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the scheme by the employer in accordance with the Payment Schedule.

It is our responsibility to provide a statement about contributions paid under the Payment Schedule and to report our opinion to you.

## Use of our statement

This statement is made solely to the Scheme's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the scheme's Trustee those matters we are required to state to them in an auditor's statement 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 and the Scheme's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

*RSM UK Audit LLP*

## RSM UK AUDIT LLP

Statutory Auditor, Chartered Accountants  
Portland  
25 High Street  
Crawley RH10 1BG

Date: 24 June 2021

## Summary of Contributions Payable in the Year

During the year ended 31 December 2020 the contributions payable to the Scheme by the employer under the Payment Schedules were as follows

	2020 £
Employer's normal contributions	20,128,626
Employer's SMART contributions	19,590,544
Members' normal contributions	1,765,737
<b>Total contributions payable under the Payment Schedule</b>	<b>41,484,907</b>
In addition, further contributions were payable:	
Members' additional voluntary contributions	1,436,024
<b>Total contributions receivable</b>	<b>42,920,931</b>

The contributions payable to the Scheme during the year were paid in accordance with the Payment Schedule dated 31 March 2016

Approved by the Trustee on 23rd June 2021 and signed on its behalf by:

SAMANTHA PITT

**Samantha Pitt**  
**Trustee Director**

ANDREW FIELDING

**Andrew Fielding**  
**Trustee Director**

## Trustee Advisers

<b>Scheme administrator:</b>	Capita Employee Solutions (until 31 January 2021) Hartshead House 2 Cutlers Gate Sheffield S4 7TL
	Willis Towers Watson (from 1 February 2021) Westgate 120 – 130 Station Road Redhill Surrey RH1 1WS
<b>Investment adviser:</b>	River and Mercantile Solutions One Aldermanbury Square London EC2V 7HR
<b>Investment manager:</b>	Legal & General Investment Management Limited One Coleman Street London EC2R 5AA
<b>Auditor:</b>	RSM UK Audit LLP Statutory Auditor Chartered Accountants 25 High Street Crawley RH10 1BG
<b>Legal adviser:</b>	Squire Patton Boggs (UK) LLP 6 Wellington Place Leeds LS1 4AP
<b>Banker:</b>	National Westminster Bank plc (until 31 January 2021) 42 High Street Sheffield S1 1QG
	Lloyds TSB Bank plc (from 1 February 2021) PO Box 72 Gillingham Kent ME8 0LS
<b>Life assurance company:</b>	Legal & General Assurance Society Limited Legal & General House Kingswood Tadworth Surrey KT20 6EU



## Contact for Enquiries & Further Information

Details of individual benefit entitlements can be obtained from the Scheme Administrator at the following address:

Network Rail  
Willis Towers Watson  
PO Box 545  
Redhill  
Surrey RH1 1YX

Email: [NetworkRailPensions@willistowerswatson.com](mailto:NetworkRailPensions@willistowerswatson.com)

Tel: 01737 230487

For further information about the Scheme generally, including requests to change contributions or AVC investment options, or any complaints in relation to Scheme matters, please write to:

Network Rail Pensions Department  
The Quadrant: MK  
Elder Gate  
Milton Keynes MK9 1EN  
Tel: 01908 781010

Email: [pensions@networkrail.co.uk](mailto:pensions@networkrail.co.uk)

Further information about the Scheme is also available at: [www.myNRPension.co.uk](http://www.myNRPension.co.uk)

Any questions or comments regarding information contained in this report should be addressed to:

Claire McCarthy  
Pensions Manager  
Network Rail Pension Trustee Limited  
The Quadrant: MK  
Elder Gate  
Milton Keynes MK9 1EN

Email: [Claire.Mccarthy@networkrail.co.uk](mailto:Claire.Mccarthy@networkrail.co.uk)

The registered address for the Trustee is:

Network Rail Pension Trustee Limited  
One Eversholt Street  
London NW1 2DN

# Annual Governance Statement by the Chair of the Trustee for the Twelve Months Ending 31 December 2020

Since 6 April 2015, governance rules have applied to defined contribution pension arrangements, like NRDC. These have been designed to help members achieve a good outcome from their pension savings.

As the Chair of the Trustee, I have to provide you with a yearly statement which explains what steps have been taken by the Trustee Board, with help from our professional advisers, to meet the governance standards. The law sets out what information has to be included in my statement and this is covered in sections 1 to 4 below.

The Trustee Directors are committed to having high governance standards and we have a number of dedicated sub-committees which meet regularly to monitor the controls and processes in place in connection with the Scheme's investments and administration. More information about the sub-committees is on page 6 of the Annual Report.

I welcome this opportunity to explain what the Trustee does to help to ensure the Scheme is run as effectively as it can be.

This statement is also available on the NRDC website at: [myNRpension.co.uk](http://myNRpension.co.uk)

## 1. Default investment arrangement

The default arrangement is a lifestyle strategy called the Managed Lifestyle. Pension contributions are invested for members who join the Scheme and do not choose an investment option. Members can also choose to invest in most of the underlying funds of the Managed Lifestyle as self-select options.

### Setting an appropriate investment strategy

The Trustee is responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme's default arrangement: the Managed Lifestyle. 80.74% of members had contributions invested in the Managed Lifestyle at the year-end (i.e. 24,179 members are invested in the default strategy). Details of the investment strategy and investment objectives of the default arrangement are recorded in the documents called the Statement of Investment Principles (included in Appendix 1) and the Statement of Investment Arrangements, which is available on request.

### Reviewing the default investment arrangement

The Trustee is expected to:

- review the investment strategy and objectives of the default investment arrangement at regular intervals, and at least once every 3 years; and
- take into account the needs of the Scheme membership when designing the default arrangement.

The Trustee Board and its investment sub-committee review the investment objectives and the performance of the default arrangement at least once a year having considered the advice of River and Mercantile Investments Limited, the Scheme's investment adviser.

### Reviewing the default investment arrangement (continued)

The default investment arrangement was last formally reviewed during the 2017 and 2018 Scheme Years to help ensure the Managed Lifestyle continues to provide sufficient return for members without taking too much risk. In practice, the default investment arrangement is reviewed on an ongoing basis. Resultant changes were implemented during the 2018 Scheme Year. In particular, the Higher Risk Fund was removed from the Managed Lifestyle. This change was made to lower the overall level of risk within the Managed Lifestyle while still targeting an appropriate level of return over the long term. A formal review of the default investment arrangement was initiated during 2020 and is underway during 2021. Pending the completion of the review, the Trustees is satisfied that the default investment arrangement remains appropriate as it continues to meet the Trustee's investment objectives

During January 2020, the Scheme changed platform provider from Old Mutual Wealth ("OMW") to Legal & General ("L&G"). This was the result of OMW withdrawing from the institutional platform market, a detailed review of alternative providers and the Trustee choosing L&G as the preferred platform provider. As part of the transition, some passively-managed underlying funds managed by BlackRock were transferred to equivalent funds with a lower cost managed by Legal & General Investment Management ("LGIM").

## 2. Statement of Investment Principles

In accordance with the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles, which sets out its policy on investment issues, including risks, performance targets, diversification of investments and details of the key elements of the investment arrangements of the Scheme.

The Statement of Investment Principles ("SIP") sets out how the Scheme takes into account financially material considerations, including Environmental, Social and Governance ("ESG") factors, in its investment decision making process.

As at 31 December 2020, the Scheme's strategy had departed from the SIP. The NRDC Cash Fund had become an unintentional default arrangement during the Scheme Year as a result of temporary contributions it received whilst the NRDC Property Fund was suspended due to property valuation uncertainty as a result of the Covid-19 pandemic. The SIP has been updated during 2021 to reflect the two default arrangements it has in operation.

A copy of this statement is set out in the Appendix and section 3.0 of the SIP sets out the Trustee's Scheme objectives to be as follows:

- 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.

### 3. Good value for members

The Trustee is required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members when this is compared to other options available in the market.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our advisers and considered regulatory guidance.

#### Charges paid by members

A formal value for members review has been carried out, in relation to the Managed Lifestyle and self-select options.

During this review, the Trustee considered all sources of fees levied on members' accounts (including management charges, additional expenses and platform charges as appropriate) to ensure value for members is present. The Trustee considered, among other items, the absolute level of charges, the competitiveness of the charges relative to the marketplace and the levels of service provided to members. As you may know, Network Rail pays the administration costs and expenses of running the scheme – an advantage relative to many other schemes.

The review concluded that the default arrangement attracts a total expense ratio<sup>1</sup> (TER) of c.0.31% on member assets on average throughout a member's working lifetime (assuming 40 years of service). This is lower than the maximum allowed of 0.75% and reasonable, given the type of investment strategy selected. Self-select charges are priced competitively<sup>2</sup> (average of c. 0.19%) and therefore the Trustee is satisfied that the Scheme as a whole is priced competitively, taking account of the current asset size, expected growth and the quality of services provided to members.

The TERs and transaction costs applicable to the funds underlying the Managed Lifestyle, and the self-select options, as at 31 December 2020 are set out in the table below:

	Fund	Total Expense Ratio (per annum)	Transaction costs
Default Lifestyle Funds	Balanced Risk Fund	0.37%	0.03%
	Lower Risk Fund	0.26%	0.03%
	Annuity Protection Fund	0.13%	0.03%
	Cash Fund	0.10%	0.00%
Additional Self-Select Funds	Higher Risk Fund	0.53%	0.02%
	Global Equity Fund	0.07%	0.01%
	Emerging Markets Equity Fund	0.25%	0.02%
	Property Fund	0.62%	-0.04%
	Aggregate Bonds Fund	0.06%	-0.02%
	Index Linked Gilt Fund	0.04%	0.10%
	Annuity Protection Fund	0.13%	0.03%
	Cash Fund	0.10%	0.00%
	Balanced Risk Fund	0.34%	0.03%
	Lower Risk Fund	0.23%	0.03%
	LGIM Ethical Global Equity Index	0.20%	0.00%
	HSBC Islamic Global Equity Index	0.33%	0.03%

<sup>1</sup> The total expense ratio (TER) represents the total cost of running the Fund. It includes the annual management charge (AMC) as well as the cost of administration and the underlying investment provider charges (including depository and custodial charges and audit, registration, and compliance fees)

<sup>2</sup> The average self-select charge is taken as the money weighted average TER of the self-select funds, using member data provided by Capita as at 31 December 2020.

*Source: L&G (TER data, as at 31 December 2020), L&G (transaction cost data, 31 January 2020 – 31 December 2020), OMW (transaction cost data, 1 January 2020 – 16 January 2020). Note: As part of the investment platform transition from OMW to L&G, the funds were restructured over the period 16 January 2020 – 31 January 2020. As such, ongoing transaction costs over this two-week period are not available have not been reported.*

### Transaction costs paid by members

We are required to explain transaction costs (i.e. the costs of buying and selling investments in the Scheme) which are paid by members rather than the employer. Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information.

The Trustee is required, as far as is reasonable and practical, to assess the extent to which these transaction costs represent good value for members. Transaction costs have been assessed across three areas:

- a) Transaction costs incurred as part of changes in the investment funds which comprise the Managed Lifestyle
- b) Transaction costs incurred by having funds automatically switched within the Managed Lifestyle
- c) Transaction costs incurred in the normal day-to-day running of the investment funds used by the Scheme (both in the Managed Lifestyle and self-select options)

The Trustee is satisfied the transaction costs incurred in a) and b) above are reasonable and provide value for members in terms of what they provide (i.e. a smoothly running lifestyle strategy).

During January 2020, the Scheme changed its investment platform provider from OMW to L&G. This change resulted in some changes to the underlying funds, as set out in Section 1. The total transaction costs associated with the transfer were c. £16,600 (c. 0.004% of assets transferred). The Trustee is satisfied that the costs are reasonable.

We have discussed with each of the Scheme's investment fund managers their approach to disclosing transaction costs in c) above. The transaction costs are those incurred while invested through the investment platform provider over the course of the Scheme year – in 2020, this was a combination of OMW and L&G due to the change in investment platform provider from the former to the latter in January 2020. Based on the latest available information, the Trustee is satisfied the costs are reasonable and provide value for members. These transaction costs are set out in the above table for the 12-month period ending 31 December 2020.

### Value provided by these costs

Value for members is evidenced both qualitatively (through the provision of what the Trustee considers to be a good strategy and good internal controls and services from the underlying investment managers), and quantitatively (through strong investment performance and effective protection against downside risk).

Over the year to 31 December 2020 most return-seeking asset classes performed positively despite the significant falls seen in Q1 as a result of the Covid-19 pandemic. Over the 12 month period, most of the funds used in the Scheme performed in line with, or ahead of, their long term return target. Within the default arrangement, all funds in the Managed Lifestyle performed in line with or ahead of their long term target.

Based on our assessment, the Trustee has concluded that overall the Scheme represents good value for members through the investment options it provides.



## Network Rail Defined Contribution Pension Scheme

### Illustrative example of the cumulative effect of costs and charges over time

Below is an illustrative example of the cumulative effect over time of the application of charges and costs on the value of a member's accrued rights. The example outlines the effects of fund charges (the TERs above) and transaction costs across the Scheme's fund range.

Projected pension pot, in today's terms										
Years	Default (Managed) Lifestyle		Balanced Risk Fund		Lower Risk Fund		Annuity Protection Fund		Cash Fund	
	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs
1	£12,400	£12,400	£12,400	£12,400	£12,200	£12,200	£12,100	£12,000	£12,000	£12,000
3	£17,000	£16,800	£17,000	£16,800	£16,400	£16,300	£15,800	£15,800	£15,800	£15,700
5	£21,900	£21,500	£21,900	£21,500	£20,700	£20,500	£19,600	£19,500	£19,500	£19,400
10	£35,200	£34,200	£35,200	£34,200	£31,900	£31,300	£29,000	£28,700	£28,800	£28,600
15	£50,500	£48,500	£50,500	£48,500	£44,000	£42,800	£38,500	£38,000	£38,100	£37,800
20	£67,900	£64,400	£67,900	£64,400	£56,900	£55,000	£48,000	£47,300	£47,500	£47,000
25	£87,700	£82,300	£87,700	£82,300	£70,800	£67,800	£57,700	£56,700	£57,000	£56,200
30	£106,300	£98,900	£110,200	£102,100	£85,600	£81,400	£67,500	£66,200	£66,500	£65,500
35	£122,700	£113,400	£135,600	£124,200	£101,400	£95,800	£77,500	£75,800	£76,200	£74,900
40	£137,700	£126,800	£163,200	£147,800	£117,700	£110,500	£87,300	£85,200	£85,700	£84,000

### Illustrative example of the cumulative effect of costs and charges over time (continued)

Projected pension pot, in today's terms										
Years	Higher Risk Fund		Global Equity Fund		Emerging Markets Equity Fund		Property Fund		Aggregate Bonds Fund	
	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs
1	£12,600	£12,500	£12,600	£12,600	£12,800	£12,800	£12,200	£12,100	£12,000	£12,000
3	£17,500	£17,300	£17,600	£17,600	£18,500	£18,400	£16,400	£16,100	£15,800	£15,800
5	£22,900	£22,400	£23,000	£23,000	£25,000	£24,700	£20,600	£20,100	£19,500	£19,500
10	£38,100	£36,700	£38,600	£38,500	£44,700	£43,800	£31,700	£30,300	£28,800	£28,700
15	£56,500	£53,400	£57,600	£57,300	£71,200	£69,000	£43,600	£40,900	£38,100	£38,000
20	£78,600	£73,000	£80,500	£79,900	£106,300	£102,000	£56,300	£51,800	£47,500	£47,300
25	£104,900	£95,900	£108,200	£107,100	£152,700	£145,100	£69,800	£63,200	£57,000	£56,600
30	£136,300	£122,400	£141,300	£139,700	£214,000	£201,300	£84,200	£75,000	£66,500	£66,100
35	£173,600	£153,200	£181,100	£178,600	£294,800	£274,200	£99,500	£87,300	£76,200	£75,600
40	£216,200	£187,500	£226,900	£223,300	£396,900	£365,100	£115,300	£99,500	£85,700	£85,000

## Illustrative example of the cumulative effect of costs and charges over time (continued)

Projected pension pot, in today's terms						
Years	Index Linked Gilt Fund		LGIM Ethical Global Equity Index		HSBC Islamic Global Equity Index	
	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs	Gross of all charges	Net of TER and transaction costs
1	£12,000	£12,000	£12,500	£12,400	£12,500	£12,400
3	£15,700	£15,700	£17,200	£17,100	£17,200	£17,100
5	£19,400	£19,300	£22,300	£22,100	£22,300	£22,000
10	£28,400	£28,300	£36,400	£35,900	£36,400	£35,500
15	£37,500	£37,200	£52,900	£51,900	£52,900	£51,100
20	£46,500	£46,100	£72,100	£70,400	£72,100	£69,000
25	£55,500	£54,900	£94,400	£91,600	£94,400	£89,400
30	£64,600	£63,800	£120,200	£116,000	£120,200	£112,700
35	£73,700	£72,700	£150,000	£143,900	£150,000	£139,100
40	£82,600	£81,300	£183,100	£174,700	£183,100	£168,100

## Notes:

- Values shown are estimates and are not guaranteed;
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;
- Transaction costs used are an average of previous years' transaction costs (up to 5 years, but in this case 3 years of data has been used), having regard to the Department for Work and Pensions' guidance noted in the bullet above (and any future guidance);
- Assumes inflation of 2.5% per annum;
- Assumes a starting pot size of £10,000;
- Assumes charges in future years are equal to charges today;
- Assumes an overall contribution rate of 8% of annual salary at all ages, the £ amount of which increases in line with assumed salary inflation;
- Assumes a member salary of £25,000 in Year 0, increasing at 1% per annum above inflation;
- The accumulation rates used, as set out below, are calculated in line with Actuarial Standard Technical Memorandum (AS TM1), the same document which governs the calculation of projections on annual benefit statements. The accumulation rates are those set out in the 31 December 2020 SMPI Accumulation Rates document. Returns are as follows:

	Fund	Real accumulation rate per annum (gross of charges)
Default Lifestyle Funds	Balanced Risk Fund	2.0%
	Lower Risk Fund	0.5%
	Annuity Protection Fund	-1.0%
	Cash Fund	-1.1%
Additional Self-Select Funds	Higher Risk Fund	3.2%
	Global Equity Fund	3.4%
	Emerging Markets Equity Fund	5.6%
	Property Fund	0.4%
	Aggregate Bonds Fund	-1.1%
	Index Linked Gilt Fund	-1.3%
	LGIM Ethical Global Equity Index	2.5%
	HSBC Islamic Global Equity Index	2.5%

The above has been prepared with due regard to the Department for Work and Pensions' guidance ("Cost and charge reporting: guidance for trustees and managers of occupational schemes"), published in February 2018.

### 3. Core financial transactions

The Trustee is required to report to you about the processes and controls in place in relation to the “core financial transactions”. The law specifies that these include the following:

- investing contributions paid into the Scheme;
- transferring assets related to members into or out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to or on behalf of members.

These important financial transactions must be processed promptly and accurately. In practice we delegate responsibility for this to the Scheme administrator. Our Scheme administration is delivered by Capita Employee Benefits Limited. They provide quarterly reports to the Trustee board which allows us to assess how quickly and effectively the core scheme financial transactions are completed. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible. There is a service level agreement in place with Capita covering the accuracy and timeliness of all core financial transactions which are reviewed quarterly at board meetings.

In the last Scheme Year the following material administration service issues occurred which need to be reported here by the Trustee:

1. Network Rail Payroll were late to update the Notional Earnings Cap in the payroll system, which was identified and updated in July 2020. As a result a project was initiated by Network Rail who worked with the administrator to review the contributions paid for 19/20 and the first three pay periods of 20/21 to ensure they were correct and contributions had not been deducted incorrectly. It was concluded that the members of the DC Scheme exceeding the Earnings Cap during the period had not been affected as they were auto enrolled members whose contributions were based on Qualifying Earnings rather than the incorrect Earnings Cap.
2. Worldline, the administrator of the Network Rail PSE Payroll system, did not correctly update the statutory value to maintain the lower earnings threshold for the salary sacrifice (SMART) side of the underpin calculation. The uplift of the lower value from £472 to £480 for the Tax Year 2020/21 had not been processed by Worldline, resulting in members overpaying DC contributions. The PSE Payroll system has now been correctly updated and it was agreed between the Network Rail Pensions and Network Rail Payroll that the overpaid contributions were not to be recovered from members due to the cost of rectification.
3. Due to market conditions and economic uncertainty, the Property Fund managers suspended their funds to both the receiving and releasing of investments and the Scheme updated all written communications and online resources to keep the membership informed. The Property Fund managers removed the suspension of the fund in September 2020 and a communication was issued by the Scheme to any members affected by the suspension. This included members whose ongoing contributions had temporarily been invested in the Cash Fund as an alternative or members looking to withdraw or switch their investments from the Property Fund. The letter made clear that future contributions would automatically be invested in the Property Fund again but members would need to request a switch of the investments made in the Cash Fund during the suspension if that was their preference.

We are now confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.



### **3. Core financial transactions (continued)**

In addition, noting that we need accurate member data to process contributions and payments correctly, we review and correct any problems with the member data held by Capita on a quarterly basis.

### **4. Trustee knowledge and understanding**

The law requires the trustee board to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively. We take our training and development responsibilities seriously and keep a record of the training completed by each Trustee Director. This training record is reviewed annually to identify any gaps in the knowledge and understanding across the board as a whole. This allows us to work with our professional advisers to fill in any gaps.

All Trustee Directors in office during the year have completed the Trustee Toolkit made available by the Pensions Regulator. Newly appointed Trustee Directors are expected to complete the Trustee Toolkit and have formal induction training within 6 months of joining the trustee board.

Trustee Directors must also complete a minimum level of continued professional development each year by attending pensions training courses, seminars and conferences. For the 12 month period ending 31 December 2020, all directors in office for the whole year bar three have achieved the minimum level of CPD hours. Additionally, Samantha Pitt (Chair) is a fully accredited professional trustee. Training sessions are held at most Board and sub-committee meetings during the year. This year the Trustee Directors have received training from various facilitators at Board meetings on areas such as Actuarial Valuations, DC investment strategy, internal managed fund strategies and Fiduciary management. The Trustee Directors also attend a number of externally arranged seminars and conferences on topical matters to help develop their knowledge and understanding to carry out their role.

As a result of the training activities which have been completed by the Trustee Directors 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 us to exercise properly our functions as the trustee of the Scheme.

The Statement regarding DC Governance was approved by the Trustee on 23rd June 2021 and signed on its behalf by:

SAMANTHA PITT

**Samantha Pitt**

**Chair of Trustee**

**Network Rail Defined Contribution Pension Scheme**

## Appendix 1

### Statement of Investment Principles



## The Network Rail DC Pension Scheme

### Statement of Investment Principles

March 2021

## *Version Update*

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<b>Version</b>	<b>Effective From</b>
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

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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

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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*

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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

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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*

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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**

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**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**

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#### **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**

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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***

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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**

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

### **5.2 Expected Return**

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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**

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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**

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

### **5.5 Suitability**

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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**

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

## **6.0 Strategy Implementation**

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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**

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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**

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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**

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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**

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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**

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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**

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### **7.1 Managers**

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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**

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

### **7.3 Statement of Investment Principles**

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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**

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

## **8.0 Fees**

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### **8.1 Managers**

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

### **8.2 Advisers**

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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**

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There is no custodian appointed directly by the Trustee.

### **8.4 Trustee Directors**

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The Trustee Directors are not paid for their role.

### **8.5 Value for Money**

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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

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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

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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](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**

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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**

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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***

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### **Trustee**

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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**

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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**

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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**

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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.

## Appendix 2

# Implementation Statement

### 1. Introduction

The Trustee is required to make publicly available online a statement (the "Implementation Statement") covering the Network Rail Defined Contribution ("DC") Pension Scheme (the "Scheme").

This first Implementation Statement covers the Scheme year from 1 January 2020 to 31 December 2020. It sets out:

- Details of any review of and/or changes made to the Scheme's Statement of Investment Principles ("SIP");
- How, including the extent to which, the Scheme's Statement of Investment Principles ("SIP") has been followed over the year;
- How the Trustee's policies on exercising voting rights and engagement have been followed over the year; and
- The voting by or on behalf of the Trustee, including the most significant votes cast and any use of a proxy.

As at 31 December 2020, the Scheme's strategy had departed from the SIP. The NRDC Cash Fund had become an unintentional default arrangement during the year as a result of temporary contributions it received whilst the NRDC Property Fund was suspended due to property valuation uncertainty as a result of the Covid-19 pandemic. The SIP has since been updated to reflect the two default arrangements it has in operation.

### 2. Summary of changes to the SIP during the Scheme year

The Trustee reviewed the SIP during the year to 31 December 2020, with an updated version coming into effect during September 2020 following a consultation with the Sponsoring Employer. The SIP had last been updated in September 2019, so reviewing the SIP in 2020 fulfilled the commitment to review the SIP at least every 3 years.

The key updates reflected as part of these reviews were to develop further the Trustee's policy on corporate governance and stewardship. To help form these policies, the Trustee received training from its advisers covering responsible investment, the financial materiality of Environmental, Social and Governance ("ESG") factors and stewardship. The policies set out in the SIP were formed following subsequent discussion.

The Trustee has added policies to the SIP to cover the following stewardship points:

- how the Trustee incentivises managers to align their investment strategy with the Trustee's own;
- how the Trustee incentivises the manager to assess investee companies' medium to long-term financial and non-financial performance, and engage accordingly;
- how the method and time horizon for evaluating the manager's performance, and the basis of its remuneration, are aligned with the Trustee's other investment policies;
- how the Trustee monitors portfolio turnover costs incurred;
- the duration of its arrangement with asset managers.

As set out in the SIP, the Trustee does not take non-financial matters into account within the investment strategy.



### 3. Implementation of the Trustee's policies during the Scheme year

The table below sets out the actions taken by the Trustee over the year to 31 December 2020 in order to follow various policies within the SIP.

Key policy	Trustee actions over the Scheme year
<b>Investment governance</b>	<p>The governance structure in place is in the form of a full Trustee Board that ultimately ratifies decisions, with an Investment Sub-Committee ("ISC") that focuses on investment matters in more detail and reports back to the Trustee Board. Any decision on investment strategy and implementation is then taken at the full Trustee Board meeting.</p> <p>Both the ISC and the full Trustee Board meet at least four times over the year, with additional meetings scheduled outside the quarterly cycle if required.</p> <p>During the Scheme year the ISC, with advice from the Trustee's investment adviser, assessed changes to underlying managers within the NRDC Property Fund and agreed a proposed manager replacement. This was then ratified by the full Trustee Board at the subsequent Trustee meeting in December 2020.</p> <p>The SIP sets out the roles and responsibilities of the Trustee Board and the ISC. Please refer to the 'Trustee knowledge and understanding' section of the Annual Governance Statement within these accounts, for detail on changes made to the Trustee Board over the Scheme year.</p>
<b>Corporate Governance and Stewardship</b>	<p>All assets held by the Scheme are held through Pooled Investment Vehicles ("PIV"). Each of the underlying managers has a custodian that holds assets in safekeeping. The Trustee takes appropriate advice from the investment adviser before making any investment decisions.</p> <p>The Trustee has set its investment adviser a set of objectives in relation to the adviser's services. These objectives cover: demonstration of value added, delivery of specialist services, proactivity of advice, scheme management and compliance, and service standards. These were reviewed by the Trustee in November 2020 and the Trustee was satisfied with the performance of the investment adviser.</p> <p>The investment managers are reviewed quarterly with regard to performance against objectives. An investment strategy review was launched during the Scheme year and will continue during 2021.</p> <p>The Trustee carries out an annual value for members review, the conclusions of which are set out in the DC governance statement within these accounts.</p>
<b>Financially material factors specifically ESG and climate change</b>	<p>The Trustee considers ESG factors when reviewing the investment strategy and in appointing and reviewing investment managers. The Trustee's expectations for any current or future investment manager depends on the asset class involved, the degree of discretion given to the investment manager, and the time horizon over which the Trustee expects to hold the investment.</p> <p>The Trustee carried out an ESG beliefs survey during the Scheme year, the conclusions of which will play a key part in the ongoing investment strategy review.</p> <p>The Trustee monitors the Scheme's exposure to ESG risk factors on a quarterly basis, as part of ongoing investment governance.</p>
<b>Monitoring</b>	<p>Over the year the Trustee monitored the performance of the underlying managers, and the strategy as a whole, on a quarterly basis. Particular attention was given to strategy performance during the volatile market conditions across Q1 and Q2 2020. The Trustee is satisfied the strategy performed as expected during this period in the context of the market conditions, through mitigating the worst of the wider market falls, especially for those members closest to retirement.</p>

## Network Rail Defined Contribution Pension Scheme

<b>Risk management</b>	<p>The Trustee manages risk in aggregate through a risk register. Risks within each section are monitored in a combination of ways. Risks associated to the investments are set out below:</p> <ul style="list-style-type: none"> <li>• Value for money risk</li> <li>• Inflation risk</li> <li>• Conversion risk</li> <li>• Capital risk</li> <li>• Active manager risk</li> <li>• Platform risk</li> <li>• Manager risk</li> <li>• Communication risk</li> <li>• Inappropriate member decision</li> <li>• Organisational risk</li> <li>• Liquidity risk</li> <li>• Environmental, Social and Governance ("ESG") and climate change risks</li> </ul> <p>The Trustee's Audit and Risk Committee ("ARC") monitors these risks on a quarterly basis. The ARC reviews the risk register annually, with the latest review taking place in November 2020.</p> <p>The Trustee regularly reviews ESG risks, including climate change. The Trustee reviews ESG reporting every quarter as part of the investment governance process. This report includes an ESG score of blended funds within the default strategy against representative benchmarks. It also includes corresponding scores for ethical risk areas, and metrics for climate change risk (a ratio of carbon dioxide emissions of the underlying holdings to total revenue).</p>
<b>Non-financially material factors</b>	<p>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 there is no likely common view on any ethical matters which members are likely to hold.</p>
<b>Default investment strategy and self-select range</b>	<p>The Trustee's objective is to make available a number of investment options that provide members with access to a range of different asset classes that differ in their level of investment risk and expected return. The Trustees provide a default investment strategy for members that do not want to make their own choices, and a range of self-select funds.</p> <p><b>Default investment strategy</b></p> <p>In designing the default strategy, the Trustee's focus is on member needs and outcomes. The Trustee believes the default strategy is in the best interest of members and beneficiaries, and undertakes periodic reviews on the suitability of the strategy.</p> <p>The Trustee reviewed the default strategy in full during 2017 and 2018 and Trustee remain comfortable that through their ongoing monitoring produced by investment adviser that the strategy remains appropriate. In practice, the default strategy is reviewed on an ongoing basis with resultant changes implemented during the 2019 Scheme Year. A formal review is underway in 2021.</p> <p><b>Self-select fund range</b></p> <p>During 2020, within the self-select range, following receipt of investment advice, the Trustee decided to amend the underlying manager allocation within the NRDC Property Fund. This was driven by operational constraints imposed by one of the underlying managers. An implementation project is underway in 2021.</p> <p>The Trustee remains comfortable that the investment strategy reflects the needs of the membership. In particular:</p> <ul style="list-style-type: none"> <li>• A default strategy which gradually de-risks member's investments as they approach retirement, and reflects inflation-related investment return targets which are aligned to member's expected retirement income requirements; and</li> <li>• The Trustee remains comfortable the investment strategy reflects a self-select fund range offering outside the default strategy that offers members a wide choice of asset classes and risk-based options, without the range being so large as to be overwhelming and hinder member decision-making.</li> </ul> <p>A formal review of the self-select fund range is underway in 2021.</p> <p><b>ESG considerations</b></p> <p>Throughout 2020, the Trustee has included ESG reporting as part of the quarterly investment monitoring process. In addition, the Trustee has conducted an ESG beliefs survey which will play an important part of the investment strategy review in 2021.</p>

<p><b>Strategy implementation</b></p>	<p><b>Investment platform</b></p> <p>The Trustee delegates the day to day management of the assets to various investment managers. These managers are accessed through the Legal &amp; General ("L&amp;G") platform.</p> <p>In January 2020, the Scheme changed platform provider from Old Mutual Wealth ("OMW") to Legal &amp; General ("L&amp;G"). This was the result of OMW withdrawing from the institutional platform market, a detailed review of alternative providers and the Trustee choosing L&amp;G as the preferred platform provider. As part of the transition, some passively-managed underlying funds managed by BlackRock were transferred to equivalent funds with a lower cost managed by Legal &amp; General Investment Management ("LGIM").</p> <p>The Trustee, with help from its investment adviser, carried out a review of the platform manager, Legal &amp; General ("L&amp;G") ahead of L&amp;G's selection and formal appointment in January 2020. This review covered areas including corporate structure, organisational strength, security of assets, platform technology and reporting functionality. Based on this review the Trustee was comfortable with the appointment of L&amp;G as platform manager. The Trustee reviews the charges and service provided by L&amp;G annually as part of its value for members assessment. The Trustee remains satisfied with L&amp;G.</p> <p>Aspects of implementation related to administration, investment of contributions and transitions are reviewed annually by the Trustee as part of its value for members assessment. Details of this are set out in the Chair's Statement within these report and accounts.</p> <p><b>Investment of ongoing contributions</b></p> <p>The Trustee receives quarterly reports from the Scheme's member administrator that enables it to monitor the administration service and, in particular, that agreed service levels are being met in relation to the accuracy and timeliness of core financial transactions, including correct investment of ongoing contributions.</p> <p><b>Ongoing investment governance</b></p> <p>Over the Scheme year the Trustee received quarterly information on the performance of the investment strategy from its investment advisers. This information was formally reviewed at each quarterly Trustee meeting and discussed with the investment advisers. During these discussions the Trustee ensured it was clear how the funds had performed and how this had impacted Scheme members.</p> <p>The Trustee is comfortable the investment strategy performed as expected during the Scheme year, given wider market conditions.</p> <p><b>Active and passive management</b></p> <p>The Trustee has chosen to incorporate an element of active management within the default arrangement, where active management is deemed to add value (in particular by managing risk during adverse market conditions, and taking advantage of investment opportunities to generate return, subject to the agreed risk tolerances of the default arrangement's funds). The default arrangement's funds during the growth phase of the lifestyle profile therefore reflect both active and passive underlying funds, and are governed against inflation-related long term return targets.</p> <p><b>Transitions</b></p> <p>As set out above, over the Scheme year, the NRDC Property Fund was temporarily suspended from March 2020 – September 2020 due to the impact of the Covid-19 pandemic on property fund valuations. Member contributions were temporarily redirected to the NRDC Cash Fund. This was implemented by the administrators and investment platform.</p>
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## **4. Voting and Engagement Summary**

The Trustees have followed their policy on voting and engagement as set out in the Statement of Investment Principles over the year to 31 December 2020.

The Trustees' investment adviser, River and Mercantile Investments Limited ("RAMIL") is a division of the River and Mercantile Group. The River and Mercantile Group is a PRI signatory and were rated A+ by PRI in 2019 for their Strategy and Governance.

The Scheme's investments are made via pooled investment funds via the Platform Manager, Legal & General ("L&G"), 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, monitoring and voting, whether for corporate governance purposes or other financially material considerations, is delegated to the underlying investment managers.

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their underlying Manager holdings to the Platform Manager, which implements its fund voting policy.

Therefore overall – at the fund manager level L&G holds voting rights; at the underlying company/stock level the underlying fund manager holds the voting and engagement rights. The Trustee does not directly exercise voting at the fund manager level or the underlying company/stock level.

To ensure all relevant voting and engagement is covered, this statement includes information on L&G's voting and engagement record as well as those of the underlying managers. Where proxy voting agents have been used, this has been included in the voting information.

This summary has been completed over the year to 31 December 2020 and where applicable, underlying managers have provided examples of engagement.

References to "ISS" relate to Institutional Shareholder Services, a proxy voting company.

### **Summary**

The key areas the Trustee notes from the voting and engagement information provided by their pooled managers is:

- The L&G platform did not vote on behalf of the Trustee. This is common practice in the industry. However, we continue to challenge L&G on behalf of the Trustee on developing their engagement program.
- Of the managers, the majority showed significant votes and engagement with underlying companies, in respect of executive remuneration and climate change matters.

Source: All data in this section has been provided by the investment managers.

### ***Default Strategy***

As there are multiple underlying across the default strategy, RAMIL have therefore included allocations which are c.5% of assets or higher within any of the default strategy's blended funds, excluding gilt funds. The funds considered are set out below.

## Network Rail Defined Contribution Pension Scheme

Asset class	Fund name	Maximum allocation within default investment strategy (as at 31 Dec 2020)
<b>Equity</b>	LGIM World Equity Index	16.3%
	LGIM World Equity Index (GBP Hedged)	9.2%
<b>Multi-asset</b>	BlackRock DC Diversified Growth Fund	5.0%
	LGIM Multi-Asset Fund	17.0%
	Newton (BNY Mellon) Real Return	10.0%
	PineBridge Global Dynamic Asset Allocation	10.0%
<b>Bonds</b>	BNY Mellon Absolute Return Bond	8.5%
	LGIM Investment Grade Corporate Bond All Stocks Index	21.3%
	LGIM Pre-Retirement Fund	37.5%
	PIMCO US High Yield (GBP Hedged)	13.0%
<b>Cash</b>	LGIM Cash Fund	25.0%

The DC Section's assets are held via the Legal & General investment platform ("L&G") and as such, L&G holds the voting rights for the DC Section's underlying pooled funds (at that fund manager level, not the underlying companies in which that manager may invest). Over the year to 31 December 2020, L&G did not undertake any voting activity in respect of the pooled funds held on its investment platform.

Voting and engagement activity undertaken by the underlying investment managers is set out in the following section.

***Voting and engagement data***

***Equity***

**Legal and General Investment Management (LGIM) – World Equity Index**

**Voting Statistics**

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2020	3,310	39,613	99.5%	81.6%	0.5%

**Most significant vote(s) and examples of Engagement**

**International Consolidated Airlines Group (IAG)**

- LGIM have been engaged with IAG for many years and expressed their concerns with IAG on executive remuneration, specifically [in regards](#) to the level of bonus payments where they would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company.
- As a result, LGIM voted against the remuneration report in September 2020 and will continue to engage closely with the board.

**Proctor & Gamble (P&G)**

- LGIM engaged with P&G regarding concerns that the pulp and palm oil used as raw materials within its products were linked to illegal deforestation. LGIM listened to the response from P&G in addition to engaging with the Natural Resource Defence Council to fully understand the issues and concerns.
- Following extensive engagement on the issue, LGIM decided to support the resolution in October 2020, and voted for the report on the effort to eliminate deforestation. LGIM continues to engage on the topic and push other companies on this also.

**Legal and General Investment Management (LGIM) – World Equity Index (GBP Hedged)**

**Voting Statistics**

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2020	3,310	39,613	99.5%	81.6%	0.5%

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## Network Rail Defined Contribution Pension Scheme

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### Multi-asset

#### BlackRock – DC Diversified Growth Fund

#### Voting Statistics

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2020	931	895	96.1%	90.4%	5.4%

#### Most significant vote(s) and examples of Engagement

##### Exxon Mobil Corporation

- In May 2020 BlackRock voted against the re-election of two Company directors, and for the shareholder's Independent Chair proposal given BlackRock's belief that the board would benefit from a more robust independent leadership structure. This relates to BlackRock's view that there is a gap in the company's disclosure and action with regard to several components of its climate risk management. BlackRock sees this as a corporate governance issue that has the potential to undermine the company's long-term financial sustainability, and believes that voting against the re-election of the responsible directors is often the most impactful action a shareholder can take when effective corporate governance is lacking.

##### Chevron Corporation

- In May 2020 BlackRock voted for the shareholder proposal that requesting that Chevron report on how the company's direct and indirect lobbying align with the Paris Climate Agreement goals. Chevron recommended shareholders vote against this proposal. BlackRock's rationale for voting in favour as greater transparency into the company's approach to political spending and lobbying as aligned with their stated support for the Paris Agreement will help articulate consistency between private and public messaging in the context of managing climate risk and the transition to a lower-carbon economy.

**Legal and General Investment Management (LGIM) – Multi-Asset Fund**

**Voting Statistics**

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2020	10,848	111,503	99.5%	82.0%	0.5%

**Most significant vote(s) and examples of Engagement**

**Pearson**

- In September 2020, LGIM voted against the amendment to Pearson's remuneration policy. Pearson issued a series of profit warnings under its previous CEO with shareholders supporting of new leadership and a fresh approach. However, Pearson's proposal was an amendment to the remuneration policy for the grant of a co-investment award (an unusual step for a UK company) to allow a new CEO to take up the role. Shareholders were not able to vote separately on the items. LGIM engaged with Pearson on this issue but, in the absence of any changes, voted against the amendment.

**Whitehaven Coal**

- In October 2020, LGIM voted for a resolution allowing the wind-down of the company's coal operations. LGIM believes the role of coal in the future is increasingly uncertain and has publicly advocated for a managed decline for fossil fuel companies, with capital being return to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. LGIM voted for the resolution and believes the phase-out of coal is key to reaching global climate targets.

**Newton (BNY Mellon) – Real Return Fund**

**Voting Statistics**

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2020	84	1,179	99%	86%	0%

**Most significant vote(s) and examples of Engagement**

**LEG Immobilien AG**

- In August 2020 Newton voted against the board's proposed pay arrangements on account of their lack of alignment with performance. The executive Long-term compensation scheme was entirely cash-based, and although this was indicated to be performance-linked, no disclosures were provided on performance targets. With targets not being disclosed, Newton were concerned that long-term awards could vest for below-median poor performance. Furthermore, the introduction of special remuneration awards through transaction-based bonuses were not considered to be ideal for promoting talent retention due to these generally being one-off in nature.

## Microsoft Corporation

- Despite improvements to executive remuneration practices over recent years, Newton remained concerned that approximately half of long-term pay awards vest irrespective of performance. In December 2020 Newton voted against the executive compensation arrangements and against the three members of the compensation committee. Newton also voted against the re-appointment of the company's external auditor given that its independence was jeopardised by having served in this role for 37 consecutive years.

## Linde plc

- In July 2020 Newton voted against the advisory vote on executive compensation, and against the members of the remuneration committee members. A majority of long-term pay awards vest based on time served, which means executive pay is not subject to rigorous performance conditions and therefore not aligned with shareholders' interests. In addition, some of the perks to the CEO seem unnecessary and excessive, including the use of company aircraft for personal purposes, financial planning expenditures, and additional years of service credits beyond time served at the company being considered to calculate his pension benefit.

## PineBridge – Global Dynamic Asset Allocation Fund

### Voting Statistics

	Number of meetings eligible to vote on	Total number of resolutions eligible to vote on	% of eligible resolutions voted on	% of resolutions voted with management	% of resolutions abstained from
12 months to 31 Dec 2020	670	552	82%	68%	3%

### Most significant vote(s) and examples of Engagement

#### Public animal health company

- PineBridge has been actively engaged for the past year with the management team of a newly public animal health company in which the Fund is invested. PineBridge has consulted on the need for better execution and visibility, particularly on their drug pipeline. Transparency on the specific issues impacting quarterly results has also been an area where PineBridge has pushed for improvement.
- PineBridge believes it is having an impact. In the summer of 2020, the company hired a new head of IR. Communication has begun to improve. In December 2020, the company hosted its first investor day, where it offered R&D and drug pipeline insights. Both events were well received by PineBridge and the market.
- PineBridge will hold the company to its commitment to greater transparency and accountability, which the manager believes will help to generate value as a dedicated, stand-alone leader in Animal Health.

## Bonds

### BNY Mellon (Insight) – Absolute Return Bond

### Most significant examples of Engagement

#### ZF Friedrichshafen AG

#### Background

ZF Friedrichshafen AG ('ZF') was downgraded to a 5 under Insight's ESG ratings framework at the end of Q3 2020 with a social score of 5 driving the worst in class rating.

## Network Rail Defined Contribution Pension Scheme

As part of Insight's process, the manager engaged with ZF to understand how it was managing the risks that were causing the downgrade.

The risks identified were:

- product quality and safety: there was an issue regarding product reliability, specifically defective airbag controls.
- supply chain management: limited disclosure on the extent to which their tier 2 and tier 3 suppliers were certified.
- labour management: concerns around processes for restructuring and job losses.

### Discussion

Product quality and safety: the company expressed this was not a new issue and confirmed that the airbag units that were delivered were under customer certification and products were compliant. There has been no settlement for the class action and no provisioning for it.

Supply chain management: the company has a framework in place where tier 1 suppliers are all certified and often tier 2 and 3 suppliers are the responsibility of the tier 1 suppliers. In some cases tier 2 and 3 suppliers are certified by ZF directly.

Labour management: the company has not planned any restructuring programs do not anticipate any significant lay offs due to their M&A activity.

### Result

Following a review with the ESG ratings review group, the social score was updated to 4 on the basis of the information provided during the engagement.

Insight have agreed to monitor ZF and will seek to re-engage regarding broader ESG risks facing the company, which ZF was open to.

### Legal and General Investment Management (LGIM) – Investment Grade Corporate Bond All Stocks Index

#### Most significant vote(s) and examples of Engagement

No significant votes or examples were reported during the year.

### Legal and General Investment Management (LGIM) – Pre-Retirement Fund

#### Most significant vote(s) and examples of Engagement

No significant votes or examples were reported during the year.

### PIMCO – US High Yield Bond Fund (GBP Hedged)

#### Most significant examples of Engagement

##### Dell Technologies

- PIMCO engaged with Dell during 2020, during which Dell clarified that its supply chain audit programs cover the majority of its direct suppliers, and it is working to minimize future exposure to non-conformant suppliers. PIMCO has suggested that Dell disclose supplier coverage for its audit program, including sub-tier suppliers and make a public commitment to 100% RMAP assurance for conflict mineral sourcing. Dell's responsible sourcing policies have improved to close to best practices and the company may consider ESG bond issuance once it gets back to an investment-grade rating. PIMCO is also expecting to provide general feedback on the company's ESG strategy at an off-voting investor engagement call in early 2021.

##### Kraft Heinz

- PIMCO discussed with Kraft Heinz the latter's upcoming plan on climate risks and supply chain due diligence, as Kraft is in the process of ramping up supply chain ESG risk assessment and 3rd party audit, as well as setting science-based targets and climate risks. PIMCO

also made recommendations including increasing transparency on Kraft Heinz's management of potential climate risks across the value chain and expanding ESG risk assessments to second tier supply chains.

***Cash***

**Legal and General Investment Management (LGIM) – Cash Fund**

**Most significant vote(s) and examples of Engagement**

No significant votes or examples were reported during the year.