NETWORK RAIL CARE PENSION SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

SCHEME REGISTRATION NUMBER: 12000963

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TRUSTEE AND ADVISERS

YEAR ENDED 31 DECEMBER 2022

Trustee	Network Rail Pension Trustee Limited
Trustee directors	**Employer Nominated** Timothy Craddock Mark Engelbretson Kathryn Andrews(resigned 1 February 2022) Louise Campbell(appointed 1 February 2022) The Law Debenture Pension Trust Corporation Limited (Independent)(represented by Samantha Pitt) **Trade Union Nominated** Andrew Fielding (Unite) Paul Norris (RMT) Urvish Pandya (TSSA)(resigned 1 April 2022) Gary Adams (TSSA)(appointed 1 April 2022) **Member Nominated** Robert Arnold
Secretary	Claire McCarthy
Scheme administrator	WTW Westgate 120 – 130 Station Road Redhill Surrey RH1 1WS
Scheme actuary:	Douglas Primrose XPS Group Tempus Court Onslow Street Guildford GU1 4SS
Auditor:	RSM UK Audit LLP Statutory Auditor Chartered Accountants 25 High Street Crawley RH10 1BG
Legal adviser:	Squire Patton Boggs (UK) LLP (until 30 April 2022) 6 Wellington Place Leeds LS1 4AP Mayer Brown International LLP (from 1 May 2022) 201 Bishopsgate London EC2M 3AF
Investment adviser:	Schroders Solutions 1 London Wall Place London EC2Y 5AU

Asset allocation manager:	Schroders Solutions 1 London Wall Place London EC2Y 5AU
AVC provider:	Legal & General Investment Management Limited One Coleman Street London EC2R 5AA
Life assurance company:	Legal & General Assurance Society Limited Legal & General House Kingswood Tadworth Surrey KT20 6EU
Bankers:	Lloyds TSB Bank plc PO Box 72 Gillingham Kent ME8 0LS

CHAIR'S INTRODUCTION

YEAR ENDED 31 DECEMBER 2022

I am pleased to present the annual report and financial statements of the Network Rail CARE Pension Scheme (the 'Scheme') for the year ending 31 December 2022.

Overall, membership has once again increased. At the end of the year there were 4,887 members building up benefits in the Scheme, compared to 5,449 at the start of the year. Members who have left Network Rail but continue to retain deferred benefits in the Scheme went up from 5,142 to 6,091 and the number of members receiving a pension from the Scheme has increased from 454 to 586 during the year.

Investments and funding

At the end of the year, the total value of the Scheme's assets decreased from £459.9 million to £254.5 million. This includes the value of members' additional voluntary contributions, together with funds members have transferred from other pension schemes, which was £32.4 million compared to £33.9 million at the end of last year.

The overall performance of the fund is behind the investment objectives set by the Trustee for the 12 months and 3 years to 31 December 2022. 2022 was extremely challenging for investment markets, as a number of factors including the war in Ukraine and high inflation adversely impacted market returns across the board. In addition, the gilts crisis over late September and early October led to unprecedented volatility in this market which particularly affected pension schemes generally. For this Scheme, this led to the Trustee deciding to reduce the Scheme's liability hedging levels. The Trustee looks at our investments from a long term perspective and our priority remains to pay pension benefits to our members as and when they become due both now and in the future.

Changes to your Trustee Board and Network Rail Pensions Team

During 2022 Urvish Pandya resigned as a Trustee Director and was replaced by Gary Adams. I would like to thank Urvish for his time served on the Board and welcome Gary as his replacement.

Samantha Pitt

Samantha Pitt
Chair of the Trustee

The Trustee of the Network Rail CARE Pension Scheme (the 'Scheme' or 'CARE') presents its report and audited financial statements for the year ending 31 December 2022.

Scheme Management

The Scheme

The Scheme commenced with effect from 1 November 2008 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'), whose registered address is Waterloo General Office, London, SE1 8SW (Registration number 5067789), which also acts as Trustee of the Network Rail Defined Contribution Scheme ('NRDC') Scheme, established on 31 March 2004.

The Scheme is a defined benefit pension plan based on career average revalued earnings ('CARE') and is one of three Pension Scheme's offered to employees of Network Rail. The Scheme runs alongside NRDC and the Network Rail Section of the Railways Pension Scheme ('RPS').

New employees are eligible to join the Scheme from their first day of employment, subject to them completing an application form. Members of the Scheme were contracted-out of the State Second Pension prior to new pensions reforms on 6 April 2016. These included discontinuing the State Second Pension and ending contracting-out. Members are therefore no longer contracted-out. The Trustee has discretion to accept transfers from other registered pension arrangements, but on a money purchase basis only. However, the Scheme does not accept transfers from the Railways Pension Scheme ("RPS") or other registered pension schemes in respect of members' Guaranteed Minimum Pensions (GMP) or, prior to 6 April 2012, contracted out Protected Rights which were abolished on that date.

Changes to the Scheme's Rules

During the year ending 31 December 2022, 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* of NRDC and CARE. 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 operates by rotation. These arrangements are intended to ensure the Scheme continues to be managed effectively and also meet its statutory requirements.

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.

*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; secondly, 'pensioner members' i.e. members of the CARE Scheme who have retired and are receiving a CARE Scheme pension.

Scheme Governance

There were 9 board meetings held during the year ending 31 December 2022. The table below shows the number of meetings attended by each Trustee Director from the number they were eligible to attend:

Trustee Directors	No. of meetings	No. of attended
Timothy Craddock	9	7
Mark Engelbretson	9	9
Andrew Fielding	9	8
Robert Arnold	9	7
Paul Norris	9	8
Urvish Pandya (resigned 1 April 2022)	4	4
Louise Campbell (appointed 1 February 2022)	9	2
Gary Adams (appointed 1 April 2022)	5	4
Law Debenture, represented by Samantha Pitt	9	7

In addition, the Trustee has three sub-committees as follows:

- Audit and Risk sub-committee to identify, monitor and recommend methods of managing the key risks associated with the Scheme. This sub-committee met on 4 occasions during the year ending 31 December 2022.

- 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 6 occasions during the year ending 31 December 2022.

- Benefits sub-committee comprises any two Trustee Directors or any Trustee Director and the 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. The sub-committee met on 2 occasions during the year ending 31 December 2022.

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 Trustee Directors are conversant with 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 is 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 Cyber Security, Balance of Powers, 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.

Directors’ Continuous Professional Development (CPD) hours in the year ending 31 December 2022 are set out below:

Trustee Director	CPD hours logged	Trustee Director	CPD hours logged
Tim Craddock	33.5	Andrew Fielding	8.5
Paul Norris	17.25	Urvish Pandya	6
Mark Engelbretson	59.15	Robert Arnold	56.8
Louise Kavanagh	15.5	Gary Adams	23

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 they receive. The Trustee’s appointed advisers are listed on page 1.

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

Changes in and Other Matters Relating to Scheme Advisers

The Trustee has decided following a review and thorough tender process to appoint Mayer Brown International LLP as their Legal Adviser for the Scheme, replacing Squire Patton Boggs. The transition to Mayer Brown from Squire Patton Boggs was completed on 1 May 2022. In addition, following a review and thorough tender process, the Trustee has agreed to reappoint Douglas Primrose of XPS as Scheme Actuary.

Financial developments and 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 2022 and the year ended 31 December 2021 is set out in the table below.

	Year ended 2022 £000	Year ended 2021 £000
Member related income	41,087	41,315
Member related payments	(7,741)	(6,375)
Scheme expenses	(3,552)	(4,413)
Net additions from dealings with members	29,794	30,527
Net returns on investments	(238,127)	47,755
Net (decrease)/increase in the Scheme	(208,333)	78,282
Net assets at the start of the year	459,890	381,608
Net assets at the end of the year	251,557	459,890

Financial Development

During the year, there were no significant developments affecting the financial position of the Scheme.

Recent Events – Going Concern

During 2022, with the geopolitical situation in the Ukraine and Russia along with rising inflation and interest rates across the world, market volatility has continued, with October 2022 seeing the UK gilts crisis that saw significant volatility in UK Index Linked Gilts. The Trustee monitors this on a regular basis, and following the UK Gilts crisis the Trustees took decisive action to reduce their hedging position from 100% to 70% following advice and discussions with the Scheme Actuary and Fiduciary Manager. The Trustee continues to monitor their investment strategy closely and are well placed to make amendments if necessary to reflect both short term and long term situations. The funding position of the Scheme has in light of the gilt's crisis, reduced accordingly however the Trustees are reviewing this position with their advisers as part of the 31 December 2022 actuarial valuation. The Scheme's position has partially recovered since the year end.

From September 2021, the Trustees have returned to a majority of their Board and sub-committee meetings in person but with the ability to conduct meetings virtually as required. They have also continued to their training programme with regular training sessions at Board / Committee meetings, a full training day and attendance at a number of industry seminars, webinars and conferences during 2022.

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.

Statement of Trustees' responsibilities

Trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (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 the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, 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, including a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities including the maintenance of an appropriate system of internal control.

The Trustee is responsible for the maintenance and integrity of the pension and financial information included on the Network Rail CARE website.

Trustee's responsibilities in respect of contributions

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.

Membership and benefits

The changes in membership during the year are as follows:

	Active members	Deferred members	Pensioners	**Total**
At 1 January 2022	5,449	5,142	454	11,045
Adjustments to prior period	(72)	63	8	(1)
New members joining	642	–	–	642
New beneficiaries	–	–	2	2
Members retiring	(33)	(94)	127	–
Members leaving prior to pensionable age	(1,091)	1,091	–	–
Members leaving with refunds	(5)	(18)	–	(23)
Deaths	(3)	(4)	(5)	(12)
Transfers out	–	(87)	–	(87)
Trivial commutations	–	(1)	–	(1)
Retirements with life annuity	–	(1)	–	(1)
At 31 December 2022	4,887	6,091	586	11,564

Included within Pensioners above are 67 spouse and dependant annuitants (2021 – 62).

Transfer values

Cash equivalents are calculated and verified in a manner prescribed by regulations under section 97 of the Pension Schemes Act 1993, and are not less than the amount for which section 94(1) of the Act provides. No discretionary benefits have been included in the calculation of transfer values payable.

Pension Increases

Pensions in payment are subject to a cost of living increase on 1 April each year in accordance with the Rules of the Scheme. Benefits accrued up to 31 March 2016 are increased by RPI (Retail Prices Index) up to 5% p.a. and benefits accrued from 1 April 2016 are increased by CPI (Consumer Prices Index) up to 5% p.a. For both indices the percentage used is for the previous September.

From 1 April 2022, benefits pre April 2016 were increased by 4.9% and benefits post April 2016 were increased by 3.1%

The Employer has awarded no discretionary increases during the year ending 31 December 2022.

Actuarial liabilities

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

Actuarial Valuation

The Scheme's most recent triennial valuation took place on 31 December 2019. This is in line with the Scheme Specific Funding Regime introduced by the Pensions Act 2004. The valuation was carried out on an ongoing funding Basis, i.e. on the basis that members will continue to accrue benefits in the Scheme and that contributions will continue to be paid.

The funding level in the Scheme compared with the previous valuation is shown below:

	2019	2016
Technical provisions	**£271m**	£166m
Assets	**£280m**	£191m
Past service surplus	**£9m**	£25m
Funding level %	**103%**	115%

A copy of the 2019 Valuation Report, dated March 2021, is available on request from the Network Rail Pensions department at the address on page 18.

The next actuarial valuation, as at 31 December 2022, is in progress.

The method and significant actuarial assumptions used to determine the technical provisions as set out in the Appendix to the Statement of Funding Principles were as follows:

Method

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

Significant actuarial assumptions

Discount rate: The discount rate has been set at 4.05% per annum above the yield on the risk-free rate. This margin represents a prudent view of the expected out performance of the Scheme's assets related to the risk free reference rate.

The risk-free rate has been derived as 50% of the SONIA swap interest rate yield curve and 50% of the gilt interest rate yield curve.

Future Price inflation: to be consistent with the discount rate assumption and derived from market expectations of RPI swap contracts at each duration.

Future Consumer Price inflation: has been set as a term dependent rate derived from the assumption for future Retail Price inflation less an adjustment equal to 1.0% per annum for terms before 31 December 2029 and 0.5% per annum for terms after 1 January 2030.

Pension increases: derived from the RPI curve capped at 5% per annum for benefits accrued pre 1 April 2016, and from the CPI curve capped at 5% per annum for benefits accrued post 31 March 2016, with each forward rate on both curves adjusted using the Black-Scholes model with an inflation volatility of 1.5% per annum.

Mortality after retirement: has been set in line with the standard SAPS series 3 tables, with allowance for future improvements in line with CMI 2019 model with an initial addition to mortality improvements of 0.3% per annum and subject to long term annual improvements of 1.5% per annum.

Statement of Funding Principles, Schedule of Contributions and Deficit Repair Schedule

Under the Statutory Funding Regime the Trustee is required to agree a Statement of Funding Principles with the Principal Employer as well as a Schedule of Contributions and, when relevant, a Deficit Repair Schedule.

Between them, these documents set out the Trustee's policy for ensuring that the Statutory Funding Objective (that the Scheme must have sufficient assets for meeting its Technical Provisions) is met, and the amounts which the Employer will pay to secure the benefits. Copies of all relevant documents are available from the Scheme Secretary.

The following contributions will be payable by the Employer under the Schedule of Contributions:

	Company contribution rate (% of salaries)
Future Service Rate: (including allowance for expenses and insurance premiums)	From 1 April 2021: 10.86% p/a

Investment management

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 details the key elements of the investment arrangements of the Scheme. A copy of the most recent Statement of Investment Principles is appended to these accounts for inspection as well as being available at www.mynrpension.co.uk. Any subsequent updates may be obtained from the contact listed for further information about the Scheme and will be made available on the Scheme website.

The Trustee has delegated responsibility for monitoring and voting on decisions relating to their underlying manager holdings, to Schroder Solutions, the asset allocation manager. Schroder Solutions has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled investment fund. The Trustee delegates consideration of financially material factors, including ESG matters, to Schroder Solutions who considers these when constructing the portfolio, including looking at underlying managers. The Trustee does not at present take into account non-financially material factors when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. This policy is reviewed periodically.

The Scheme's Implementation Statement is included at the end of this Annual Report and Financial Statements.

Departures from the Statement of Investment Principles

To the best of its knowledge, the Trustee can report that there has not been any departure from the SIP by the Scheme's investment managers during the year ended 31 December 2022.

Investment Objectives & Strategy

The Trustee has formally appointed Schroders IS Limited as the Scheme's Investment Adviser and asset allocation manager.

The investment objective of the Scheme is to achieve a return of at least 4.05% per annum over the estimated movement in the Scheme's liabilities.

In addition to framing the investment objective, the Trustee is responsible for setting the split of assets between return-seeking assets (known as the Growth Assets) and liability-matching assets (known as the Liability Hedging Assets).

Based on consideration of the Scheme's liabilities and the desired investment objective, the Trustee has adopted a 90% Growth Assets / 10% Liability Hedging Assets split. With respect to the Growth Assets, Dynamic Growth Assets (70%) and the Equity Derivative Overlay Strategy (20%).

The Investment Manager has discretion to implement the Trustee's investment strategy in order to meet the objective, as described below.

The permitted investments as set out in the Amendment Agreement of the Investment Management Agreement (or "IMA") with Schroders IS Limited dated May 2021 are as follows for the Dynamic Growth Assets:

Asset Class	
Equities	Any, subject to maximum 20% allocated to non-passive funds
Property	Any
Alternatives	Any
Return Seeking Credit	Any
Commodities	Policy, Gold & Silver
Cash and Sovereign Bonds	Any

Schroders IS Limited has also been appointed as the Scheme's Investment Manager in respect of Liability Hedging. The Trustee retains ownership of those decisions which have the greatest importance to the Scheme's investment strategy - asset allocation ranges, framing objectives, allocations to on-risk/off-risk assets and risk tolerance, and liability hedging levels.

Where LGIM is appointed Investment Manager (LGIM Property Fund), the custodian for UK Equities and Bonds are HSBC Global Investor Services and for all other territories the custodians are Citibank London. Non-LGIM assets are in the custody of CACEIS.

Liability Hedging Assets

The Liability Hedging Assets (“LHA”) are invested in a portfolio of directly held gilts, which is expected to move closely in line with the rise and fall in liability values, thus providing a degree of protection to the Scheme’s funding position. The objective for the LHA is to achieve a return in line with the liabilities, after the deduction of fees.

The LHA allocation also contains over-the-counter derivatives, which extend the liability matching provided by the gilts to changes in interest rate and inflation expectations.

Growth Assets

The GA holds a diverse portfolio of assets that are expected, in the longer term, to exceed the growth in the value of the Scheme's liabilities. The objective for the GA is to achieve a return of at least 4.5% per annum in excess of the return of cash, after the deduction of fees, over rolling three year periods.

During the year, the GA has been invested in a diversified portfolio of equities, global government, high yield, and emerging market bonds, and alternative assets such as hedge funds and leveraged loans.

The aim of the Equity Derivative Overlay Strategy (EDOS5) is to provide the Scheme with exposure to potential equity market rises, whilst providing protection against falls in the equity market. Combined with a gilt investment, the EDOS5 creates a synthetic exposure to UK equity. EDOS4 had a term of 3 years. This ended over the year period and the structure was rolled into EDOS5.

The following table shows the asset class restrictions of the DGA allocation, as well as the asset allocation as a proportion of the DGA at the current and prior year end:

Asset Class	Min-Max(%)	31 Dec 2022	31 Dec 2021
Equities	25-65%	**35.6%**	50.9%
Property	0-20%	**7.9%**	4.2%
Alternatives	0-40%	**15.4%**	13.5%
Return Seeking Credit	0-55%	**14.1%**	13.6%
Commodities	0-15%	**0%**	0%
Cash and Sovereign	0-50%	**26.9%**	17.8%
Other restrictions:			
Equities and Commodities	20-70%	**35.6%**	50.9%
Sub-Investment Grade Debt	0-30%	**3.3%**	3.9%
Equities and Sub-Investment Grade Debt	20-85%	**38.9%**	54.9%
Illiquid Investments	0-20%	**19.2%**	8.4%

Please note clean values have been used where applicable. All restrictions expressed as a proportion of the Growth Assets. Currency hedging is not included in the figures above.

Economic review

As 2022 began, concerns were already growing over rising inflation and the likely need for major central banks to raise interest rates swiftly. Those inflation worries were exacerbated by Russia's invasion of Ukraine in February. The invasion led Western nations to impose sanctions on Russian oil and other commodities, which fed through into further price rises.

As the year progressed, worries grew that European economies that had previously been dependent on Russian natural gas could face power shortages. However, a combination of LNG imports, milder winter weather and reduced consumption meant these shortages did not transpire.

The debate over rising inflation, potential interest rate rises, and the consequent impact on economic growth dominated the year. US GDP contracted in Q1 and Q2 2022, but expanded again in Q3 and Q4. The eurozone avoided recession, despite the impact of significantly higher energy prices for much of the year. US inflation hit a peak of 9.1% for the year in June, slowing thereafter but still remaining well above the Federal Reserve's 2% target. Eurozone inflation hit 10.6% in October, slowing slightly in the following months.

Given the still-elevated inflation, major central banks reaffirmed their commitment to tighten monetary policy in order to bring inflation back towards target. By the end of the year, the US Federal Reserve had raised the federal funds rate to 4.25-4.5%, while the Bank of England's base rate was 3.5%. The European Central Bank's deposit rate was 2.0%. Even the Bank of Japan took steps to tighten monetary policy, tweaking its yield curve control policy so as to allow long-dated yields to rise further.

The UK political situation proved volatile. Boris Johnson stepped down as prime minister in the summer and Liz Truss was elected by Conservative party members as the new party leader and by extension new UK prime minister. However, her tenure proved short-lived after a "mini-budget" from her chancellor Kwasi Kwarteng was poorly received by markets, especially within the UK government bond market which fell significantly in value over a matter of days from the end of September into early October. This became known as the 'gilts crisis' and had a material impact on UK pension schemes who use liability-driven investment strategies that have material allocations to gilts to match liabilities. This caused pension scheme asset and liability values to fall significantly, however, as the market was extremely volatile this impacted pension scheme funding levels whose liability-driven strategies had to be reduced during the period. In late October Liz Truss was replaced as prime minister by Rishi Sunak which helped to stabilise volatility in the UK government bond market.

While most regions had emerged from pandemic restrictions by early 2022, China was a significant exception. The "zero-Covid" policy held firm for much of the year, with lockdowns affecting major cities and weighing on economic activity. The policy was lifted towards year-end. China was in further focus during the autumn as the 20th Party Congress signalled a shift from a laissez-faire era of economic growth to a more managed form of growth, including greater self-sufficiency in key technologies.

Equity market review

Stock markets had a difficult year against the backdrop of higher inflation and rising borrowing costs. Global equities, as measured by the MSCI World index, fell 18.1% in US dollar terms. There was wide variation within the market though with value shares strongly outperforming compared to growth stocks. This was because of higher interest rates making the future cash flows of those growth stocks less valuable.

Meanwhile, energy - a lowly valued sector - experienced strong gains as a result of increased demand as economies continued their recovery from the pandemic, and due to sanctions placed by the West on Russian oil exports.

Emerging markets experienced slightly weaker performance, with the MSCI Emerging Markets index returning -20.1% in US dollar terms. Commodity producers - such as the Latin American markets - were among the few to post gains.

Fixed income market review

The Global Aggregate bond market recorded its largest annual loss for over 40 years. Higher inflation led to an aggressive response by global central banks, driving up yields and volatility. Yields move inversely to prices so rising yields meant falling prices.

The US 10-year yield rose from 1.51% to 3.88%, with the two-year rising from 0.73% to 4.42%. Germany's 10-year yield increased from -0.18% to 2.57%. The UK 10-year yield increased from 0.97% to 3.67% and 2-year rose from 0.68% to 3.56%.

Rising US interest rates were dollar-supportive for much of the year, though this shifted more recently amid signs US inflation may have peaked. Signs of softer inflation have prompted slower rate hikes. Despite the reversal in the dollar's fortunes in the final quarter, it remained the best performing G10 currency in 2022.

It was a particularly challenging year for risk assets, with high yield bearing the brunt of the market sell-off and broad underperformance of credit compared to government bonds. There was some improvement in the performance of credit towards the end of the year as sentiment improved.

Investment Performance

The total performance return of the Scheme's assets against the objectives is shown below:

Portfolio Section	1 Year (%)	3 Years p.a. (%)	5 Years p.a. (%)
Total Portfolio	(53.8)	(15.0)	(7.9)
Objective	(43.1)	(11.7)	(7.1)
Relative	(10.7)	(3.3)	(0.7)

Performance is shown net of fees to the extent that fees are paid from assets.

Past Performance is not a guide to future returns. The value of investments and the income from them can fall as well as rise and you may not get back the full amount originally invested.

Custodian

Where LGIM is appointed Investment Manager, the custodian for UK Equities and Bonds are HSBC Global Investor Services and for all other territories the custodians are Citibank London. Non-LGIM assets are in the custody of CACEIS.

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.

The Pension Tracing Service, MoneyHelper, the Pensions Ombudsman and The Pensions Regulator

In accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, members are advised that:

- if they have general requests for information or guidance concerning pension arrangements contact MoneyHelper:
  Address: 120 Holborn, London EC1N 2TD
  Telephone: 0800 011 3797
  Website: www.moneyhelper.org.uk

- if they have a complaint or dispute concerning a workplace or personal pension arrangement, they have the right to contact The Pensions Ombudsman free of charge:
  Address: 10 South Colonnade, Canary Wharf, E14 4PU
  Telephone: 0800 917 4487
  Website: www.pensions-ombudsman.org.uk
  Email: enquiries@pensions-ombudsman.org.uk

In addition to the above the Pensions Regulator may intervene in the running of pension schemes where trustees, managers, employees or professional advisers have failed in their duties.

Address: Napier House, Trafalgar Place, Brighton, BN1 4DW
Email: customersupport@tpr.gov.uk

It has wide ranging powers which include the power to:

- suspend, disqualify and remove a trustee, or director of a trustee company, for consistently not carrying out their duties;
- wind up schemes where necessary;
- apply for injunctions to prevent the misuse and misappropriation of scheme assets and apply for restitution where necessary.

The auditor and actuary have a statutory duty to make an immediate written report to The Pensions Regulator if they believe that legal duties concerned with the running of the Scheme are not being carried out.

Information regarding the Scheme has been given to the Pension Tracing Service. You can trace your pension by contacting the Pension Tracing Service:

Address: Tyneview Park, Whitley Road, Newcastle Upon Tyne, NE98 1BA
Telephone: 0845 600 2537
Website: www.pensiontracingservice.com

Internal disputes resolution procedures

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 18 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, one complaint was dealt with under this procedure.

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 account, they should contact Willis Towers Watson, the Scheme administrator, at the address shown on page 18.

Applicable Data Protection Legislation and General Data Protection Regulations (GDPR)

The Trustee is registered with the Data Protection Registrar, as required by the Act and GDPR (effective from 25 May 2018). The Trustee continues to review its processes and record keeping in order to comply with the Act’s provisions and GDPR requirements. Other appointed service providers must also comply with the Act and GDPR and contracts for services will reflect this as part of the contract provisions.

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.

Contact for further information

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

Network Rail
WTW
PO Box 545
Redhill
Surrey RH1 1YX

Email: 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

Email: pensions@networkrail.co.uk
Tel: 01908 781010
Further information about the Scheme is also available at: 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

The registered address for the Trustee is:

Network Rail Pension Trustee Limited
Waterloo General Office,
London, SE1 8SW

Approval of the Trustee's Report

The Trustee's Report was approved by the Trustee on 07/07/23 and signed on its behalf by:

Samantha Pitt

Samantha Pitt
Trustee Director

Robert Arnold

Robert Arnold
Trustee Director

ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme: Network Rail CARE Pension Scheme

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in the Schedule of Contributions are such that the statutory funding objective could have been expected on 31 December 2019 to continue to be met for the period for which the Schedule is to be in force.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 23 February 2021.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Douglas Primrose
Fellow of the Institute and Faculty of Actuaries
Scheme Actuary
XPS Pensions Limited
Tempus Court
Onslow Street
Guildford
GU1 4SS

Date: 4 March 2021

SUMMARY OF CONTRIBUTIONS

YEAR ENDED 31 DECEMBER 2022

During the year ending 31 December 2022, the contributions payable to the Scheme under the Schedule of Contributions were as follows:

	£
Contributions required by the Schedule of Contributions	
Employers	
Normal contributions	22,182,843
SMART Contributions	14,133,001
Employees	
Normal contributions	622,346
	36,938,190
Other contributions	
Employees	
Additional contributions	2,819,487
Total contributions included in the financial statements	39,757,677

The contributions payable to the Scheme during the year were paid in accordance with the Schedule of Contributions certified by the Actuary on 4 March 2021.

Approved by the Trustee on 07/07/23 and signed on its behalf by:

Samantha Pitt

Samantha Pitt
Trustee Director

Robert Arnold

Robert Arnold
Trustee Director

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 CARE PENSION SCHEME *(continued)*

YEAR ENDED 31 DECEMBER 2022

Statement about contributions payable under schedule of contributions

We have examined the summary of contributions payable to the Network Rail CARE Pension Scheme on page 20, in respect of the Scheme year ended 31 December 2022.

In our opinion the contributions for the Scheme year ended 31 December 2022 as reported in the attached summary of contributions on page 20 and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 4 March 2021.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 20 have in all material respects been paid at least in accordance with the schedule of contributions. 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 schedule of contributions.

Respective responsibilities of the Trustees and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions 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 schedule of contributions.

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

Uses 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 it 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: 10/07/23

Opinion

We have audited the Financial Statements of the Network Rail CARE Pension Scheme for the year ended 31 December 2022 which comprise the Fund Account, and 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 2022, 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 statements, 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 contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of 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 8, 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 control as the Trustee determine is 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 intends 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.

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 the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP).

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: 10/07/23

FUND ACCOUNT

YEAR ENDED 31 DECEMBER 2022

	Note	2022 £	2021 £
Contributions and benefits			
Employer contributions		36,315,844	36,090,925
Employee contributions		3,441,833	2,933,563
Total contributions	**4**	39,757,677	39,024,488
Transfers in	**5**	939,385	1,779,928
Other income	**6**	390,112	510,560
		41,087,174	41,314,976
Benefits paid or payable	**7**	(6,174,066)	(3,898,210)
Payments to and on account of leavers	**8**	(1,567,249)	(2,477,131)
Administrative expenses	**9**	(2,187,378)	(1,797,698)
Other payments	**10**	(1,364,084)	(2,615,109)
		(11,292,777)	(10,788,148)
Net additions from dealings with members		29,794,397	30,526,828
Returns on investments			
Investment income	**11**	2,044,051	2,286,693
Change in market value of investments	**12**	(239,376,237)	46,600,243
Investment management expenses	**14**	(795,297)	(1,132,395)
Net return on investments		(238,127,483)	47,754,541
Net (decrease)/increase in the fund during the year		(208,333,086)	78,281,369
Net assets of the Scheme			
At 1 January		459,889,606	381,608,237
At 31 December		251,556,520	459,889,606

The notes on pages 28 to 43 form part of these Financial Statements.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT 31 DECEMBER 2022

	Note	2022 £	2021 £
Investment assets	**12**		
Bonds		119,090,936	104,841,400
Pooled investment vehicles	**16**	96,070,070	290,093,066
Derivatives	**17**	15,097,436	37,772,920
AVC investments	**18**	32,427,655	33,874,920
Cash	**19**	4,524,803	7,948,613
Other investment balances	**20**	11,646,325	113,016
		278,857,225	474,643,935
Investment liabilities	**12**		
Derivatives	**17**	(28,334,554)	(15,285,141)
Other investment balances	**20**	–	(1,037,453)
		(28,334,554)	(16,322,594)
Total investments		250,522,671	458,321,341
Current assets	**25**	2,190,907	2,902,334
Current liabilities	**26**	(1,157,058)	(1,334,069)
Net assets of the Scheme at 31 December		251,556,520	459,889,606

The financial statements summarise the transactions and net assets available for benefits of the Scheme. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take into account such obligations, is dealt with in the report on Actuarial Liabilities on pages 10 and 11 and these financial statements should be read in conjunction with this report.

The financial statements were approved by Network Rail Pension Trustee Ltd and authorised for issue on 07/07/23 and signed on its behalf by:

Samantha Pitt

Samantha Pitt
Trustee Director

Robert Arnold

Robert Arnold
Trustee Director

The notes on pages 28 to 43 form part of these Financial Statements.

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 funding matters, 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 Waterloo General Offices, London, SE1 8SW.

3. Accounting policies

The following principal accounting policies were consistently applied in the preparation of the financial statements, unless otherwise stated.

Currency

The Scheme's functional and presentational currency is pounds sterling, rounded to the nearest pound.

Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

Contributions

Normal contributions both from the members and from the Employer, and SMART contributions from the Employer, are accounted for as they fall due in accordance with the recommendations of the Actuary and the Schedule of Contributions. Additional voluntary contributions from the members are accounted for in the month they are deducted from pensionable salaries by the payroll system.

Transfers to and from other schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers, or payable to the pension schemes of new employers for members who have left the Scheme. They take account of transfers where the Trustee of the receiving scheme has agreed to accept the liabilities before the year end, and where the amount of the transfer can be determined with reasonable certainty. In the case of individual transfers, this is normally when the payment of the transfer value is made or received.

3. Accounting policies ***(continued)***

Benefits and payments to and on account of leavers

Benefits are accounted for on the later of the period in which members notify the Trustee of their 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.

Refunds and opt-outs 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.

Administrative and other expenses

Administration expenses and premiums on term insurance policies are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

Investment income and expenditure

Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds.

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

Income from some pooled investment vehicles which distribute income is accounted for on an accruals basis on the date the dividend is declared.

Annuity income is included in investment income on an accruals basis.

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.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and shown separately within investment returns.

Other Income

Life insurance income receivable on the death of an active member is accounted for in the year of the member's death.

3. Accounting policies *(continued)*

Valuation and classification of investments

Investment assets and liabilities are included in the financial statements at fair value. The methods of determining fair value for the principles classes of investments are:

Bonds and certain pooled investments vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.

Unitised pooled investment vehicles, which are not traded on an active market, but where the manager is able to demonstrate they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days, are included at the latest price provided by the manager at or before the year end.

Pooled investment vehicles, including AVC Investments, are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads.

Swaps are valued at the net present value of future cash flows arising from the swap.

Forward foreign exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Over the counter options are valued by the investment manager using generally accepted pricing models, where inputs are based on market data at that date.

Accrued interest is excluded from the market value of bonds but is included in investment income.

4. Contributions

	2022	2021
	£	£
Employer contributions		
Employer's normal contributions	22,182,843	22,037,521
Employers SMART contributions	14,133,001	14,053,404
	36,315,844	36,090,925
Employee contributions		
Member's normal contributions	622,346	612,161
Member's additional voluntary contributions	2,819,487	2,321,402
	3,441,833	2,933,563
	39,757,677	39,024,488

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

5. Transfers in

	2022	2021
	£	£
Individual transfers in	939,385	1,779,928

6. Other income

	2022	2021
	£	£
Claims on term insurance policies	388,660	509,996
Other income	1,452	564
	390,112	510,560

7. Benefits paid or payable

	2022	2021
	£	£
Pensions	1,876,709	1,441,964
Commutation of pensions and lump sum retirement benefits	3,414,127	1,329,216
Purchase of annuities	411,400	397,458
Lump sum death benefits	431,568	716,765
Taxation where lifetime or annual allowance exceeded	40,262	12,807
	6,174,066	3,898,210

8. Payments to and on account of leavers

	2022	2021
	£	£
Individual transfers to other schemes	1,566,183	2,474,903
Refunds of contributions in respect of opt-outs	1,066	2,228
	1,567,249	2,477,131

9. Administrative expenses

	2022	2021
	£	£
Administration and processing	604,032	470,338
Legal and professional fees	61,369	6,157
Trustees fees	37,502	24,280
PPF and regulatory levies	1,338,476	1,150,548
Irrecoverable VAT on expenses	(1,910)	14,013
Actuarial fees	74,135	78,327
Audit fee	27,950	19,250
Other admin expenses	45,824	34,785
	2,187,378	1,797,698

Trustee fees are in respect of the Independent Trustee, appointed in September 2020.

10. Other payments

	2022	2021
	£	£
Premiums on term assurance policies	1,364,084	2,615,109

11. Investment income

	2022	2021
	£	£
Income from bonds	454,010	502,791
Income from pooled investment vehicles	690,289	570,789
Income from derivatives	628,323	1,087,868
Annuity Income	131,067	126,235
Interest on cash deposits	140,362	(990)
	2,044,051	2,286,693

12. Reconciliation of investments

	Value as at 1 Jan 2022	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	**Value as at 31 Dec 2022**
	£	£	£	£	**£**
Bonds	104,841,400	433,258,830	(326,871,519)	(92,137,775)	119,090,936
Pooled investment vehicles	290,093,066	208,959,582	(387,034,682)	(15,947,896)	96,070,070
Derivatives	22,487,779	109,651,674	(16,573,383)	(128,803,188)	(13,237,118)
AVC investments	33,874,920	4,947,585	(3,875,330)	(2,519,520)	32,427,655
	451,297,165	756,817,671	(734,354,914)	(239,408,379)	234,351,543
Cash	7,948,613			32,142	4,524,803
Other investment balances	(924,437)			–	11,646,325
	458,321,341			(239,376,237)	250,522,671

In applying FRS 102, the Trustee is of the opinion that the total valuation of annuity policies held in the name of the Trustee is not material to the Scheme's net assets and is therefore not included in the financial statements of the Scheme.

In order to allow the Trustee to form this view, a valuation of relevant annuity policies was carried out by the Scheme's Actuary as at 31 December 2020. The valuation of the annuity policies as at that date was £2.92m. The Trustee is of the opinion the valuation has not materially changed during the year.

The annuity policies held in the name of the Trustee are policies which have been bought in order to secure a pension for member spouses and/or their dependants.

Fund management fees relating to the management of the assets of the Scheme are calculated as a percentage of the value of the fund. For AVC investments these are included within the unit prices of the investments held and are therefore reflected in the market value of the investments. Management fees for the Main Scheme portfolio are deducted from the funds held.

13. Transaction costs

In addition to the direct costs incurred below, indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustee to quantify such indirect transaction costs.

Transaction costs analysed by main asset class and type of cost are as follows:

	2022				2021
	Fees	Commission	Taxes	**Total**	Total
	£	£	£	**£**	£
PIV	465	36	–	501	3,232
Total 2022	465	36	–	501	
Total 2021	3,232	–	–		3,232

14. Investment management expenses

	2022	2021
	£	£
Administration, management and custody	795,297	1,132,395

15. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

16. Pooled investment vehicles

The Scheme’s investments in pooled investment vehicles analysed by type at the year end were as follows:

	2022	2021
	£	£
Equity	43,278,504	160,454,295
Bond	19,806,384	42,941,901
Hedge funds	12,069,772	32,534,376
Property	11,124,058	13,409,243
Cash	9,475	33,401,288
Mortality Linked	6,858,658	6,828,619
Re-insurances	265,298	404,965
Alternative Credit	2,657,921	118,379
	96,070,070	290,093,066

The pooled investments are managed by companies registered in the UK.

17. Derivatives

Objectives and Policies

The Trustee has authorised the use of derivatives, where they are specifically permitted in the investment management agreement, as part of their investment strategy for the Scheme.

The Scheme held the following derivatives at the year end:

	31 December 2022		31 December 2021	
	Assets	Liabilities	Assets	Liabilities
	£	**£**	£	£
Options	6,374,412	(2,727,148)	13,499,452	(1,885,185)
Swaps	7,129,840	(25,540,993)	24,205,275	(12,842,029)
Forward FX contracts	1,593,184	(66,413)	68,193	(557,927)
	15,097,436	(28,334,554)	37,772,920	(15,285,141)

Further details on the respective derivative contracts held at 31 December 2022 are as follows:

Collateral deposited by counterparties at the year end date in respect of the unrealised gain on certain derivative contracts amounted to £4.8m (2021 - £24.2m) comprising gilts. Collateral received is held with the Scheme’s custodian, KAS Bank (trading as CACEIS Investor Services), but it is not reported within the Scheme’s net assets.

Collateral deposited by the Scheme at the year end date in respect of the unrealised loss on certain derivative contracts amounted to £19.9m (2021 - £Nil) comprising gilts. Collateral paid is held with the counterparties custodian and is reported within the Scheme’s net assets.

17. Derivatives ***(continued)***

Options

Equity option contracts have been entered into in order to allow the Scheme to benefit from potentially greater returns from equities whilst minimising the risk of loss through adverse market movements.

At 31 December 2022, the Scheme has exposure to a number of individual option contacts with one counterparty, whereby the individual contracts are valued by the counterparty as a single basket on the basis that the contracts would not individually be realised but would expire or mature as a single whole. As a result, the valuation provided by the counterparty is a single valuation.

At 31 December 2022 the basket of contracts comprised:-

- a nominal value of £40m, expiring March 2025 and valued as an asset of £2,784,035.
- a nominal value of €3.837m, expiring March 2023 and valued as an asset of £201,235.
- a nominal value of €2.008m, expiring December 2023 and valued as an asset of £67,031.
- a nominal value of €1.213m, expiring October 2023 and valued as an asset of £41,413.
- a nominal value of €1.975m, expiring December 2023 and valued as an asset of £15,300.
- a nominal value of $3.922m, expiring January 2024 and valued as an asset of £145,930.
- a nominal value of $3.916m, expiring March 2023 and valued as an asset of £138,985.
- a nominal value of $3.916m, expiring February 2023 and valued as an asset of £138,956.
- a nominal value of $2.041m, expiring December 2023 and valued as an asset of £78,328.
- a nominal value of ¥288.5m expiring December 2023 and valued as an asset of £36,052.

The nominal value represents the value of the underlying stock protected by the option contracts. The option contracts have been valued using the Black-Scholes model that take other market variables into account (volatility, time to maturity) other than a value based on the level of the underlying index.

17. Derivatives *(continued)*

Swaps

Swap contracts are over the counter arrangements in which the parties agree to exchange one stream of cash flows for another. The details of swap contracts in place at the year end were as follows:

Nature	No. of contracts	Notional amounts £'000	Expires	Asset value £	Liability value £
Interest Swaps	7	53,500	0-10	–	(7,099,888)
Interest Swaps	5	16,770	11-20	–	(4,349,213)
Inflation Swaps	4	25,816	0-10	4,402,094	–
Inflation Swaps	4	15,477	11-20	2,614,977	–
Inflation Swaps	2	1,855	31-40	19,487	(112,881)
Inflation Swaps	1	2,975	41-50	93,282	–
Total Return Swaps	7	58,369	0-10	–	(13,979,011)
Total 2022		174,762		7,129,840	(25,540,993)
Total 2021		563,422		24,205,275	(12,842,029)

Forward FX contracts

Forward foreign exchange contacts are used because the Scheme has exposure to overseas investments, predominantly in the form of equities held via pooled investment vehicles. In order to reduce the Scheme's exposure to foreign exchange fluctuations the Scheme enters into forward foreign exchange contracts.

At 31 December 2022, the Scheme had the following forward currency exchange contracts outstanding:

Contract	No. of contracts	Currency bought £'000	Currency sold £'000	Asset value £	Liability value £
Jan'23	2	GBP 2,867	EUR 3,254	–	(14,656)
Jan'23	7	GBP 28,633	USD 32,734	1,593,184	(17,174)
Jan'23	1	GBP 743	JPY 123,810	–	(34,583)
Total 2022				1,593,184	(66,413)
Total 2021				68,193	(557,927)

18. AVC investments

	2022 £	2021 £
Legal and General	32,427,655	33,874,920

18. AVC investments ***(continued)***

Members may elect to secure additional benefits on a money purchase basis by electing to pay AVCs. Investment assets of the AVC section are managed by Legal & General Investment Management Ltd in a range of funds which provide members with a wide choice of investment vehicles in which to invest. Members receive an annual statement confirming their CARE benefits and the value of their AVC funds.

The valuation of members' AVC investment funds as at 31 December 2022 and 31 December 2021 is shown below:

	2022	**2021**
	£	£
UK equity index fund	4,555,990	4,553,186
Multi-Asset fund (formerly Consensus index fund)	5,914,777	6,849,539
Global equity 50:50 index fund	8,151,362	8,171,931
Global emerging Markets index fund	2,712,007	2,890,071
Over 5 Year index linked gilts fund	1,335,896	2,350,887
Active aggregate all stocks 50:50 fixed interest fund	1,123,738	1,438,609
Cash fund	6,210,395	5,119,059
Property fund	2,213,045	2,402,277
Islamic Global Equity fund	43,853	13,401
Ethical Global Equity fund	166,592	85,960
Total	32,427,655	33,874,920

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

In June 2021, the CARE AVC portfolio transitioned to the Legal & General Investment Management Ltd IO platform. Additionally, a new AVC fund, the HSBC Islamic Fund, was added to the CARE AVC portfolio. During the platform transition, there was a member blackout from 28 May 2021 to 11 June 2021 when the restrictions were lifted.

19. Cash

	2022	2021
	£	£
Cash assets		
Sterling	4,524,803	7,948,613

20. Other investment balances

	2022 £	2021 £
Other investment balances assets		
Amounts due from brokers	11,384,562	–
Accrued income	261,763	113,016
	11,646,325	113,016
Other investment balances liabilities		
Amounts due to brokers	–	(1,037,453)
	11,646,325	(924,437)

21. Fair value determination

The fair value of financial instruments has been estimated 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 (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable (ie 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 categories as follows:

	At 31 December 2022			
	Level 1 £	Level 2 £	Level 3 £	**Total £**
Bonds	119,090,936	–	–	119,090,936
Pooled investment vehicles	3,739,612	62,206,793	30,123,665	96,070,070
Derivatives	–	(13,237,118)	–	(13,237,118)
AVC investments	–	32,427,655	–	32,427,655
Cash	4,524,803	–	–	4,524,803
Other investment balances	11,646,325	–	–	11,646,325
	139,001,676	81,397,330	30,123,665	250,522,671

21. Fair value determination ***(continued)***

	At 31 December 2021 (restated)			
	Level 1	Level 2	Level 3	Total
	£	£	£	£
Bonds	104,841,400	–	–	104,841,400
Pooled investment vehicles	16,111,528	236,520,986	37,460,552	290,093,066
Derivatives	–	22,487,779	–	22,487,779
AVC investments	–	33,874,920	–	33,874,920
Cash	7,948,613	–	–	7,948,613
Other investment balances	(924,437)	–	–	(924,437)
	127,977,104	292,883,685	37,460,552	458,321,341

22. Investment risk disclosures

Investment risks

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

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

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

- Currency risk: this is the risk that the fair value 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 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 is outlined in the Investment Management section of the Trustee's Report on pages 12 to 14.

22. Investment risk disclosures *(continued)*

Credit Risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, OTC derivatives and has cash balances. The Scheme also invests in pooled investment vehicles and is therefore indirectly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Trustees' policy for managing credit risk is detailed in the Statement of Investment Principles.

The Scheme holds £119.1m in directly held bonds, -£13.2m in OTC derivatives and £15.9m in directly held cash balances. The Scheme also holds £19.8m bonds and cash through underlying pooled fund investments.

The collateral posted at year end is significantly higher compared to the previous year £19.3m (2021: £0m) due to the impact of the gilt crisis. This resulted in collateral calls from counterparties. In some cases, the collateral required in a margin call may be higher than the negative position of the swaps because the value of the collateral may be subject to market fluctuations. If the value of the collateral decreases, the party providing the collateral may not be able to cover the full amount of the potential losses. To account for this risk, the collateral required in a margin call may be set higher than the negative position of the swaps.

Credit risk arising on derivatives held directly depends on whether the derivative is exchange traded or over the counter (OTC). The Scheme holds OTC derivative contracts which are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. Credit risk for OTC derivative contracts is mitigated by placing restrictions on Schroders Solutions which ensure that new contracts are only entered into with counterparties that are investment grade. The credit risk in respect of OTC swaps is further reduced by collateral arrangements. The collateral held as security to mitigate credit risk is in line with the CSA in place with the counterparty banks.

Credit risk arising on bonds held directly is mitigated by Schroders Solutions choosing to only invest in government bonds, where the credit risk is minimal, or corporate bonds which are rated at least investment grade.

Directly held cash balances are at financial institutions which are at least investment grade credit rated. This is the position at the year-end.

In all above instances, “investment grade” is defined as being rated at least BBB- by Standard & Poor’s or Baa3 by Moody’s.

Indirect credit risk arises in relation to underlying investments held in bond and cash pooled investment vehicles. This risk is mitigated by the Trustees mandating Schroders Solutions that the underlying investment in sub-investment grade debt may not exceed 30% of the GA.

Both direct and indirect credit risk is mitigated by holding a diversified portfolio to minimise the impact of default by any one issuer. The Trustees monitor the investment strategy adopted by Schroders Solutions to ensure that the arrangement remains diversified.

Direct credit risk arises in respect of pooled investment vehicles. The Scheme's GA is invested across a large number of different pooled funds which have various legal structures in various domiciles (e.g. open-ended investment companies, unit trusts, limited partnerships etc.).

22. Investment risk disclosures *(continued)*

The direct credit risk associated with these managers is also mitigated by:

- the regulatory environments in which those managers operate;
- diversification amongst a large number of pooled arrangements; and
- due diligence checks by RMIL on the appointment of new pooled managers, and monitoring on an ongoing basis for any changes to the operating environment of each manager.

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

	2022	2021
	£	£
Unit-linked insurance limited	–	3,490,778
Open ended investment companies	**27,761,568**	76,039,042
Closed ended investment funds	**1,810,905**	3,423,503
Limited partnership	**5,595,621**	833,553
Exchange traded funds	**3,739,612**	16,111,528
Limited liability company	**5,609,428**	12,412,677
Mutual Fund	**41,732,103**	149,166,235
Authorised unit trusts	**7,865,987**	24,039,060
Cayman Islands exempted company	**1,954,846**	4,576,690
Total	**96,070,070**	290,093,066

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. The Trustees' policy for managing this risk is detailed in the Statement of Investment Principles.

Currency risk is mitigated by delegating management of currency exposures at total portfolio level to Schroders Solutions. Schroders Solutions implement currency hedging through the use of hedged shared classes of pooled funds (where available) and the use of FX forward contracts.

Net of currency hedging, 11.6% of the Scheme's holdings were exposed to overseas currencies as at year-end (2021: 14.9%).

Interest rate risk

The Scheme's assets are subject to interest rate risk because some of the Scheme's investments are held in bonds, interest/inflation rate swaps for the purpose of liability hedging. Under this strategy if interest rates fall the value of these investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise these investments will fall in value as will actuarial liabilities because of an increase in the discount rate.

At the year end, the assets held for liability hedging (excluding AVCs) purposes comprised of:

	2022	2021
	£'000s	£'000s
Direct		
Bonds	**119,091**	104,841
Swaps	**(18,411)**	11,364
Indirect		
Bonds PIVs	**19,806**	42,942
Cash PIVS	**9**	33,401

Please note clean values have been used where applicable.

22. Investment risk disclosures *(continued)*

Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which may include various asset classes (i.e. alternatives, bonds, equities, cash and investment properties) held in pooled vehicles. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

At the year end, the Scheme's exposure to investments subject to other price risk was:

	2022	2021
	£'000s	£'000s
Direct		
Equity options	**2,784**	10,616
Put Equity Options	**863**	998
Bonds	**21,184**	41,732
Indirect		
Equity PIVs	**43,279**	160,454
Alternative PIVs	**21,852**	39,886
Property PIVs	**11,124**	13,409

Please note clean values have been used where applicable.

23. Concentration of investments

The following investments, with the exception of UK Government securities, represented more than 5% of the total net assets of the Scheme at 31 December:

	2022		2021	
	£	**%**	£	%
BNY Mellon (Schroders) Global Equity Fund	34,354,689	13.50	141,419,375	30.75
Neuberger Berman Global ESG Credit Fund	–	–	24,218,735	5.27

24. Employer related investments

As at 31 December 2022, the Scheme held no investment assets in Network Rail.

25. Current assets

	2022	2021
	£	£
Due from Employer	56,043	158,118
Prepaid Expenses	334,367	335,376
Cash balances	1,800,497	2,408,840
	2,190,907	2,902,334

26. Current liabilities

	2022	2021
	£	£
Unpaid benefits	157,254	–
Accrued expenses	179,010	586,233
Contributions received in advance	559,224	585,856
Other creditors	250,449	151,444
Prepaid annuity income	11,121	10,536
	1,157,058	1,334,069

27. Related party transactions

The Trustee and the Principal Employer have provided administrative services free of charge during the year under review. All on-going expenses and administration costs are payable from Scheme assets in accordance with the Trust Deed. During the year the Principal Employer met £nil (2021: £nil) of Scheme expenses.

During the year, transfers in from NRDC totalled £254,863 (2021 - £1,033,933) and transfers out to NRDC totalled £66,510 (2021 - £118,111).

All Trustee Directors who are members of the Scheme receive benefits in accordance with the Scheme Rules.

During the year, fees of £37,502 (2021 - £24,280) were payable to the Trustee Director, Law Debenture Pension Trust Corporation, in respect of the services of Samantha Pitt, as Chair of the Scheme.

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

Trustee Director	**Network Rail Pension Scheme**
Samantha Pitt*	RPS Deferred / NRDC Deferred
Timothy Craddock	RPS Active
Mark Engelbretson	NR CARE Active
Andrew Fielding	RPS Active
Robert Arnold	NR CARE Active
Paul Norris	N/a
Urvish Pandya	RPS Active
Kathryn Andrews	RPS Active
Louise Campbell	NRDC 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

28. Capital commitments

At 2022, the Scheme held undrawn capital commitments of £0.45m (2021 - £2.4m and $1.6m) in respect of future capital calls.

Schroders solutions

Network Rail CARE Pension Scheme (‘Scheme’)

31 December 2022 Implementation Statement

April 2023

Schroders' Solutions Disclaimer:

The Implementation Statement is a regulatory requirement under the 2018 changes to the Occupational Pension Schemes (Investment) Regulations 2005. It is important that the Trustee of the Scheme understand and consider financially material Environmental, Social and Governance ("ESG") factors and consider its own stewardship obligations. A failure to do this puts the Trustee at risk of breaching your legal duties.

This is a Trustee document and the Trustee must review the Implementation Statement draft, provided by its investment adviser, and confirm that they have considered the content prepared and reviewed any associated documentation such as voting policies.

1. Introduction

The Trustee is required to make publicly available online a statement ("the Implementation Statement") covering the Network Rail CARE Pension Scheme (the 'Scheme') in relation to the Scheme's Statement of Investment Principles (the "SIP").

The SIP was amended once during the year ending 31 December 2022, and the changes made were predominantly to reflect the Trustee's recognition of climate change as a systematic, long-term material financial risk to the Scheme, and its aim to achieve a carbon neutral portfolio by 2050 or sooner. Other changes were made to reflect minor administrative changes.

This SIP came into force from July 2022. A copy of the current SIP signed and dated 25 July 2022 can be found here https://www.mynrpension.co.uk/wp-content/uploads/2022/08/CARE-SIP-Update-March-2022-CLEAN.pdf-website-version.pdf.

This Implementation Statement covers the Scheme year from 1 January 2022 to 31 December 2022 (the "Scheme Year"). It sets out:

- How the Trustee's policies on exercising voting rights and engagement have been followed over the Scheme Year; and
- The voting by or on behalf of the Trustee during the Scheme Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

A new set of guidance ("the Guidance") from the Department for Work and Pensions ("DWP") has been issued with a series of statutory & non-statutory requirements. They aim to encourage the Trustee of the Scheme to properly exercise their stewardship policy including both voting and engagement which is documented in the Scheme's SIP. This Implementation Statement has been prepared to provide the details on how the Trustee of the Scheme, with the help of the Scheme's Fiduciary Manager, has complied with the new statutory requirements set by DWP.

A copy of this Implementation Statement is available on the following website: [Insert web address]

2. How the Trustee’s policies on exercising voting rights and engagements have been followed over the Scheme Year

The Trustee retains the Fiduciary Management[1] service of **Schroders IS Limited**, formerly known as **River and Mercantile Investments Limited**, as its Investment Manager and Adviser (it is referred to as the "**Fiduciary Manager**" in the Implementation Statement). The Fiduciary Manager can appoint other investment managers in respect of underlying investments (these are referred to as “**Underlying Investment Managers**”). Schroders Group, a global asset manager, has a long history of engagement and active ownership, dating back to 1998 when it appointed its first governance resource, and has recorded and monitored ESG engagements since then.

- Signatory to the UK Stewardship code
- A+ rating for UN Principles for Responsible Investment
- A- rating for Carbon Disclosure Project
- Advanced ESG recognition from Morningstar
- Best Investor Engagement recognition from IR Society Best Practice Award for 2021

[1] The Fiduciary Manager was acquired by Schroders Group on 1 February 2022.

The Scheme invests in assets with voting rights attached, and other assets with no voting rights. The Trustee’s policies on exercising voting rights and engagement are set out in the SIP. A copy of the Scheme’s SIP has been provided to the Fiduciary Manager, and the Fiduciary Manager is expected to follow the Trustee’s investment policies when providing Fiduciary Management services. However, given the investments with the Underlying Investment Managers are generally made via pooled investment funds, where the Scheme’s investments are pooled with those of other investors. With these funds, the direct control of the process of engaging with the companies that issue the underlying securities lies with the Underlying Investment Manager who may have different engagement priorities than the Trustee’s.

Therefore, the Trustee requires that the Fiduciary Manager considers the stewardship activities which include voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change, when choosing new or monitoring existing Underlying Investment Managers. The Trustee believes it is appropriate to delegate the decision of appointing and monitoring Underlying Investment Manager to the Fiduciary Manager who will be able to influence the Underlying Investment Manager’s voting and engagement policies. Therefore, the Trustee can therefore largely exercise their stewardship policy set out in the Scheme’s SIP.

During the Scheme Year, the Trustee has received training on the latest DWP Guidance. To support the Trustee in meeting the new requirements, the Trustee also received training on the Schroders’ Engagement Blueprint which sets out the six engagement themes the Scheme’s Fiduciary Manager believe to be most financially material. These are the themes the Fiduciary Manager will align the majority of its own engagements with underlying managers with.

In order to agree which of these engagement themes the Trustee will prioritise in its own stewardship activities, the Trustee completed a survey shortly after the Scheme year end. Based on the top 3 results of the survey, the Trustee of the Scheme has determined their engagement priorities to be Climate Change, Human Rights, and Human Capital Management.

The Trustee believes its own and the Fiduciary Manager's engagement themes are issues which are material to the long-term value of the investments. The Trustee believes that companies which address those issues, when they are material and relevant, will drive improved financial performance for the Scheme. These issues also reflect expectations and trends across a range of stakeholders (including trade unions) and by strengthening relationships with these stakeholders, business models become more sustainable, which ultimately will maximise the value addition to the Scheme's investment hence benefit the Scheme's members and beneficiaries.

Although the Trustee has yet to make changes to the voting and engagement policies contained in the SIP during the Scheme Year, it will update its stewardship policy in the next Scheme year to set out the agreed engagement priorities and how the Trustee will exercise this policy.

Over the Scheme Year, the Fiduciary Manager also provided the Trustee with monitoring of the ESG characteristics including TCFD ("Taskforce for climate-related financial disclosures") carbon metrics of the portfolio on a quarterly basis. The Fiduciary Manager provided refresher training over the Scheme year on the various monitoring metrics in order to ensure the Trustee was well equipped to understand and govern the data provided. The Trustee is satisfied with the Fiduciary Manager's activity in this area.

On behalf of the Trustee, monitoring of voting and engagement policy by Underlying Investment Managers in relation to the Scheme's investments was also carried out by the Fiduciary Manager through regular investment and operational due diligence meetings with the Underlying Investment Managers. In addition, the Trustee with the help of the Fiduciary Manager, monitors the performance of the Underlying Investment Managers against the agreed performance objectives at Trustee meetings held during the Scheme Year.

In addition, the Trustee also received other training on topics such as Climate Risk and ESG updates within the Fiduciary Management investment process. The Trustee reviewed the Fiduciary Manager's Annual ESG report in May 2022 and ensured it was satisfied with the actions taken on its behalf in relation to ESG integration within the investments and stewardship activities. The Trustee will review the Annual ESG report of 2022 in May 2023 as part of ongoing monitoring of how the Fiduciary Manager has exercised the Trustee's stewardship policy over the Scheme Year.

Following activity during the Scheme Year and by preparing this Implementation Statement, the Trustee believes that it has acted in accordance with the Statement of Investment Principles over the Scheme Year.

The Trustee has identified areas in which it can enhance its stewardship activities in the following scheme year by:

- Documenting the agreed engagement priorities in the SIP to aid in stewardship and focus engagement.
- Reviewing the Fiduciary Manager's (Schroders Solutions) ESG annual update to ensure the Fiduciary Manager is carrying out the voting and engagement activities in line with its policies.
- Continuing to review the Underlying Investment Managers on voting and engagement examples relevant to the Trustee's engagement priorities.

3. Voting and Engagement Summary

The process for exercising voting rights and engaging with the managers of assets held on behalf of the Scheme is as follows:

1) Engagement and the exercise of voting rights which have been aligned to the Fiduciary Manager

The Fiduciary Manager exercises voting rights with the Underlying Investment Managers on behalf of the Trustee in line with its voting policy. This policy sets out how the Fiduciary Manager will aim to vote at a general meeting of a pooled fund.

2) The Underlying Investment Managers exercise voting rights in the underlying securities and engages with the company issuing the security in line with the policies which may have been influenced by the Fiduciary Manager.

The Trustee has considered the voting statistics and behaviour (provided in the Appendix) along with engagement activity that took place on their behalf during the Scheme Year within the growth asset and the liability hedging portfolios and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting and engagement in line with its stewardship policy.

Specifically, the Trustee noted that:

- The Fiduciary Manager has carried out a high level of engagement activities with the Underlying Investment Managers and some good progress has been achieved such that the Underlying Investment Managers' ESG credentials have improved over the Scheme Year.
- Each manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activity over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- The Trustee considered relevant examples in relation to its engagement priorities which has been aligned with the Fiduciary Manager's in this Implementation Statement. Examples are provided in the appendix and they were selected to demonstrate how the Fiduciary Manager & Underlying Investment Managers, on behalf of the Trustee, voted and engaged with Underlying Investment Managers and the investee companies respectively. Those engagement priorities and themes are set out below:
    - **Climate:** Climate risk and over sight, Climate alignment including decarbonising and minimising emissions, climate adaption and carbon capture and removal
    - **Natural Capital and Biodiversity:** Nature-related risk and management, circular economy, pollution and waste, sustainable food and water, deforestation
    - **Human Rights:** Overarching approach to human rights, works and communities, customers and consumers
    - **Human Capital Management:** Corporate culture and oversight, investment in the workforce, engagement and representation, health, safety and wellbeing
    - **Diversity and Inclusion:** Board diversity and inclusion, executive & Workforce diversity and inclusion
    - **Corporate Governance:** Board and management, executive remuneration, relationship with shareholders

- As the Trustee has determined its engagement priorities this year as mentioned in Section 2 of this Implementation Statement, the Trustee consider any votes in relation to the engagement priorities are the most significant votes.
- On behalf of the Trustee, the Scheme's Fiduciary Manager last year identified five Underlying Investment Managers who will be the engagement targets over this Scheme year. Under Schroders' Manager ESG ratings system, these five Underlying Investment Managers received 'Red-Engagement' ratings – meaning the manager is available for inclusion in the portfolios but subject to enhanced monitoring and reporting, whereby failure to improve will result in a downgrade to exclusion. The Fiduciary Manager has seen some significant progress which have resulted an increase in the Underlying Investment managers' rating in some cases.
- As a result of the Russian invasion of Ukraine in early 2022, the Fiduciary Manager has implemented a no-Russia investments policy, and had begun removing any Russia exposures from the portfolio and engaging with underlying managers who continue to hold exposures. The Trustee is supportive of this approach and receives updates from the Fiduciary Manager on the success of its engagements in this area. An example where the Fiduciary Manager has been successful with engaging with underlying managers is with a hedge fund manager within the alternatives allocation of the Fiduciary portfolio. As a result of the recent engagement with the manager seeking to maintain client investment without exposure to certain Russian assets, the fund now has no exposure to Russia and Belarus and the exclusion of cannabis companies. Additionally, all existing fund terms remain unchanged (fees, liquidity, valuation methodology).

Some details of the voting and engagement from the Scheme's Underlying Investment Managers are set out below:

- Within the Scheme's portfolio, **BNYM Global Equity Fund** makes up the majority of the Scheme's investments in return-seeking equity assets, the Trustee noted that BNYM prioritised engagement with each of their underlying holdings on areas largely in line with Schroders Solutions' engagement themes. The BNYM semi-annual proxy voting reports (links included in Appendix) were reviewed by the Trustee. The report includes details of the significant votes and engagement examples covering a board range of underlying investment companies.
- An example would be their engagement with an American multinational food processing and commodities trading corporation. In May 2022, BNYM voted for a shareholder proposal requesting that the company report on how the company is measuring its use of pesticides that cause harm to human health and environment in its agricultural supply chains. The company does not currently provide targets on pesticide use which lagged its peers. Although the proposal did not pass, Mellon will continue to engage with the company to disclose more information on how the company is managing supply chain risks around this topic.
- For the largest mandate within the return-seeking credit assets, the Fiduciary Manager had two specific climate-related engagement meetings with the manager over 2022, focussing on net zero within the fund and engaging with top emitters. As a result of this engagement, the manager engaged with all three high emitters and implemented a plan to reduce emissions. Furthermore, they demonstrated a clear, repeatable framework for their analysts to engage with companies on climate. In 2023, the Fiduciary Manager will continue to engage with the credit manager focussing on the following:
    - Specific targets for the portfolio based on their proprietary net zero alignment indicator;
    - Specifying a portion of the portfolio to be engaged with on climate; and
    - Introducing enhanced emission reporting.
- In relation to the liability hedging and structured equity mandates, the Trustee noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by a number of factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored. If relevant perhaps mention if SSD invested on client's behalf

in green gilts and how this is seen as a vote in favour of the UK Government’s commitments to achieving the Paris Agreement goals.

The Trustee is satisfied that the voting and engagement activity undertaken by the Fiduciary Manager and Underlying Investment Managers was in line with the Trustee's policies contained in the SIP which will be further updated in the new Scheme Year.

Appendix 1 – Voting & Engagement statistics

1. Voting and engagement by the Fiduciary Manager (Schroders IS, formerly known as R&M) in relation to underlying pooled funds held on behalf of the Trustee

Most of the rights and voting regarding the Scheme's investments relate to underlying securities investment via pooled funds managed by Underlying Investment Managers – this is covered in part 2 below. However, the pooled funds themselves often confer certain rights around voting or policies. These rights are exercised by the Fiduciary Manager on behalf of the Trustee and we cover these here.

Over the year to 31 December 2022, the Fiduciary Manager engaged with Underlying Investment Managers regarding clients' pooled fund investment on 64 resolutions during the 12 months period across 19 meetings. The Fiduciary Manager voted against management on 4 resolutions which was 6.3% of total resolutions and abstained on 4 resolutions (6.3% of the total resolutions).The engagement topics covered a range of areas including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

Over the Scheme Year, the Fiduciary Manager also

- engaged all Underlying Investment Managers on their plans relating to net zero and will engage on a regular basis with those who do not have any net zero target or plan to decarbonise;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager was not satisfied with the quality of data previously provided.
- engaged with the five managers which were rated 'red-engagement' on Schroders' ESG scoring matrix. The below table outlines the engagement activities and outcomes are set out in the table below:

	Engagement themes identified	2022 Engagement	Progress over 2022
Manager A – Equity	▪ Board independence and diversity ▪ Incorporating ESG into employee training and appraisals/remuneration ▪ Voting policy and engagement processes	▪ Engaged with the manager in Q4 following their decision to exit net zero asset manager initiative – engagement ongoing	▪ Overall rating and corporate pillar upgraded to **green**. Stewardship pillar upgraded to **amber** ▪ Introduction of staff ESG training programmes ▪ Evidenced a process to measure the success of their voting activities
Manager B – Alternatives	▪ Integrating ESG into corporate by signing up to voluntary standards and formalising policies ▪ Board independence and diversity ▪ Formalise voting and engagement policy	▪ Calls and meetings through 2021/2022 to discuss what initial steps can be taken and where the manager sits relative to peers ▪ Provided guidance on institutional investors requirements of managers and the direction of travel	▪ Overall rating remains **red engagement** but in line with expectations ▪ Engagement with the manager has been positive and they are keen to understand where they rank relative to peers and what can be improved

		▪ Specific discussions on UN PRI and what other standards may be applicable to the manager	▪ Formed an ESG committee which includes senior management
Manager C – Alternatives	▪ Integrating ESG into corporate by signing up to voluntary standards and formalising policies ▪ Formalise voting and engagement policy ▪ Formalise ESG investment policy	▪ Numerous meetings with senior management and ESG focused personnel to understand what changes the manager can implement ▪ Direct engagement on a number of current ESG issues including investment in Russian assets and exposures to cannabis ▪ Manager also specifically reached out to request discussion on expectations from institutional investors and best practices amongst peers	▪ Overall rating remains **red engagement** but corporate pillar upgraded to **amber** ▪ Improvements seen in both policies and procedures with a more formalised ESG committee with senior management/partner involvement ▪ New portfolio implementation mechanism designed with input from Schroders limiting exposures to specific assets.
Manager D – Alternatives	▪ Formalise diversity policy ▪ Formalise voting and engagement policy ▪ Formalise ESG investment policy	▪ A number of engagements with various people in separate ESG functions across the business to understand what progress has already been made in the last 12m and what expectations are for the future ▪ Focus on D&I and how the manager has improved its processes and increased the effectiveness of its committee structure	▪ Improved scoring across all pillars and overall rating upgraded to **amber** ▪ The manager has become a signatory to UN PRI – the first mandatory reporting is due in May 2023 ▪ A formal ESG Investment Policy and a formalised approach to ESG across all portfolios
Manager E – Alternatives	▪ Board independence and diversity ▪ Incorporating ESG into employee training and appraisals/remuneration ▪ Voting policy and engagement processes	▪ A number of meetings with senior leaders in the business to understand what can be done to improve ESG integration at least within corporate functions	▪ Overall rating remains **red engagement** but in line with expectations given where the manager is in their ESG process ▪ Manager has launched an ESG statement (non-investment) with focus on DEI including an advisory council with senior business leaders involved to drive change ▪ Exploring the idea of having specific ESG resource at investment level

2. Voting by the Underlying Investment Managers on securities held on behalf of the Trustee

There are c. 25 Underlying Managers used by the Investment Manager. Set out below are the voting statistics for the most material equity holdings that held voting rights during the period, namely BNY Mellon Global Equity and Vanguard FTSE All World ETF Fund. Within other asset classes there are no voting rights. However, engagement activity is very important and so examples of engagement activity for the managers that represent 2.5% or more of the portfolio have also been discussed with the Trustee as described in section 3 above.

Summary of voting activity – Equity mandates

	BNYM Global Equity Fund	Vanguard FTSE All World ETF Fund
Total meetings eligible to vote	890	5,574
Total resolutions eligible to vote	11,333	58,243
% of resolutions did you vote on for which you were eligible?	100%	97%
% did vote with management?	93%	94%
% vote against management?	7%	5%
% abstained	1%	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	2%	0%

Note:

- BNYM uses Institutional Shareholder Services, "ISS", for proxy voting services.
- Vanguard Investment Stewardship uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.
- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.
- BNYM does not use the PLSA voting template. We included votes withheld in votes abstained for BNYM to be in line with the PLSA template, although there are differences between votes withheld and votes abstained. BNYM also did not vote on 1% of the overall proposals.
- Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted different ways, or a vote of "Abstain" is also considered a vote against management.

3. Examples of voting and engagement carried out by the Underlying Managers

Engagement Theme	Manager	Examples
Climate change	Vanguard	Caterpillar
Natural Capital & Biodiversity	BNY Mellon	Archer-Daniels-Midland
Human Rights	Vanguard	Foxconn
Human Capital Management	Vanguard	J Sainsbury Plc
Diversity & Inclusion	BNY Mellon	PNC Financial Services Group, Inc.
Corporate governance	Neuberger Berman	Boeing

Climate Change - Caterpillar

Caterpillar, a U.S.-based construction machinery company, received four shareholder proposals ahead of its 2022 annual meeting, including one that requested medium- and long-term greenhouse gas (GHG) targets aligned with the Paris Agreement's goal of maintaining the global temperature rise at 1.5 degrees Celsius and that sought disclosure of progress made toward achieving such goals.

Caterpillar has set, and revised, its GHG emissions reduction targets several times since 2006. Its most recent targets, set in 2021, are to reduce Scope 1 and 2 emissions by 30% by 2030, from a baseline year of 2018. Caterpillar says it does not currently have a Scope 3 emissions reduction target, explaining that factors affecting such emissions are largely outside the company's control. In its response to the shareholder proposal, the company indicated that its next sustainability report would clarify whether Caterpillar would set the specific targets requested by the proposal or provide a rationale for not doing so. The company also committed to including Scope 3 disclosures and using the TCFD framework in future sustainability reporting.

During two engagements leading up to the 2022 annual meeting, the Vanguard team spoke with Caterpillar executives and an independent director about the company's GHG emissions targets and sought to understand its efforts to improve future disclosure. Notably, the board recommended voting in favour of this proposal, stating that such support would demonstrate its commitment to transparency in climate accountability.

The Vanguard funds supported the board's recommendation and voted for the proposal, which other shareholders also strongly endorsed, as it garnered over 95% support.

Natural Capital & Biodiversity – Archer-Daniels-Midland

In May 2022, BNY Mellon supported a shareholder proposal requesting a report explaining if and how the company is measuring its use of pesticides that cause harm to human health and the environment in its agricultural supply chains. Archer-Daniels-Midland does not currently provide targets on pesticide use when many of their peers do. In instances where supply chain concerns could pose a material risk to a company, Mellon prefer that companies be as transparent as possible in disclosing their processes and data around managing this risk. The proposal did not pass, and the manager will continue to encourage Archer-Daniels-Midland to disclose more information on how the company is managing supply chain risks around this topic.

Human Rights - Foxconn

Hon Hai Precision Industry (trading as Foxconn) is a Taiwanese multinational contract electronics manufacturer and one of the world's largest electronics producers.

For many years, the company has faced controversies over labour and human rights issues ranging from excessive overtime to worker suicides and allegations of forced labour. In February 2022, Vanguard followed up on an earlier engagement with the company, focusing on the board's risk oversight role, particularly on social issues, where it seemed that the company had made progress in how it monitors those risk.

The company was candid in discussing challenges stemming from its complex supply chains and from operating in regions with low labour standards and/or a lack of legal protection for workers. The adoption of Foxconn's Code of Conduct by downstream suppliers has been limited in certain areas, and the company has had to adapt its code to different cultural norms. But the company expressed confidence that it now has structures in place to promote best practices across its global operations and to address potential problems. It reiterated that Foxconn's chairman is spearheading the company's environmental, social, and governance efforts and that the company is committed to communicating openly with investors about these issues, much more than in the past.

Foxconn identified areas that need improvement, including more robust disclosure of its policies on managing risks related to social issues in both the company's own operations and its supply chain. The company also explained that it intends to set targets for addressing social risks, similar to its recently set environmental targets that include the ambition to reach net zero emissions by 2050. Foxconn explained that it did not identify any forced labour issues on its sites. The company also shared an example of how it identified some workforce issues through its risk oversight processes and what it had done to remedy them.

Vanguard recognize the complexity of monitoring the treatment of over a million employees and a complex supply chain, so they appreciated learning about the evolution of Foxconn's corporate culture and its approach to discussing with investors the risks associated with working conditions. The manager welcomed the company's frank communication about the challenges it faces and the improvements it seeks to make, and they look forward to seeing how Foxconn demonstrates its ambitions through increased disclosure of social risks and by operationalizing its new policies and practices to manage those risks.

Human Capital Management - J Sainsbury Plc

At the annual meeting on 7 July 2022, Vanguard funds did not support a shareholder proposal directing the company to become accredited by the Living Wage Foundation, an organisation that sets out a framework for pay linked to a regional cost-of-living assessment. The proposal received 17% support from shareholders.

Vanguard has engaged over several years with the Sainsbury's board and executive management. Vanguard's recent discussions included the board's oversight of HCM and its role in navigating the cost-of-living crisis with respect to stakeholders, including its workforce and customers. The proposal in question directed the company to be accredited as a Living Wage Employer by July 2023. The resolution further asked the company to conduct an analysis (also by July 2023) of third-party contractors that earn below the real Living Wage and to work with external partners to increase all subcontracted workers to the real Living Wage rate by 2026. In assessing this shareholder proposal, Vanguard sought to understand the company's current practices, including its disclosure of the board's oversight framework for these issues. Vanguard observed that Sainsbury's pay practices met or were above the real Living Wage. In addition, a majority of its outsourced employees were paid a living wage. Beyond direct pay, Sainsbury's reviewed and improved other employee benefits.

Vanguard reviewed the implications of signing up to an independent external pay benchmark when Sainsbury's has already made commitments involving wages that include factoring in the real Living Wage, the National Living Wage, and benchmarking pay competitively to peers annually. The company operates in a sector where margins are low and workforce pay is a key cost consideration. Vanguard determined that the proposal's requests (which were binding) were too prescriptive and that the setting of wages should fall under the company's operational decisions, which are best left to the board and executive management. Additionally, through ongoing dialogue with the company, Vanguard did not conclude that the proposal addressed a material gap or failure of oversight by the board.

Diversity & Inclusion – The PNC Financial Services Group, Inc.

In August 2022, BNY Mellon met with representatives of The PNC Financial Services Group, Inc., including the SVP for Stakeholder Engagement for ESG, the Deputy General Counsel of Corporate Governance, and Investor Relations.

PNC has hired its first Chief Corporate Responsibility Officer with a future goal of eliminating systemic racism. As a result of the 2021 Banco Bilbao Vizcaya Argentaria (BBVA) acquisition, the company's original financial commitment to this goal has turned into a much larger commitment. The PNC Financial Services Group is committed to affordable housing action, enhanced community development and support for minority-owned small businesses. During this engagement, the manager encouraged PNC to continue to maintain annual updates on the ongoing monetary commitment made to these areas.

Corporate Governance – Boeing

Neuberger Berman, one of our credit managers have spent 4 years engaging with Boeing following MSCI assigned the company a Very Severe Controversy Flag which put Boeing in the manager's engagement priority list. Neuberger Berman communicated with the issuer on concerns related to product safety of its 737 Max aircraft following two disasters that resulted in the deaths of passengers and crew and engaged with the company on their internal risk controls, oversight procedures, and governance structure given the revelation of design flaws with the 737 Max and inadequate attempts by the company to address the issue.

The engagement process was led by credit analyst within the team and included 13 discussions over a period of 4 years with the senior management including the CFO, Treasurer, and Investor Relations team. The issues raised included Boing's risk controls, lack of oversight and inadequate governance structure. While the initial actions taken by Boeing were not always adequate, through manager's continued engagements, Boeing has addressed our concerns regarding its governance and risk controls.

Neuberger Berman consider this engagement was a successful example as Boeing made the following changes:

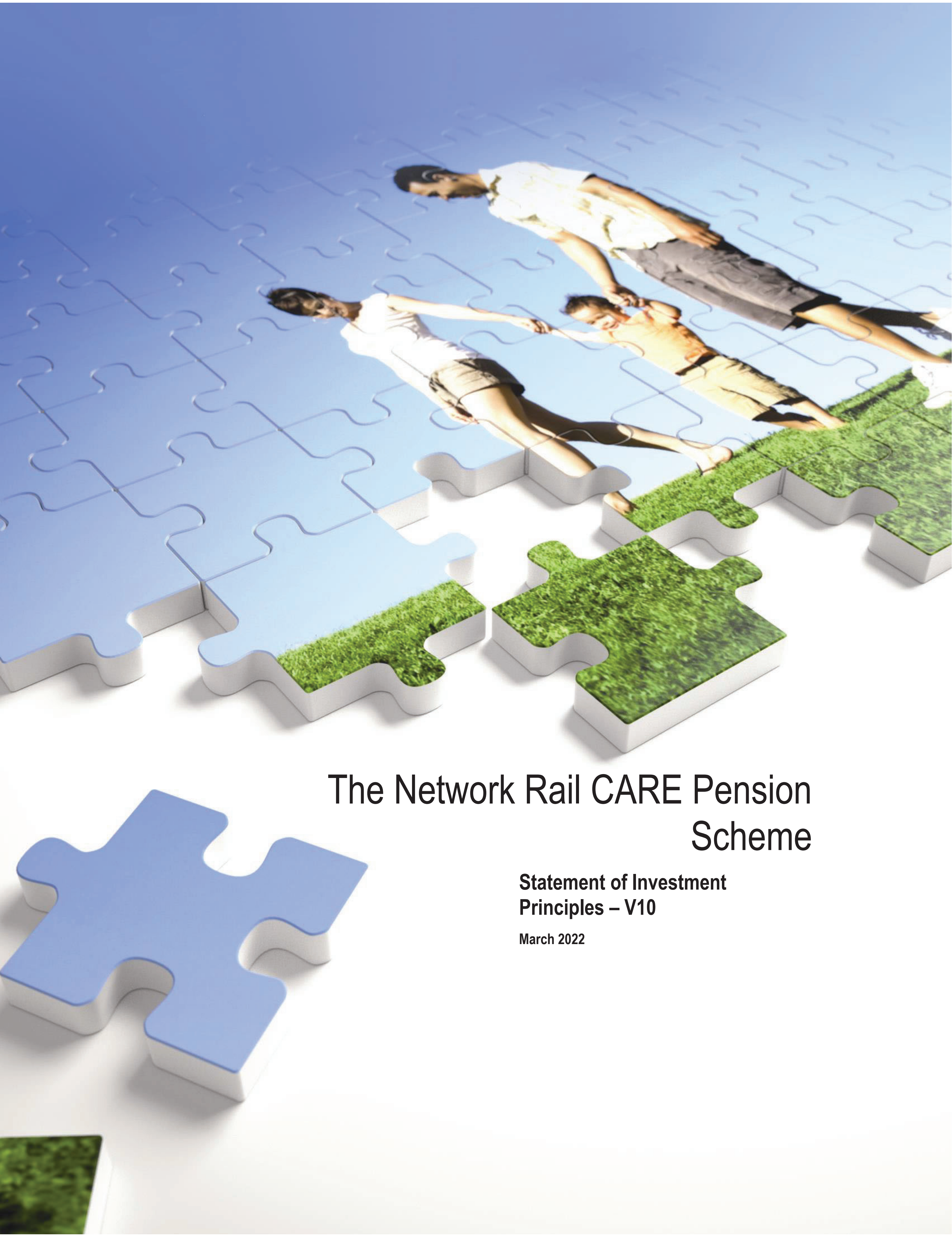
- Boeing Improved its safety oversight standards through the creation of the independently managed "Aerospace Safety Committee" with responsibility to oversee and ensure the safe design, development, manufacture, production, operation, maintenance and delivery of aerospace products and services.
- Implemented an enterprise-wide Safety Management System "SMS" and established a Quality Management System "QMS" to fully embed safety and quality across total production process -Named a new chief aerospace safety officer with accountability to Boeing's Aerospace Safety Committee and created 4 operations councils overseeing all BA manufacturing, quality, supply chain and program management teams.
- Executive compensation changed with an increased focus on operational performance tied to product safety, employee safety, quality along with climate area.

Neuberger Berman will continue future engagements to address additional improvements that can and should strengthen BA’s product safety and risk oversight systems. While the manager has and will continue to raise concerns regarding greater risk oversight procedures, ultimately the changes implemented by Boeing along with design improvements allowed the 737 Max to be recertified globally.

Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement polices for both Investment Manager and Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions	https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf
Bank of New York Mellon	BNYM's voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below: https://www.mellon.com/insights/insights-articles/2022-semi-annual-proxy-voting-report.html https://www.mellon.com/insights/insights-articles/proxy-voting-report-spring-2023.html
Vanguard	**Disclosure of rationale of voting** can be found: https://global.vanguard.com/portal/site/portal/investment-stewardship/perspectives-commentary
Leadenhall	https://www.leadenhallcp.com/esg
Neuberger	https://www.nb.com/en/global/esg/engagement
CBRE	**CBRE Global ESG policy:** https://www.cbreim.com/-/media/project/cbre/bussectors/cbreim/home/about-us/sustainability/cbreim-global-esg-policy.pdf



The Network Rail CARE Pension Scheme

Statement of Investment Principles – V10

March 2022

Version Update

Version	**Effective From**	
1.0	November 2008	Initial version
2.0	August 2010	Revision to reflect update to strategy
3.0	May 2012	Annual review
4.0	November 2013	Revision to reflect update to strategy
5.0	November 2015	Revision to reflect update to strategy
6.0	February 2017	Revision to reflect update to Liability Benchmark and Investment Fund mandate to incorporate ETFs
7.0	February 2018	Revision to reflect decision to allow use of active equity funds within the Investment Fund
8.0	September 2019	Revision to reflect ESG update
9.0	September 2020	Revision to reflect update to Corporate Governance and Stewardship approach
10.0	March 2022	Revision to reflect updated return targets and language regarding climate change

Table of Contents

1.0 Introduction

This document constitutes the Statement of Investment Principles (“the SIP”) required under Section 35 of the Pensions Act 1995 for the Network Rail CARE 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 Scheme Actuary is Douglas Primrose of XPS Pensions, the Investment Adviser is Schroders IS Limited and the Legal Adviser is Mayer Brown LLP. They are collectively termed “the Advisers”.

The Trustee confirms that, before preparing this SIP, it has consulted with Network Rail Infrastructure Ltd ('the Employer') and the Scheme Actuary and has obtained and considered written advice from the Investment Adviser. 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 investment of the Scheme’s assets and arranges administration of the Scheme. Where it is required to make an investment decision, the Trustee always receives written advice from the relevant Advisers first and it believes that this, together with the Trustee Directors’ own collective expertise, ensures that it is appropriately familiar with the issues concerned.

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

1.1 Declaration

The Trustee confirms that this SIP reflects the Investment Strategy it has implemented for the Scheme. Other than where the Trustee has delegated their discretion to a fund manager under an investment management agreement in accordance with the Pensions Act 1995, the Trustee acknowledges that it is its responsibility, with guidance from the relevant Advisers, to gain comfort that the assets of the Scheme are invested in accordance with these Principles.

Signed Samantha Pitt . . . . **Date** 25 July 2022 . . . .

For and on behalf of Network Rail Pension Trustee Limited as Trustee of the Network Rail CARE Pension Scheme

2.0 Scheme Governance

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

The Trustee has appointed an Investment Sub-Committee (the 'ISC') to deal with investment matters on its behalf. The ISC deals with day to day investment matters and acts as a coordinator between the Investment Adviser, Managers and the Trustee. The ISC makes recommendations to the Trustee. In circumstances deemed to be exceptional, the ISC may make decisions on behalf of the Trustee. 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 *Investment Objectives*

The overall objective of the Scheme is to meet the benefit payments promised as they fall due.

In order to achieve this, the Scheme's assets need to meet the minimum assumed return in the Actuarial Valuation. The Scheme's long-term target return is set by reference to the Liability Related Objective ("LRO"). The LRO is based on the return required as per the Technical Provisions discount rate, and is calculated directly from the Scheme's liability cashflows. Specifically, the LRO will take account of:

- The change in past service liabilities due to changes in interest rates and inflation
- An allowance for the expected asset return assumption within the discount rate
- An estimate of accrual which has occurred to date.

The LRO will be updated from time to time as updated cashflow information becomes available from the Scheme Actuary.

The outperformance target will vary over time in line with changes to the split between on-risk and off-risk allocations in accordance with the requirements of the Actuarial Valuation and any Recovery Plan that may be in force from time to time. It would generally be expected that an increase in the on-risk allocation will result in a higher outperformance target.

Further details of the Scheme's investment return objectives can be found in the SIA.

4.0 Investment Strategy

In setting the investment strategy the Trustee has considered advice from the relevant Advisers, and also taken due regard for the current situation of the Scheme, the objectives, the potential liabilities of the Scheme, the risks of and to the Scheme and the covenant of the Employer.

4.1 General Policies

The Trustee's approach to investment strategy is to allocate the assets into two pools. The investment objective is then translated into the strategy and assets are allocated to these two components:

Liability Hedging assets (consisting of both gilts and swaps)	The focus is interest rate and inflation risk management. Assets are invested in a portfolio of fixed interest gilts, index-linked gilts and cash; which complement and are suitable to be used as collateral for the derivative transactions employed via the Liability Hedge Overlay. These assets are designed to manage the interest rate and inflation risk inherent in the liabilities.
Growth Assets	The Scheme's Growth Assets are comprised of Dynamic Growth Assets and Equity Derivative Overlay Structure ("EDOS"). Within the Dynamic Growth Assets, the focus is on return generation, taking risk in a controlled manner – such assets could include but are not limited to, equities, bonds, property, commodities, hedge funds and currency, etc. These assets seek to generate returns in excess of the cash benchmark (net of fees). The EDOS contributes to return generation while allowing the Scheme to maintain sufficient assets to act as collateral for the Liability Hedge.

The Trustee's investment objective – detailed in Section 3 - influences the split of assets between these components. The split that the Trustee has agreed, following advice from their Investment Adviser, is detailed in the SIA.

4.2 Asset Allocation

Having considered advice from the relevant Advisers, and also having due regard for the current situation of the Scheme, the objectives, the potential liabilities of the Scheme, the risks of and to the Scheme and the covenant of the Employer, the Trustee has decided to delegate the decision on asset allocation to a Manager within control ranges – the "Asset Allocation Manager".

The Trustee recognises the importance of asset allocation to the overall investment returns achieved and has therefore decided upon an actively managed strategy for the asset allocation. However, the Trustee also recognises that the asset allocation will change as a result of a range of factors, which include changes in market conditions changing the allocation to different asset types within the Growth Assets.

In recognition of the risks that asset allocation can imply, there are asset allocation control ranges in place. These are set out in the SIA.

4.3 Rebalancing Policy

Rebalancing within set ranges will be undertaken by the Asset Allocation Manager.

4.4 Rates of Return

The Trustee expects the Growth Assets as a whole (including the EDOS) to deliver a return of 4.625% p.a., net of fees, in excess of the return on SONIA over the long-term.

4.5 Diversification, Mandate Definition and Constraints

The Trustee is clear about the importance of diversification and as such the appointment of the Managers includes a requirement to ensure assets are diversified. The choice of asset classes as detailed further in the SIA is designed to ensure that the Scheme's investments are diversified. The Trustee monitors the strategy adopted by the Managers to establish that the arrangement remains diversified.

4.6 Suitability

The Trustee has established a mandate with the specific objective of defining the asset management objective to be directly consistent with the liability driven objectives. As such, they consider the mandate to be suitable.

The Trustee has taken advice from the relevant Advisers to ensure that the assets held by the Scheme and the proposed strategy is suitable given its liability profile, the Trustee's objectives, regulatory guidance and specifications in the Trust Deed.

4.7 Liquidity

The majority of assets are held in asset classes that are sufficiently liquid to be realised easily if the Trustee requires. The Asset Allocation Manager is permitted to hold up to 20% of on-risk assets in illiquid investments (as defined in the Investment Management Agreement), which the Trustee acknowledges can take additional time to realise. The Trustee has considered this risk against the possibility of needing to realise these assets and are comfortable it is a reasonable approach to take.

5.0 Strategy Implementation

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

The Trustee has decided, with advice from the Investment Adviser, to manage risk and generate return through active asset allocation. The Trustee has appointed the Investment Adviser in its capacity as a specialist active Manager (the "Asset Allocation Manager"), under an Investment Management Agreement, for the asset allocation and rotation of this. The Asset Allocation Manager has discretion, subject to certain restrictions, to invest the portfolio across various investments including, but not limited to, other external manager pooled funds (either passive or active), via ETFs and into pooled funds managed by another Manager (the "Policy Manager") with whom the Trustee maintains the contractual relationship. Together, these constitute the "Underlying Managers". The Trustee recognises that passive funds and ETFs offer virtually no risk of significantly under-performing the index but will also not significantly out-perform the relevant benchmark.

The constraints around the asset allocation are detailed in the SIA together with the details of the Managers' mandates.

5.1 Mandates and Performance Targets

The Trustee has received advice on the appropriateness of each Manager's target, benchmark and risk tolerance from the relevant Advisers and believes them to be suitable to meet the Scheme's investment objectives. The Manager has been mandated by the Trustee to manage the investments in a particular way, and details of the mandates are described in the SIA.

5.2 Manager Appointments

The Trustee has agreed the scope of the Managers' activities, investment objectives, investment restrictions, their charging bases and other relevant matters either under an Investment Management Agreement which appoints the Manager as a discretionary investment manager or in terms of the offering documents of the investment fund provided by the Manager to the Trustee, which include the fund prospectus and subscription documents (the "Fund Offering Documents").

5.3 Diversification

The assets are invested in a diversified range of suitable investments of different types in order to reduce investment risk given the circumstances of the Scheme.

The range of, and any limitation to the proportion of, the Scheme's assets held in any asset class will be agreed between the Asset Allocation Manager and the Trustee. This range and set of limitations will be specified in the formal manager agreements and may be revised from time to time according to appropriate investment strategy advice provided to the Trustee and having regard to the investment powers of the Trustee as defined in the Trust Deed.

5.4 Suitability

The Trustee has taken advice from the relevant Advisers to ensure that the Managers are suitable for the Scheme, given its objectives.

5.5 Custody

The Policy Manger has its own custodian arrangement, which has not been directly appointed by the Trustee. This is detailed in the SIA.

The Trustee has appointed a separate custodian for the Scheme's Liability Hedging assets, Equity Derivative Overlay Structure and non-Policy Manager mandates as detailed in the SIA.

6.0 Monitoring

6.1 Managers

The Trustee holds regular meetings with the Manager(s) and/or the Investment Adviser to satisfy itself that the Manager continues to carry out its work competently, has the appropriate knowledge and experience to manage the assets of the Scheme and that the objectives set out above continue to be met.

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

- Is carrying out his work competently. The Trustee will evaluate the Manager based on, amongst other things:
  - Each Manager's performance versus their respective benchmarks.
  - The level of risk within the portfolios given the specified risk tolerances.
- Has regard to the need for diversification of investment holdings in accordance with the Investment Management Agreement or Fund Offering Documents.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising his 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 a Manager they will ask the Manager to take steps to rectify the situation. If the Manger still does not meet the Trustee's requirements, they will remove the Manager and appoint another.

6.2 Asset Allocation Manager

In monitoring the performance of the Asset Allocation Manager against the agreed performance objectives and mandates set, the factors will include:

Team/People

The active asset allocation process is dependent on a team responsible for manager research, asset allocation and the ongoing administration of the service. However, the process is designed specifically to reduce the reliance on any one specific individual. Through the normal monitoring report process, the Asset Allocation Manager will report on internal organisational changes to the extent that they may impact on the delivery and implementation of its service.

Investment Process

An investment management process is adopted for the determination of asset allocation. Significant changes made to asset allocation over time will be communicated to the Trustee by the Asset Allocation Manager, together with the underlying rationale for change. Any perceived failure to adhere to the process as defined presents a potential need to review.

Performance/Risk

The Trustee will monitor the performance of the Asset Allocation Manager against the agreed performance objectives as set out in the Investment Management Agreement or Fund Offering Documents. This process would normally consider rolling periods of 3 years.

Underperformance parameters for both the Growth Assets and Liability Hedging Assets have been defined. These parameters are set out in the Investment Management Agreement and are detailed in the SIA. Any underperformance in breach of the risk parameters over the relevant period should be explained by the Asset Allocation Manager.

Risk parameters are not explicitly defined for outperformance, although the Trustee will question the Manager with regard to any unexplained outperformance.

6.3 Advisers

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

6.4 Statement of Investment Principles

The Trustee will review this SIP on an annual basis, or, without delay, following any changes to the investment strategy, and modify it with consultation from the relevant Advisers and the Employer if deemed appropriate. There will be no obligation to change this SIP, any Manager or Adviser as part of such a review.

6.5 Trustee

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

7.0 Fees

7.1 Manager

The Trustee, in conjunction with the Investment Adviser, will ensure that the fees paid to the Managers are consistent with levels typically available in the industry and the nature of services provided. The current fee basis for the Manager is set out in the SIA.

The Trustee is aware of the policy of each Manager (where relevant) regarding soft commission arrangements. Each Manager discloses its fees, commissions and other transaction costs in accordance with the Financial Conduct Authority ('FCA') Disclosure Code.

7.2 Advisers

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

7.3 Custodian

The Trustee has appointed CACEIS BANK N.V.. to custody the Scheme's Liability Hedging assets, Equity Derivative Overlay Structure and non-Policy Manager assets. The fee basis is detailed in the SIA.

7.4 Trustee Directors

The Chair of Trustee is an independent, professional Trustee who is remunerated for the role. The other Trustee Directors are not paid for their role.

8.0 Risks

The Trustee recognises a number of risks involved in the investment of assets of the Scheme. These risks, and how they are measured and managed, include:

I. **Funding and asset/liability mismatch risk –** the risk that the funding level is adversely affected due to a mismatch between the assets and potential liabilities. This risk is managed in the following ways:

  - A liability benchmark is used as a proxy for the liabilities (as described in Section 3) in order to measure the approximate changes in the liabilities (due to changes in interest rates and inflation). The Trustee monitors this change relative to the change in asset values on a quarterly basis. The liability benchmark is reviewed following each actuarial review.
  - Liability risk is addressed through the asset allocation strategy including the use of swaps to hedge the interest rate and inflation risk (the Liability Hedge Overlay) and through regular investment reviews. These risks are quantifiably measured by consideration of the investment strategy performance against the liability benchmark. The Trustee keeps these risks under review and receives ad-hoc advice from the Investment Adviser. Before any change in strategy or asset allocation, the Trustee receives quantified risk measurement analysis on the impact of any changes from the Investment Adviser.
  - The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience.
  - This risk is also monitored through regular actuarial and investment reviews.

II. **Underperformance risk –** the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:

  - Appropriate diversification, given the Scheme circumstances, across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of passive management for asset classes where the downside risk of active management is considered too high.
  - Rotation of asset classes to aim to protect the capital value.

III. **Country risk –** the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.

IV. **Concentration risk –** the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.

V. **Mismanagement risk –** the risk of unsuitable investment activity by the Manager. This is addressed in the agreements with the Manager which contain a series of restrictions. The activity of the Manager and its processes are monitored regularly by the Investment Advisers on behalf of the Trustee.

VI. **Default risk –** the risk of income from assets not being paid when promised. This is addressed through restrictions for the Manager e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.

VII. **Environmental, Social and Governance factors ("ESG") risk -** the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Asset Allocation Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio can be found in the quarterly governance report.

VIII. **Organisational risk –** the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Manager and relevant Advisers.

IX. **Cash flow risk –** addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.

X. **Sponsor risk –** the risk of the Employer ceasing to exist, which for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly reviews the covenant of the Employer.

XI. **Transition risk –** the risk of paying unnecessary costs or being at increased risk of adverse market movements, when transitioning assets from a Manager or asset class to another. This risk is mitigated by organising transitions in a structured fashion and the responsibility is delegated to the Asset Allocation Manager.

XII. **Swap strategy risk –** the risk that the swap strategy does not exactly match the liability structure owing to approximations and practical decisions made – addressed through regular review of the Liability Hedge Overlay.

XIII. **Counterparty risk –** the risk of the counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

The Trustee will keep these risks and how they are measured and managed under regular review.

9.0 Other Issues

9.1 Statutory Funding Requirement

The Trustee will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation every three years.

The Trustee will consider with the Investment Adviser and the Scheme Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

9.2 Corporate Governance and Stewardship

The Trustee and Asset Allocation Manager have agreed, and will maintain, formal agreements setting out the scope of the Asset Allocation Manager's activities, charging basis and other relevant matters. The Asset Allocation Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995. Further information can be found in the SIA.

The Trustee has appointed the Asset Allocation Manager to implement the Scheme's investment strategy. The Asset Allocation Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Asset Allocation Manager is appointed to carry out its role on an ongoing basis. The Trustee periodically reviews the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustee is satisfied that these arrangements incentivise the Asset Allocation Manager:

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

The Scheme’s investments are generally made via pooled investment funds, 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 these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers.

The Trustee has delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Asset Allocation Manager. The Asset Allocation Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Asset Allocation Manager are subject to additional sign-off by the appropriate representative from the Asset Allocation Manager.

The Asset Allocation Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The Asset Allocation Manager reviews the governance structures of Underlying 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 Asset Allocation Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustee’s objectives. The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Asset Allocation Manager, as detailed above.

The Trustee acknowledge the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Asset Allocation Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also 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 Asset Allocation Manager directly monitors these as part of their regulatory filings (where available), the Asset Allocation Manager also monitors this as part of ongoing review. The Asset Allocation Manager’s Conflict of Interest policy is available publicly here: https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/

The Asset Allocation Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Asset Allocation Manager’s expectations. Where there are material deviations the Asset Allocation Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

9.3 Financially material investment considerations (including climate change)

These considerations which include the "Risks" listed above can affect the long-term financial performance of investments and can (but do not have to) include ESG where relevant. The Trustee delegates consideration of financially material factors to the Asset Allocation Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. All references to ESG also include climate change.

The Trustee recognises climate change as a systematic, long term material financial risk to the value of the Scheme's investments. The Trustee is supportive of the Paris Agreement and will aim to achieve a carbon neutral portfolio by 2050 or sooner.

ESG factors and stewardship are considered, in the context of long term performance, by the Asset Allocation Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Asset Allocation Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

9.4 Non-financially material investment considerations

The Trustee does not at present take into account non-financially material factors (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. At this time the Trustee has no plans to seek the views of the membership on ethical considerations. This policy is reviewed periodically.

However, the Trustee appreciates there are some members who may wish to reflect non-financial considerations in their investments. Within the AVC fund range the Trustee has therefore made available a fund option reflecting ethical considerations.

9.5 Additional Voluntary Contributions (AVCs)

Under the Scheme's Trust Deed and Rules, members are allowed to invest Additional Voluntary Contributions to improve the benefits they receive at retirement. Details of the investment arrangements of AVCs paid under the Scheme are set out in a separate AVC Statement of Investment Principles.

Appendix A - Responsibilities

Trustee

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

I. Determining the investment objectives of the Scheme and reviewing these from time to time.

II. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.

III. Reviewing, at least triennially, the content of this SIP and modifying it if deemed appropriate, in consultation with the relevant Advisers.

IV. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the relevant Advisers.

V. Reviewing, at least triennially, the content of the SIA and modifying if deemed appropriate, in consultation with the relevant Advisers.

VI. Assessing the quality of the performance and process of the Manager by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the relevant Advisers.

VII. Appointing and dismissing Manager(s), the performance measurer, custodian(s) and transition manager(s) in consultation with the relevant Advisers.

VIII. Assessing the ongoing effectiveness of the relevant Advisers.

IX. Consulting with the Employer when reviewing investment policy issues.

X. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.

XI. Advising the Advisers of any changes to Scheme benefits, significant changes in membership.

As noted in section 2, the Trustee has set up an Investment Sub-Committee to whom it has delegated certain powers and responsibilities. Details of these are set out in its Terms of Reference which has been agreed between the Trustee and the ISC, and is reviewed from time-to-time.

Managers

The main responsibilities of the Managers are:

I. At their discretion, but within the guidelines set out in the Investment Management Agreement or Fund Offering Documents, implementing changes in the asset mix and selecting and undertaking transactions in specific investments.

II. Providing the Trustee with sufficient information each quarter to facilitate the review of its activities, including:

- A report of the strategy followed during the quarter
- The rationale behind past and future strategy
- A full valuation of the assets
- A transaction report
- Cash reconciliation
- Any corporate actions taken

III. Informing the Trustee immediately of:

- Any breach of this SIP, if an Investment Management Agreement is in place
- Any material change in the knowledge and experience of those involved in the Scheme's investments
- Any breach of investment restrictions either agreed between the Trustee and the Manager from time-time or as set out in the Fund Offering Documents.

Investment Adviser

The main responsibilities of the Investment Adviser are:

I. Participating with the Trustee in reviews of this SIP.

II. Advising the Trustee on the appropriateness of the proposed investment structure having regard to the circumstances of the Scheme and the recommendations of the Scheme Actuary, as follows:

a) Advising the Trustee on the appropriate split between the Liability Hedging assets and the Growth Assets.

b) Advising the Trustee on the Investment Objective.

c) Advising the Trustee on the levels of and implementation of the Liability Hedge Overlay

d) Advising the Trustee on the continued appropriateness of the EDOS strategy

e) Advising the Trustee how any changes in the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.

III. Advising the Trustee of any significant changes in the Scheme's Asset Allocation Manager that could affect the interests of the Scheme.

IV. Advising the Trustee of any developments in the investment environment that could either present opportunities or problems for the Scheme.

V. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation strategy and appointment of investment managers as appropriate.

Scheme Actuary

The Scheme Actuary will be responsible for, amongst other things:

I. Liaising with the Investment Adviser on the suitability of the Scheme's investment strategy.

II. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

III. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.

IV. Advising the Trustee and Investment Adviser of any changes to contribution levels and funding level.

Custodian

The main responsibilities of the Custodian are:

I. Safe-keeping and administration of all the directly held assets.

II. Collecting income from assets and transferring it to the Trustee's investments.

III. Processing all tax reclaims in a timely manner.

IV. Reconciling records of assets held with those of the Manager.

Legal Adviser

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

I. Liaising with the Trustee to ensure legal compliance including those in respect of investment matters.